

## Thematic Section

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# Too Much Growth, Too Little Development: The reality behind China's economic miracle

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**ABSTRACT** *Dale Jiajun Wen examines the social and environmental changes in China during the reform era. By chronicling issues including inequality and poverty, health and education, employment and jobs, and environmental degradation, she argues that China's economic miracle is largely built on liquidation of social and natural capital. The country can no longer ignore the problems created by export-oriented growth, and needs to explore alternatives urgently.*

**KEYWORDS** *health care; education; employment; environment; livelihood; economic globalization*

### Introduction

China entered WTO in December 2001, after more than two decades of reforms aimed at shifting the country towards a free-market economy that is more open to foreign investment and trade. These reforms have earned the praise of the World Bank and other economists who herald China as a great success story of economic globalization. China has indeed become a magnet for foreign investment and an export powerhouse. Its strong economic growth over the past 25 years (averaging more than 9 percent annually) is unparalleled in modern history. However, what grows even faster than GDP is the number of mass incidents, including protests, demonstrations or even direct clashes with police. According to official numbers, there were 74,000 mass incidents in 2004 and 87,000 in 2005, up from 10,000 in 1993. Why are the social tensions growing exponentially amid the obvious prosperity?

In order to understand this apparent paradox, quality of life indicators, such as inequality and poverty, health and education, employment and jobs, need to be examined. The environmental cost and its impact on well-being should be investigated as well. By focusing on livelihood indicators, this paper will show that GDP or FDI numbers do not give a complete picture of the experience of Chinese people during this period of rapid social and economic change.

### Poverty and inequality

In monetary terms, China's progress in reducing extreme poverty has indeed been remarkable. It is one of the few countries that is well ahead of the UN Millennium

Development Goals of cutting poverty in half by 2015. In 1999, the World Bank raised China's classification from a 'low-income' to a 'lower middle income' country. Many Chinese citizens have increased access to consumer goods. The extensive rationing system that covered basic items such as grain, cooking oil, sugar, eggs, meat, and clothes in the late 1970s has disappeared and modern luxuries such as TVs, washing machines and refrigerators have entered millions of homes, particularly in urban areas.

However, as will be shown later in 'Health' and 'Education' section, a significant part of the income increase is only a manifestation of growing monetization of previous commons, instead of increasing disposable income. Also, there are growing concerns that poverty, particularly in rural areas, is once again on the rise. In 2004, the Chinese government acknowledged that the number of rural people living in extreme poverty increased from 28.2 million in 2002 to 29 million in 2003. From 2000 to 2002, 42 percent of rural households experienced decreased income in absolute terms. Since China's WTO entrance, Chinese peasants are facing greater hardship as they struggle to compete against a highly subsidized global agribusiness, as already shown with crops like sugarcane and soybean.

In addition, there is strong concern that the gap between the rich and poor has grown dramatically. Once one of the most egalitarian countries, China is now one of the most unequal in the world. In the early 1980s, the richest 10 percent of the population earned less than 20 percent of national income. By 1995, they earned 33.7 percent, while the bottom 10 percent accounted for only 1.87 percent. By 2005, the gap had grown even wider. The top 10 percent then earned 45 percent of income, while the bottom 10 percent made only 1.4 percent. Between 1980 and 2005, the Gini ratio rose from below 0.2 (considered quite egalitarian) to 0.45 (signifying serious polarization and increasing social unrest).

The ratio of urban versus rural per capita income grew from 1.8:1 in the early 1980s to 3.23:1 in 2003, while the world average is between 1.5:1 and 2:1. Rural residents shoulder disproportionate tax burdens while having less access to public

services, including education and health care. In several interviews, former Deputy Minister of Statistics Bureau Qiu Xiaohua pointed out that if the non-cash subsidies enjoyed by urban residents were taken into account, the real income gap could be as high as 6:1, the highest rural-urban gap in the world. Such gap has been a strong driving force for the coastal boom, as rural youth are increasingly left with no choices but to labour in export-oriented sweatshops.

## Health

Social investments including health care and education were prioritized in the pre-reform era. By the late 1970s, 90 percent of the population was covered by state or collective health care. Between 1949 and 1978, average life expectancy increased from 35 to 67 years, infant mortality dropped from more than 200 per 1,000 to 42 per 1,000. Despite its huge population, China was the first developing country to eradicate smallpox and polio. By the late 1970s, China's two key health indicators (life expectancy and infant mortality) were better not only than the average for low-income countries, but also than that for middle-income countries. In WHO's 1978 Alma Ata Conference *Health For All by the Year 2000*, China's primary health care system was featured as a model for the world.

However, in the last quarter century, the quality of the system has not even been maintained in many aspects. Since 1980, the system has gone through several rounds of market-oriented reform. From 1980 to 2003, health care costs skyrocketed 15 fold even after inflation was taken into account (from 14.32 billion yuan to 662.33 billion yuan). Meanwhile, the percentage of government contributions decreased from 36.2 to 17.2 percent; and collective contributions decreased from 42.6 to 27.3 percent.

As all clinics and hospitals are increasingly pressured by profit motive, cost effective preventive measures are being replaced by expensive and not always necessary treatments. It is estimated that due to price concerns, about half of urban patients self medicate, while more than 60 percent of rural patients forgo any kind of treatment at all. A 2001 study showed that 21.6 percent

## *Development 50(3): Thematic Section*

of impoverished rural households fell below the poverty line due to medical expenses. The average cost of hospitalization is over 1,500 yuan, about half of the average annual rural income, or more than twice of the government's poverty line.

Dwindling government health care funds are also distributed very unequally. The number of hospital beds has fallen in rural areas and stayed the same or decreased on a per capita basis in seven poor provinces (Guizhou, Tibet, Qinghai, Hubei, Hunan, Jiangxi, and Xinjiang). Between 1993 and 2000, government total health care spending on rural health care fell from 34.9 to 22.5 percent. Consequently, rural public health infrastructure has deteriorated considerably. From 1975 to 2001, the total number of rural doctors fell from 1.5 million to about 1 million, and the total number of rural nurses fell from 3.28 million to only 270,000. Health care insurance now covers about half of the urban population and only 10 percent of the rural population.

Diseases that once were under control, such as tuberculosis and schistosomiasis, are making a strong comeback. The occurrence rate of tuberculosis has quadrupled in recent years. New diseases such as HIV/AIDS are spreading rapidly due to illegal blood selling and needle sharing. China's progress in average life expectancy and infant mortality has slowed significantly (life expectancy only increased by two years in the reform era), lagging behind the average progress of low- and middle-income countries and the world average. In a 2000 World Health report, China ranked 188 out of 191 countries in terms of fairness in financial contribution to health and 144 out of 191 countries in overall performance of the health care sector.

Instead of continuing as a leader of health care performance, China has become a leader in the worldwide trend toward private health care financing. In July 2005, the Development Research Center of the State Council released an official document admitting that market-oriented health care reform had not been a success. Some authors commented that China's health care system is suffering from 'American disease' with following symptoms: skyrocketing costs, unfair access, low efficiency and stagnant health indicators.

## **Education**

As with health care, education costs have skyrocketed in the last 20 years while the share of government financing has dropped significantly. This is a dramatic change from the pre-reform era, which was characterized by a steep drop in adult literacy, from more than 80 percent in 1949 down to 33 percent in 1980. Government or collective funds supported virtually all levels of education; individuals paid only token fees.

Today, a four-year college degree costs an estimated 40,000 yuan, more than 13 times average per capita rural income. Even for primary and secondary education, non-government sources pay 44 percent of the cost (1999 data), a much higher percentage than all OECD countries and most developing countries. Many rural children, especially girls, are being kept out of school because their families find it impossible to pay the prohibitively steep fees. In April 2007, the Ministry of Education has acknowledged that the number of adult illiterate population has increased from 87 million to 116 million between 2000 and 2005.

In 1999, public spending on education was only 2.79 percent of GDP, in comparison to 4.38 percent of the world average. The government funding is also distributed quite unevenly. Urban areas receive 77 percent of the educational investment, and higher education receives a larger share of the funding than primary education. Between 1999 and 2000, for example, government allocation for primary education decreased while the share of tertiary education increased from 15.6 to 24 percent. From 1978 to 1990, the advancement rate from primary school to junior high decreased from 87.5 to 74.6 percent. In some areas, the advancement rate from junior high to senior high school is as low as 25 percent. The emphasis placed on higher education affects the content of education profoundly. Education is increasingly geared toward book knowledge and college entrance exams, often detached from community conditions and needs. Especially for many poor - families, education has become a risky investment because chances of upward social mobility are limited. The whole education system is riddled

with fierce competition, with few winners and many losers. There are more and more suicides among young people whose families cannot come up with tuition fees or who have failed important exams.

### **Employment, jobs and industrial development**

Contrary to popular belief, export-oriented growth has not created a net increase in China's manufacturing jobs. The primary reason is that privatization of state-owned enterprises (SOEs) led to massive layoffs, while foreign- and domestic-owned private enterprises have not made up for the huge shortfall. Employment in the SOEs has declined from 110 million at the end of 1995 to 66 million in 2002. From 1995 to 2002, manufacturing jobs decreased 15 percent from 98 million to 83 million. During the same period, manufacturing jobs decreased by 22 million globally; thus China's job loss of 15 million contributed to two-thirds of the global shrinkage.

With the labour force competing for shrinking jobs, workers are pressured to work more intensively, further undermining employment. In the Pearl River Delta and Yangtze River Delta, where most export-oriented industrial parks are located, migrant workers from rural areas make up the bulk of the workforce. It is routine for them to work 10–12 h a day, seven days a week. A workday of 13–15 h is not uncommon during the busy season. Safety conditions are also often much worse in foreign or private enterprises compared to SOE or collective enterprises. A 2003 survey in the Pearl River Delta found that foreign-invested enterprises accounted for 26 percent of worker injuries surveyed and private enterprises (most are suppliers and contractors of multinational corporations) accounted for 53.9 percent. By contrast, SOEs and collectives accounted for only 3.5 and 1.9 percent of injuries, respectively. The Pearl River Delta was the first special economic zone and is responsible for one-third of China's exports. This region is known to have the worst working conditions in the country. It is estimated that industrial accidents result in 40,000 severed fingers per year.

The income of factory workers has decreased not only in relative terms to the newly rich, but also in absolute terms. According to an investigation carried out in the Pearl River Delta in 2004, while the salary of management and technical staff had increased steadily by 5 percent annually, the average monthly salary of factory workers had only increased by 68 Yuan (\$8.20) over the last twelve years. In terms of purchasing power parity, their real income has decreased by 30 percent.

One reason for the decreased salary is that Chinese industries are, in general, moving down the value chain instead of moving up. Foreign companies increasingly dominate the high-end markets for both domestic consumption and export. In his 2004 article 'The Myth Behind China's Miracle', George J. Gilboy compiled the following facts:

In 2003, FFEs (foreign funded enterprises) accounted for 55 percent of China's export. The dominance of foreign firms in China is even more apparent in advanced industrial exports... according to the most recent Chinese government statistics for high-tech industries (pharmaceuticals, aircraft and aerospace, electronics, telecommunications, computers, and medical equipment), FFEs increased their total share of high-tech exports from 74 percent to 85 percent between 1998 and 2002. But perhaps more significant, in the same period, they increased their share of total domestic high-tech sales from 32 percent to 45 percent, while the share of that market held by China's most competitive industrial firms, SOEs, fell from 47 percent to 42 percent.

So this is the sad reality facing Chinese workers and industries: with decreasing number of jobs, the employment pressure is unprecedented high; apart from the top 10–20 percent who are joining the global consumer class, most Chinese are experiencing lower income levels and deteriorating labour conditions, and the country's industrial output is moving down the value chain. In a sense, China has become 'factory owned by the world' instead of 'factory of the world'. Its vast working class has essentially become the slave labour for the world: churning out more and more cheap consumer goods, while reaping little or no benefits.

### Environmental crisis

As China becomes the world's factory, it is also becoming the world's waste dump.

- China is the world's second largest greenhouse gas emitter. China's consumption of fossil fuels rose by 9.3 percent in 2006. Its total greenhouse gas emissions were only 42 percent of the US level in 2001, yet they had soared to an estimated 97 percent of the American level by 2006.
- About 60 percent of the water in China's seven major river systems is classified as being unsuitable for human contact. Acid rain falls on 1/3 of the territory. More than 1/3 of industrial wastewater and 2/3 of municipal wastewater is released into waterways without any treatment.
- Seven of the ten most polluted cities in the world are located in China. Air pollution alone claims 300,000 lives prematurely per year.
- Pearl River Delta and Yangtze River Delta, two prosperous regions due to recent export-oriented growth, suffers from extensive contamination from heavy metal and persistent organic pollutants, much of it from polluting industries outsourced from the West or even electronic wastes imported from the US illegally. Sample surveys found 70–90 percent of the farmland in these areas has various degrees of heavy metal pollution. Even water shortages have emerged in recent years in the river deltas, as much water has been rendered unusable due to pollution. Contamination is spreading to underground aquifers as well – nationwide about 25 percent of the aquifers are being polluted.
- Many claim that foreign investment and the introduction of more advanced technology will help clean up the environment in China; however, this has not been the case to date. One of the reasons for this is because China's State Environmental Protection Agency (SEPA) has little authority as it is often overruled by so called 'development priority'.

With the advancing environmental alarm, many grievances are taking more radical forms. In April 2007, angry villagers near Xuan Zhou city in Fujian province broke in and raided an industrial park as they were so fed up with the pollution.

SEPA's deputy minister Pan Yue repeatedly warns that China's environment cannot sustain its growth. SEPA has also launched a green GDP initiative. Shanxi province, a coal-mining heartland south-west of Beijing, was selected for test runs. Green accounting has concluded that it barely grew in the past two decades once the environmental degradation and pollution is taken into account. This is nothing new for many people living on the ground. While a few coal bosses have gotten rich, the locals are often left with degraded environment and dilapidated community. Some Chinese scholars have argued that the ethnic tensions in Xinjiang share a similar cause. Just as Shanxi, the mineral-rich Xinjiang also serves as a cheap resource base to fuel the coastal boom. The only difference is that the problems manifest in Shanxi as tensions between the rich and the poor, in Xinjiang as ethnic conflicts. Without addressing the fundamental issues with such growth paradigm, identity politics will achieve little for ethnic harmony there.

### Conclusion: China at the cross road

Instead of being the sole work of free-market, China's economic success would not be possible without its socialist legacy. The people-centered development during the pre-reform era laid a solid socioeconomic foundation, as indicated by the massive and huge improvement in infant mortality rate, life expectancy, and literacy rate. David Dollar, World Bank's current Country Director for China, said in a 2005 seminar (Symposium 'China's Economic Emergence' at Columbia University April 2005), '(Before the reform), China was a third world country with first world human capital development'. Amartya Sen, a Nobel Prize Laureate for Economics from India, was even more explicit, 'China's relative advantage over India is a product of its pre-reform (pre-1979) groundwork rather than its post-reform redirection'.

Unfortunately, the reform has had a huge detrimental effect on the very human resource it builds on, especially in the vast countryside. By 1978, 90 percent of the rural population was covered by collective health care; today, same percentage does not have health insurance. While the urban life

expectancy (78 years) is approaching the level of OECD countries, rural life expectancy is only 66 years, lower than the national average 25 years ago. Higher education has increased significantly in recent years, but at the cost of basic public education for many children. In essence, China's advantage in human resources has largely been liquidated for short-term gain. This also partly explains why China depends now so much on exporting labour-intensive products, directly competing with other developing countries.

This aspect of China's reform package resembles the 'structural adjustment' programmes that the World Bank has imposed on several developing countries. The major difference is that Chinese government willingly takes the measure without the pressure from Bretton Woods Institutions. Its 'success' has proven that the World Bank is indeed right: structural adjustment does produce growth, at least in the short term. Yet, is this the kind of growth people really want? While the printed media in China still largely stick to reform ideology, one can read more and more dissents on the internet: statements like 'Their GDP is growing, while our livelihood is degrading' or 'Please take away the TVs, washing machines, refrigerators or whatever consumer goods, give us back the affordable health care, education and housing we used to have' are not uncommon.

Growing number of people are saying no to such growth paradigm. The vast hinterland has served as an internal resource and labour base to fuel the hyper-growth of the coast. Without another hinterland to exploit, the remaining rural population can no longer copy the western growth model.

Since President Hu Jintao and Prime Minister Wen Jiabao took office in November 2002, there have been signs of policy adjustments. The media increasingly covers the plights of marginalized groups, and the government has taken some measures to address their grievances. Instead of saying 'development is the absolute need', the new government is now advocating for 'scientific development' and 'people-centered development'. The above-mentioned Green GDP is another positive sign. Yet, so far the adjustments have not touched the essence of the neo-liberal policies carried out in the last two decades. For example, the privatization and liquidation of state assets are still going on, despite of the ongoing debates. Should China continue on the path of market-oriented reform? Can the US way of life be achieved for the mass as promised by the reformers? Or is it time to reexamine this process and think about alternatives? These are some of the questions that Chinese leaders and people are discussing and debating today.

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