

# Soe reform in china



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## **Introduction**

It has been argued by the World Bank that emergence of new urban poverty has contributed to a trend whereby Chinese society has become less egalitarian and more unequal country (World Bank, 1997). This essay will focus on urban poverty and discuss the causes of poverty creation and also look at how these inequalities manifest it.

Due to the economic reform, it has brought enormous changes to China. Liu and Wu (2006) pointed out that the structural of China economic has a dramatic change from a planned economic system to a market economy and from a rural, agricultural society to an urban, industrial one, from this point the new urban poverty has emerged in China (Liu, Wu, 2006).

Wang (2004 p. 4) makes the point that: " Industrial and institutional restructuring and rising unemployment resulted in a dramatic increase in urban poverty. " (Wang, 2004, p. 4)

It can be argued that unemployed and laid-off workers become a major component of the new urban poverty, for this reason, the reform of state-owned enterprises in China is the primary cause of urban poverty. Due to the reform, there are a large numbers of xiangang (lay off workers) and this lead to a shifted of lay off workers from rural area into urban which is the main cause of urban poverty. Chinese new urban poverty is consisted of unemployed people, laid off workers, poor rural migrants and retirees from the bankruptcy enterprises (Liu, Wu, 2006). It can clearly see that the state owned enterprises reform is one of the most important manipulator of urban

poverty in China. Moreover, the following aspects will examine in detail about the creation of new urban poverty in China.

### **Characteristics of the new urban poverty**

According to Wu and Huang (2007) Chinese new urban poverty mainly has the following attributes: First of all, low employability. The proportion of no work capacity is large among the poverty group; therefore, the proportion of job attainment is very low too. Second, the new urban poor have low-education levels and low technical skills. The China Labour Statistics Yearbook 2003 mentioned that only 5.9% of urban unemployed are graduates from schools (State Statistics Bureau, 2004a: 91). Third, the new urban poor households often fall into poverty because of illness and poor health. Fourth, the new urban poverty is concentrated in the age group of the so-called '40-50 group' which is more than 40 years old for females and 50 years old for males (Wu, Huang, 2007). From the last point can clearly see that there are still an unequal status for males and females in Chinese society.

Wu and Huang (2007) said that the attributes of poor households seem to suggest that their poverty situation is caused by their personal 'defect'. However, it can be argued that the real causes for China urban poverty is the transition of social system, moreover, from the perspective of institutional change, the transformation of economic system are the main causes of the new urban poverty in China (Wu, Huang, 2007).

## **Creation of Chinese urban poverty**

### **The reform of SOEs**

The state-owned enterprises reform is very important for China because it is the first step for the successful of the entire economic reform and development. Reform in state-owned enterprises in China started from 1978 when six SOEs in Sichuan province were selected for a reform to become more independent and increasing their enterprises autonomy (Hay, et al, 1994).

The purpose of SOEs reform was to improve production efficiency and decentralization of management decisions. Before reform, SOEs were not an independent enterprise to make their own management decision (Komiya, 1987). SOEs had little autonomy over their business, everything was all decided by the government. For well performing enterprises could producing high technology, good quality products and services (Warner, 2001).

However, at a general level, there are many state-owned enterprises that suffered from slow growth and make loses. Furthermore, SOEs had to submit all their profits to the government and received the subsidies from the government when incurring losses (Otsuka et al, 1998). Gao and Chi (1997 p. 4) pointed out that: “ On the one hand state-owned enterprises are of major importance; on the other hand, they are a national burden.” (Gao, Chi, 1997, p. 4)

The other problem of SOEs is employed too many employees. SOEs in China are not only act as an economic institution, but also as a social institution (Gu, 2001). The state played an important role to organizing the production and consumption on the economic system and also controls their employees

by the Chinese traditional system call danwei (work unit). The work unit was so essential to daily life of Chinese urban people as Lu and Perry mentioned that one could be without a job, but not without a work unit. (Lu, Perry, 1997)

Through SOEs work unit, the Chinese state offered all employees a secure jobs and a wide range of social welfare: inexpensive housing, free medical care, a range of subsidies for everything from transportation to nutrition and retirement pension (Lu, Perry, 1997). Once people were assigned to the enterprises on a permanent contract, they were expected to work there for the entire of their life, and the employers had responsibilities to look after them when they retired. This job secure system was often referred as 'iron rice bowl' (Tie fan wan) which proved a huge burden on SOEs (Wang, 2004). SOEs have responsibility for their employees welfare provisions therefore when compared with non-state sector they become increasingly less competitive, most SOEs concerned to cut the work force to reduce their costs in order to compete with their competitors, this led to a restructuring SOEs sector in China (Gu, 2001).

During the 1980s, the introduction of significant measures was undertaken called 'profit retention systems' and later 'contract responsibility system'. The core concept of this system was SOEs no longer required to turn over all their profits but just submitted a fixed amount of profits to the government, they allowed to keep a portion of their profit and spend this for their own purposes (Gu, 2001). This system attempted to give enterprise managers more autonomy and have sufficient power to manage their enterprise for

efficiency result. However, this system was not success in terms of company performance (Steinfeld, 1998).

The government found new alternative policy for SOEs reform. In 1995, the Chinese government announced the new policy in the Ninth five-year plan, which aims to transforming the management mechanisms of SOEs, a strategy of ‘strengthen large state enterprises and liberalize small enterprise’ (Zhuada Fangxiao) was raised (Otsuka et al, 1998). Most small and medium state-owned enterprises were tried to transform the ownership and management mechanism through reorganization (Liu, Wu, 2006). The small SOEs should be sold off, merged with large or profitable SOEs or go bankrupt and wholesale redundancies to achieve higher production efficiency. In addition, the small SOEs are encouraged to lay off their workers for reorganizing and downsizing.

For the large SOEs in order to turn around losses and low profit situation, they had to change their management mechanisms. Large sized SOEs have been considerate to take an internal reform and taking more western style organizational forms to be more responsive (Morris et al, 2002). In the mid 1990s, the government adopted two new system which are ‘Modern Enterprise System’ (MES) and ‘Group Company System’ (GCS) in order to reform and increase more efficiencies management. The primary goal of these programme is to reduce government intervention in these large SOEs and become internationally competitive firms in the same structure with Western corporations (Hassard et al, 2002). From this point, large SOEs are seemed to be managed independent from the government and are responsible for losses and profit without any interferences from the state, as

Otsuka et al (1998 p. 234) pointed out that: “ this reform is not far away from a complete privatization of SOEs.” (Otsuka et al, 1998, p. 234)

Lay-offs and ‘ downsizing in the interest of increased efficiency’ (jianyuan zengxiao) were taken during the reform period. All enterprises planned to reduce their employees in order to cut the costs, improve productivity and make them internationally competitive (Morris et al, 2002). Consequently, the reform of state-owned enterprise causes the enormous numbers of surplus workers in China (Solinger, 2002). According to the National Bureau of Statistics of China (2000, 2003): “ Employee numbers in collective-owned units decreased from 36. 21 million in 1992 to 31. 47 million in 1995, and again to 11. 22 million in 2002. Numbers in state-owned units have decreased, from 112. 61 million in 1995 to 71. 63 million in 2002.” (NBSC 2000, 2003)

Although the ‘ re-employment project’ had adopted by the Chinese government to solve this laid-off problem, the results are not satisfied (Solinger, 2002). Most of laid-off and unemployed workers will be added to large numbers of workers migrating from rural areas to urban areas in order to search for a better job; therefore this could be one of the creation that driven China into a new urban poverty (Gu 1999; Robert 1999; Solinger 1999).

### **The household registration system (hukou)**

The household registration system is an ‘ invisible wall’ to divide China institutionally into two systems which are urban and rural sectors (Chan, 1994; Chan, Zhang, 1999). This system aims to prevent labourers to migrate

from rural to urban (Cai et al, 2002). Moving from rural to urban was controlled strictly and had to be approved by the authority if they want to move. Despite the severe restrictions before 1980s, migration from rural to urban was restrained in the first decade of the People's Republic of China (Lary, 1997). Later, the relaxation of the household registration system has further loosed the restriction of labour mobility (Liu, Wu, 2006). Most laid-off and unemployed workers attracted by a more development chances and better living conditions in urban areas, therefore, large numbers of rural labourers migrated into urban areas to seek for a new job.

However, due to their rural hukou status, rural migrants found that there are considerable difficulties to find a good job in the urban areas. Many laid-off workers are low-education and low technical skills, as a result, there are low competitive advantages for them in the employment market , most of them became unemployed and lack of regular income which led to poverty (Liu, Wu, 2006). Even for those who have a job, their income did not see a comparable increase because they have high cost of living expenses (Wu, Huang, 2007).

### **Changes in welfare provision**

One of the dramatic change in urban life since the economic reform had been the erosion of the ' iron rice bowl' that provided from the work units (danwei) which is the social contract between the government and the people (Wang, 2004). Traditionally, SOEs have to undertake many welfare functions for their staff, this called ' The work unit-based welfare system'. SOEs were responsible for the provision of ' cradle-to-the-grave' provision which is including housing, medical care, education and pensions (Solinger



1997, 1998). As a result, social welfare became a large burden for SOEs and Chinese government put great efforts to reform the social welfare system.

Throughout the reform period, there is emphasis on the efficiency of work units. Consequently, this led to the aims at separating some of the social services such as the management of retirement pensions, medical care and housing. The primary goals of these reforms were to make the enterprises more competitive with the private firms and reduce their large burdens from the traditional welfare system (Wang, 2004).

However, the reform progress very slow. The urban poverty groups have become the victims of restructuring and are marginalized by the cleavage between welfare provision through the state work units and the new social welfare system. The government have not been guaranteed the living right and development right of urban poverty population (Liu, Wu, 2006).

Under the new economic system, the original work unit-based welfare system has been gradually transformed to a social welfare system. The problem for this is that the social welfare system has not been perfectly developed, but the old work unit-based system had been canceled (Liu, Wu, 2006). In the late 1990s, the 'three-tier safety' network had raised to cope with increasingly lay-offs, unemployed workers and urban poverty. This system including the Labour Security Programme, the Unemployment Insurance Programme and the MLSP for urban residents. Nevertheless, these programme had low standard and their coverage is too narrow to include all of the poor, so it does not has efficiency results (Liu, Wu, 2006).

Lu (2002) pointed out that the social security standard has not been able to cover all of the poverty population especially for rural migrant (Lu, 2002). The capability of present social welfare system is can not fulfill the requirements of the poor people. They are easily to fall into poverty if they lose their land in rural areas or their employment opportunities in urban (Liu, Wu, 2006). The traditional system only served for urbanites not for rural people which is unfair and be a main problem that government still have to concern about. Like Liu and Wu (2006) mentioned that: “ poverty refers not only to pure living difficulties, but also to social problems caused by society’s development in certain phases.” (Liu, Wu, 2006)

## **Inequalities in China**

### **Rural-urban inequalities**

According to Wang (2004), absolute equality was not pursued in urban areas. Even though the government policies aimed at reducing inequalities between different groups, inequalities still existed and sometimes intentionally or unintentionally increased (Wang, 2004).

First of all, rural migrants were not allowed to do some jobs in urban areas such as finance, insurance, management and all high technical skills work, without these jobs rural migrants can only take up hard, dirty and dangerous jobs that urban people do not want to do such as builders, deliverers, waste collectors and family servants (Wang, 2004). Consequently, rural migrants had to live in poor standard housing and obtained low income through the hardest work. In addition, there is extremely difficult to transfer one’s rural registration to an urban one (Wang, 2004), as the previous part mentioned, the hukou system is clearly divided populations into two sectors; rural and

urban. Although rural migrants work and live in urban areas, they are still treated as peasants and some of them may suffer discrimination just because of their status which is unfair for them (Liu, Wu, 2006).

In contrast, most of urban residents who have urban status are still advantaged in welfare medical services and education. High standard schools and healthcare system are provided for urban residents (Davis, Friedmann, 1991) There are a large differentials income between rural and urban areas, and the fact that most of the rural population live in a bad condition and absolute poverty, these rural-urban inequalities contributed to the rural-urban migratory flow and led to new urban poverty problem in present (Davin, 1999).

### **Gender inequalities**

Gender inequalities also are a serious problem in China urban poverty. As mentioned before, the so-called '40-50 group' becomes most vulnerable to job less, and in this group 40 years old females are consider to be an elder group which is hard and unable to find a job, while males are in the ages of 50 years old.

Zhang (1997) mentioned that those female workers are suffered from dual discrimination. Their positions in the job are lay at the bottom and paid less than males, moreover, males and urbanites are more likely to get promotions than females. Most women only take up repetitive, unskilled jobs, while men and urbanites do the managerial or performing skilled one (Zhang, 1997). Davin (1999 p. 122) also makes the pointed that: " Women are considered more vulnerable and less capable of dealing with the outside

world.” (Davin, 1999, p. 122) Therefore, they have to suffer from this discrimination and poor living condition even though they work hard like a male do.

## **Conclusion**

In this essay, the causes and effects of urban poverty has been surveyed and analysed. A picture of the situation can be concluded that Chinese urban poverty has been created since the transition from a planned economic to a market economy and become a serious problem in China. Urban poverty is mainly composed by laid-off, unemployed workers, poor workers, poor migrants and retirees. Liu and Wu (2006) mentioned that the new urban poverty is a product of the economic transition (Liu, Wu, 2006). China chooses to reform their economic to establish a market economy system in order to enhance economic efficiency and economic growth. However, social inequalities and urban poverty are the main resulted from this institutional transition and have potential impacts on social stability (Liu, Wu, 2006). With the increasingly laid-off workers and unemployment which is the direct cause for the urban poverty, the government raised many policies to deal with these problems, the basic difficulties have been resolved, but the problem of surplus workers, rural-urban inequalities and gender inequalities are still very violent problems in China.

There are some suggestions from Liu and Wu (2006), first, the need of creating employment opportunities for those laid-off and unemployed workers. Second, by abandon unequal policies such as unfair employment policy and the household registration policy, moreover, they should provide urban citizenship for all of rural migrants in urban areas to reduce the

inequalities in Chinese society. Third, it is necessary to improve the social welfare system in China in order to improve their population living standard (Liu, Wu, 2006).

In conclusion, it is argued by this essay that the ‘surplus labour problem’ is the most serious problem for the government to concern and need to take responsibilities to deal with this problem and find the new better ways to ease the social problems caused by this new urban poverty, otherwise, China will never eliminate this poverty problem and be one of the most inequalities country in the world.