Openness, Distributive Conflict, and Social Insurance:
The Social and Political Implications of China's WTO Membership

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Abstract

China will join the WTO soon. This article does not question the rationale of China's decision to join the WTO. Nor it challenges the premise that, all in all, the potential benefits from the WTO membership outweigh the potential costs, at least in long term. Rather, it focuses on the social and political implications of China's WTO membership. It is assumed that even if the WTO membership is potentially a productivity-enhancing move for China, the benefits and costs of such a change will not be evenly distributed. Unless there is a mechanism that can induce or force the winners to compensate the losers, distributive conflicts between the two groups will be inevitable. Such conflicts may weaken or even erode political support for globalization. Thus, to remain committed to globalization, the government of an open economy must play a role in redistributing gains and costs. The first section elaborates this analytical framework. The second section argues that Chinese reforms have change from a win-win game to a zero-sum game. As a result, China has turned itself from a relatively egalitarian society into one with huge and growing equalities. The third section analyzes who will stand to win and lose when China joins the WTO. It predicts that precisely those social groups who have borne the costs of recent reforms will be hit hardest. More significantly, those losers happen to be the social groups that have long served as the political bases of the communist regime. The WTO membership thus poses a challenge to the legitimacy of the Chinese government. The final section discusses the political implications of China's WTO membership.

The Social and Political Implications of China's WTO Membership

On November 15, 1999, China and the United States signed a bilateral agreement on China's accession to World Trade Organization (WTO). Since then, China has reached agreements with more countries. Although the negotiation with the European Union has not yet concluded, there is little doubt that China's entry to the WTO is just a matter of time.

By making concessions to the United States and other countries, China has demonstrated to the world that it is determined to embrace globalization and continue its domestic reform drive. To dispel misgivings about these deals,[1] the Chinese government has gone out of its way to publicize the potential benefits of the WTO membership. While acknowledging possible risks and challenges, the government insists that these deals are "win-win" deals satisfactory to all sides [Xinhua News Agency, November 15, 1999; People's Daily, January 18, 2000; Economic Daily, January 21, 2000].

This article does not question the rationale of China's decision to join the WTO. Nor it challenges the premise that, all in all, the potential benefits from the WTO membership outweigh the potential costs, at least in long term. Rather, it focuses on the social and political implications of China's WTO membership. It is assumed here that even if the WTO membership is potentially a productivity-enhancing move for China, the benefits and costs of such a change will not be evenly distributed. Unless there is a mechanism that can induce or force the winners to compensate the losers, distributive conflicts between the two groups will be inevitable. Such conflicts may weaken or even erode political support for globalization. Thus, to remain committed to globalization, the government of an open economy must play a role in redistributing gains and costs. The first section elaborates this analytical framework. To fully understand the possible impact of the WTO membership on the Chinese society, it is important to know the current situation in the country, which can serve as the benchmark for our discussion. The second section of the paper notes that Chinese reforms have undergone two distinct phases. During the first phase of reform (from 1978 to around 1992), the distribution of gains and loses was relatively equal. Nearly all social groups benefited. It was by and large a win-win game. Starting roughly from 1993, the Chinese reform entered the second phase, which appeared increasingly like a zero-sum game. Certain segments of the Chinese society have benefited a great deal from recent reforms, while others have seen little gain or no gain at all. As a result, China has turned itself from a relatively egalitarian society into one with huge and growing equalities. What would happen if China becomes a WTO member? One thing is certain. Greater openness will entail restructuring of the economy, which will inevitably result in job loss, at least for some social groups in the short run. The third section analyzes who stand to win and lose when China removes more barriers to foreign trade and foreign capital. The findings are not encouraging. It is precisely those social groups that have borne the costs of recent reforms that will be hit hardest. More significantly, those losers happen to be the social groups that have long served as the political bases of the communist regime. Will the WTO membership pose a challenge to the legitimacy of the Chinese government? It depends on whether the government is able to reduce the risks associated with greater degree of openness by redistributing the gains and costs of globalization. The final section discusses the political implications of China's WTO membership. To play the role of re-distributor, the Chinese government has to rebuild its extractive capacity, which is by no means an easy task. The section concludes that only by introducing institutions of voice or participation can the government expect to extract sufficient social resources for adjusting to a globalizing world.

Analytical Framework

Greater Openness and Distributive Conflicts

By joining the WTO, China is committed itself to gradually lowering tariffs, removing non-trade barriers, opening domestic markets to foreign competitors, and allowing freer capital mobility across national boundaries. According to the prevailing view in academic and policy circles in today's world, if a country pursues a liberal trade policy, it will eventually achieve higher growth rates (OECD1998; IMF 1997; Krueger 1998; Stiglitz1998a). But a recent study that systematically scrutinizes the existing literature and empirical data find little evidence that open trade policies are significantly associated with economic growth (Rodríguez and Rodrik 1999). Even if we accept that greater openness is indeed conducive to economic growth, it does not follow that everyone will necessarily gain from liberalization, at least not in the short run. There are two reasons. First, greater openness implies specialization in production. Thus, it is inevitable for the national economy to be restructured by the forces of comparative advantage. While some social groups will benefit from opportunities offered by the economic restructuring, others may lose their jobs or become less competitive in labor market. Second, since a more open economy tends to have a less diversified production structure, it is more likely to expose itself to the risks emanating from turbulence in world markets. Growing external risk means greater volatility in domestic income and consumption, which tends to hurt some social groups much harder than others.

The uneven distribution of the gains and costs of globalization may have two consequences. On the one hand, the hardship caused by globalization may alienate the losers from the economic and social system. With a growing sense of economic insecurity, they may withhold their support for the ongoing liberal reforms. If the situation continues to deteriorate in their view, they may openly oppose such reforms. On the other hand, the inequality and other forms of polarization may trigger distributive conflicts between the winners and losers of globalization. Such conflicts may damage the prospects of economic growth in a number of ways. First, distributive conflicts may divert attention, energy, and resources from productive uses to bargaining over the distribution of rents and burdens of globalization (Rodrik1998). Second, by generating uncertainty in the economic environment, such conflicts may lead to sub-optimal investment levels (Alesina and Perotti1996). Third, distributive conflicts may make it more difficult to build a consensus when a rapid response to external shocks or formulating cohesive developmental goals with clear priorities is necessary.

Distributive Conflicts and State Extractive Capacity

Of course, distributive conflicts are not unavoidable. Were the potential gainers of globalization willing to compensate the losers, such conflicts would not materialize. However, it is not realistic to expect that to happen. Even if the gainers agree to do so *ex ante*, they cannot credibly commit to compensate the losers *ex post*. Another option is for the state to tax the gainers and then to buy off the losers. According to Katzenstein

(1984), this was a common practice in small European states like Sweden, Austria, and the Netherlands (1984, 47-57). More recently, in a study of 125 countries, Rodrik identifies a positive correlation between an economy's exposure to international trade and the size of its government.[2] Apparently, in many economies exposed to significant amount of external risk, their governments tried to mitigate risk by taking command of a larger share of the economy's resources and institutionalizing social security, welfare spending, income-transfer programs, and other types of compensatory programs (Rodrik, forthcoming).

Thus, to reduce distributive conflicts and remain committed to domestic reform and globalization, the state has to possess risk-reducing instruments and the requisite extractive capability, because people seem to demand an expanded government role as the price for accepting larger doses of internal and external risk. Indeed, it has been established that governments have expanded fastest in the most open economies (Rodrik forthcoming).[3]

The problem is that in many developing countries there are serious limitations to the government's ability to tax. Without an effective redistributive mechanism, even if the aggregate gains of greater openness exceed the aggregate loses for the country as a whole (which means that the potential gainers could compensate the potential losers and still keep some extras), distributive conflicts are bound to happen. In other words, when state extractive capacity is weak, its conflict management capacity could not be strong. When the state lacks the capacity to manage conflicts and social divisions run deep, it would be hard for the state to coordinate social interests on stabilization and growth-promoting policies, not to mention enlisting the support of most social groups in making short-run sacrifices at times of exogenous shocks and macroeconomic crises.

State Extractive Capacity and Voice

Can governments of developing countries strengthen their extractive capacity? Certainly, they could not impose tax burdens on their population that are heavier than those in industrial countries. After all, the level of economic development is a necessary precondition for a strong extractive capacity. A state could not tax effectively when the economy produced little of value. Yet it would be wrong to reduce all the variation in state extractive capacity to economic strength alone. Even at the same level of economic development, state extractive capacity may be stronger in certain institutional environments than in others. Then, the next question is what type of institutional environment is more likely to facilitate revenue extraction. Some believe that authoritarian mechanisms are more able than participatory mechanisms to extract resources from society, because, in their view, the former can impose higher tax rates by disregarding protests from the people (Haggard 1990). However, it is naïve to expect that a 100 percent increase in the tax rate would automatically yield a 100 percent increase in the tax returns. There is no necessary correlation between higher tax rates and higher level of revenue collection. In fact, higher tax rates could result in lower tax returns if taxpayers react with massive tax revolt or tax evasion.

This essay argues that participatory mechanisms are relatively more capable of increasing the level of revenue collected by the government, because they can help reduce the costs of taxpayer compliance. Indeed, ultimately, the extractive capacity of a government depends on the extent to which it procures taxpayer compliance. Voluntary compliance would secure the state with sufficient revenues. If tax evasion becomes a national sport, however, the state would find it difficult to make ends meet. There are reasons to believe that, other things being equal, participatory mechanisms would enable the government to create taxpayer compliance at relatively low costs.

Facing tax increases, a taxpayer possesses two alternatives: to “exit” or to “give voice.” The “exit” option here refers to tax evasion by various means, and the “voice” option refers to paying taxes while trying to alter tax laws through political action (Hirschman 1977). Where there are no participatory institutions, the “voice” option is essentially shut out. Then taxpayers are left with only the “exit” option. If citizens are given the rights to influence government decision-making, however, compliance with taxation may be expected to increase. This is so because in such an institutional environment, the government cannot tax and spend without consent from those whose interests are affected. When citizens vest the government with the right to tax and spend in their behalf, they are more likely to be compliant (Bates and Lien, 1985). Of course, this is not to say that a government with legitimacy can eliminate the free-rider problem. A person who supports his government may still want to receive benefits without incurring costs. Nevertheless, being given greater voice over the policy choice of governments, taxpayers are definitely more willing to pay taxes. With reduced enforcement costs, the level of revenue the government is able to collect must be higher (Levi 1988).

The argument that participation induces a greater willingness to pay taxes is supported by both historical and contemporary cases. A study of the political and fiscal history of early modern Europe (1450-1789) finds:

> In the absolutist states, Spain and France, taxation was relatively light. It is rather in the states with strong representative institutions, the Netherlands and eighteenth-century England, that taxation was extraordinarily heavy (Hoffman and Norberg, 1994: 299).

Such contrast is still visible in today's world. Over the period from 1970 to 1990, it has been noted that countries with representative institutions tended to collect more taxes than those without: on the average, 26.7 percent of the GDP in the former and 17.8 percent in the latter. Even after controlling for other factors that also affect taxation, such as per capita income, taxes are still higher in the former than in the latter (Cheibub 1998).

Even China itself presents the evidence that participation can help minimize the costs of enforcement associated with taxation. Any one who studies rural China knows that complaints about "exorbitant local levies" (tanpai) are heard everywhere. However, there are exceptions. Wherever grassroots democracy is firmly institutionalized and "voice" really counts, villagers are often willing to pay more. Where forceful participatory institutions were still absent, though, fiscal paralysis was almost inevitably the result. "Voice" matters because it sanctions fiscal demands and makes government's performance subject to popular scrutiny (Wang 1997a: chapter 7).

In sum, a country seeking greater openness should not ignore the economic insecurities and distributive conflicts generated by globalization. Otherwise, the prospects of maintaining global free trade would be very poor. Distributive conflicts are easier to mediate when compensation is built into the system. However, only when the government possesses a strong extractive capacity can it play the redistributive role. But it is unlike for the government to possess such a strong extractive capacity unless it institutionalizes mechanisms of “voice”. In China, the government’s extractive capacity is rather weak and participatory institutions remain underdeveloped. These are the political challenges China will face once it becomes a member of the WTO.

From A Win-Win Game To A Zero-Sum Game

The social impact of the WTO membership is somehow conditioned by the current situation in China. Obviously, if globalization were to generate restructuring and external shocks at all, such changes would have much worse impact on a country with great inequality and social conflict than on an egalitarian society. Therefore, before trying to figure out who stands to gain and lose from China's WTO deal, this section examines to what extent the benefits and costs of the Chinese reform have been evenly distributed.

In retrospect, it can be said that the Chinese reform has benefited everyone. There are hardly any households whose welfare has not improved since 1978. However, a careful review of the recent history reveals that the Chinese reform has actually gone through two distinct phases. The first phase started in 1978 and ended around 1993. During this period, the game of reform was truly a win-win game. All social groups gained. The only difference was that some social groups might have gained relatively more than others.[4] Starting from around 1994, the Chinese reform entered the second phase, which was characterized by worsening unemployment and growing inequality. To be sure, there were still social groups that profited from the latest round of reforms. However, for the first time, some segments of the society became real losers, losers not only in relative sense, but also in absolute sense. Their welfare suffered real decline. To the extent that some gained at the expense of others, the new game of reform has become a zero-sum one.

Both Chinese elite and ordinary citizens share this observation. Since 1997, the Chinese academy of Social Sciences has conducted surveys among government officials and ordinary urban residents every year. One standard question is which social groups in their view have benefited most or least from recent reforms. Table 1 reports the results. Although discrepancies exist between the elite and popular views, there is a broad consensus that farmers (including those who work in urban areas as migrants) and the workers of state-owned enterprises (SOEs) are big losers.

[TABLE 1 ABOUT HERE]

Rural Polarization

Farmers' misfortune has to do with rural underemployment. Rural underemployment has always been a problem in China. In the 1980s and early 1990s, township and village enterprises (TVEs) created millions of job opportunities for rural residents, thus helping alleviate the underemployment problem. Even though, according to Hu Angang's estimate, in 1995, among 500 million of able-body laborers in rural China, only 325 millions were actually needed. The other 175 millions were redundant (Hu 1999). In other words, if rural laborers were to work to their potential, more than one-third of Chinese farmers would have become unemployed. What is worse, as Figure 1 shows, starting from 1993, TVEs seem to have lost its job creation power. In 1997, China changed its definition of TVE. Therefore, data before and after this change are not quite comparable. However, the change of definition cannot conceal a fact: the TVE employment has been declining, 4.8 percent in 1997 and 18.7 percent in 1998. In 1999, the trend continued. Such a sharp slump has never occurred before.

[FIGURE 1 ABOUT HERE]

Partially due to the waning of the TVEs, the growth of farmers' income has slowed down after 1996. This is clearly demonstrated in Figure 2. It needs to be noted that what Figure 2 presents is the national average. Surveys have found that, for 80 percent of Chinese farmers, their income is below the national average. In other words, the top 20 percent of rural residents have much high income than the rest of rural residents. And the gaps between low-income and high-income groups have been widening (Fan 2000). The trend was already unmistakable before 1995, but has become more visible after 1995. Unfortunately, we only have data of rural Gini coefficients prior to 1995,[5] which are shown in Figure 3. Clearly, not all rural residents are losers. But it is safe to say that a large percentage of them are.

[FIGURES 2 AND 3 ABOUT HERE]

Urban Polarization

While rural underemployment is worsening, urban unemployment is also on the rise. If we look at official statistics of urban unemployment rates, the situation is not bad. Although the rate has increased from 1.8 percent in 1985 to 3.1 percent in 1999, only 5.8 million urban residents were unemployed in 1999 (Yang 2000: 151). But even the government admits that such statistics is misleading, because "unemployment" is very narrowly defined, not including millions of "xiagang" workers. "Xiagang" is a peculiar concept. It is different from outright unemployment in that "xiagang" workers maintain some sort of employment contract with their enterprises. In theory, they can return to their posts once their enterprises begin to hire again. Before they are re-hired, which is not unlikely in most cases, however, they are unemployed to all intents and purposes. By June 1999, there were around 10 million "xiagang" workers (7.42 million from SOEs and 2.4 million from collective enterprises) (Yang 2000: 150). Even the official statistics on "xiagang" workers may not be very accurate. According Hu Angang's calculation, in 1998, the total SOE employment dropped by 10.27 million and the total urban collective employment by another 4.74 million. Together, around 15 million SOE and collective employees no longer worked in their firms. This figure included those who had reached the retirement age and those who found employment elsewhere. In any case, if we add the numbers of "xiagang" workers to those who officially registered as unemployed, the total number of the unemployed probably amounted to 15-16 million in 1998 and 18-19 million in 1999 (Hu 1999b). Figure 4 compares the official unemployment rates to Hu's estimates of real rates. Whether we adopt the low or high estimate, one thing is unmistakable: starting from 1993, urban unemployment has become a serious problem.

[FIGURE 4 ABOUT HERE]

The situation is unlikely to improve any time soon, because economic growth in China has increasingly become a sort of “jobless growth”. This trend is vividly demonstrated in Figure 5. In the 1980s, every additional percentage of GDP growth brought about 0.32 percent increase of employment opportunities. At that time, growth might be called a job-creation one. By the mid-1990s, the mode of growth had changed. Then when GDP grew by an additional percentage point, employment opportunities increased only 0.14 percent. The late 1990s saw the employment elasticity of output growth keeping falling. In 1999, GDP grew 7.1 percent, while employment increased barely 0.36 percent, which meant that every additional percentage of GDP growth brought about only 0.05 percent increase of employment. If the current trend were to continue, even if annual GDP growth rate would rebound to the level of 8-9 percent in the coming years, China would still not be able to create enough job opportunities for those who newly enter labor market (about 10 million every year), not to mention absorbing all those who lose their jobs due to SOE reform and economic restructuring.

[FIGURE 5 ABOUT HERE]

Unemployment has a regional dimension. Figure 6 presents data on both official and real unemployment rates in China’s 31 provincial units in 1998. In the national capital, Beijing, barely 2 percent of the labor force was unemployed. However, in three Northeast provinces (Liaoning, Jilin and Heilongjiang), real unemployment rates ranged from 12.8 percent to 15.5 percent. Unemployment was also pretty bad in Jiangxi, Hubei, Hunan, Sichuan, Shaanxi, and Hainan provinces (above 10 percent), all but Hainan are interior provinces. Coastal provinces in general had much lower unemployment rates than their inland counterparts. For instance, Fujian’s rate was as low as 3.1 percent. Guangdong, Shandong, Zhejiang, Jiangsu, Hebei, and Shanghai also saw relatively low unemployment rates.

[FIGURE 6 ABOUT HERE]

Due to unemployment and other factors, many urban households have experienced declines in their real income. In 1996, about 40 percent of urban households suffered such a bitter experience. The next year was no better: those with reduced incomes constituted 39 percent of total urban households, hardly any change from a year before. It was the poor who were hit hardest. Among the bottom 20 percent of households, nearly two-thirds of them found themselves earning less. The second 20 percent of households were also in a very bad shape: one out of every two families falling into this category. Although some of the top 20 percent of urban households also suffered income loses, most of them actually were able to increase their income (Table 2). When the poor become poorer and the rich become richer, the gaps between them of course widen. In 1990, the average income of the top 20 percent of households was only 4.2 times higher than that of the bottom 20 percent. By 1998, the ratio had jumped to 9.6 times, which was an unmistakable sign of polarization. Indeed, the richest 10 percent of households were the biggest winners of recent reform. Their share of total income increased from 23.6 percent in 1990 to 38.4 percent in 1998. On the other hand, the bottoms 20 percent of households were losers big time: their share of total income declined from 9 percent in 1990 to 5.5 percent in 1998 (Table 3). Now about 30 million urban residents are living in poverty. Their incomes are no more than one-third of the national average (Ying 1998).

[TABLES 2 AND 3 ABOUT HERE]

Urban-Rural Divide

Like other third world countries, China has a dual economy. Economists tend to expect that the expansion of modern sector will “trickle down” to bring equal prosperity to the traditional sectors. But even the founder of the dual-sector model, Arthur Lewis, warns: “There is no reason to expect the traditional always to benefit from expansion of the modern,” because “there are forces working for benefit and forces working for loss; the net result will vary from case to case” (Lewis 1979: 212). Perhaps we should add that, even in a single country, the expansion of the modern sector might produce different outcomes in different periods.

When China launched its reform initiative in 1978, the urban-rural divide was already rather deep: The per capita income of the urban resident was 2.6 times higher than that of the rural resident (see Figure 7). In the early years of reform, the urban-rural gap shrunk. Starting from 1984, however, the gap began to widen again. Nevertheless, before 1992, the gap was still somewhat smaller than that of 1978. The immediate impact of Deng Xiaoping's famous southern tour was the polarization of growth between China's modern and traditional sectors. Thanks to price increases of state procurement of grains, the polarization was temporarily arrested in 1996 and 1997. But, given that China's grain prices were already higher than those in international markets, it is not realistic for the government to support the agricultural sector by handing out subsidies on a regular basis. Therefore, after 1998, the urban-rural gap began to widen once again. By 1999, the urban-rural divide was as deep as it had been in 1978. All the gains of earlier years had been lost.

[FIGURES 7 AND 8 ABOUT HERE]

What Figure 7 shows is relative gap between urban and rural areas. Figure 8 presents data on absolute gap. Comparing these two figures, we are led to the conclusion that, regardless of how the relative gap changes, the absolute gap has always been growing. While a typical urban resident earned about 200 Yuan more than his urban counterpart in 1978, by 1997, the difference amounted to more than 3,000 Yuan. The measurement of relative gap may be useful for academic research. But, as far as politics is concerned, absolute gaps may be more relevant. Therefore, we must pay special attention to changes in absolute terms.

Compared to other countries, China's rural-urban gap is unusually large. In other countries, the ratio of urban to rural incomes is normally below 1.5 and rarely exceeds 2.0. But, in China, real urban incomes are as much as four times real rural incomes, if urban residents' welfare benefits of various kinds are to be included (World Bank, 1997: 7-8).

Regional Disparities

Neoclassic economists predict that, coupled with economic growth, the operation of market, left to itself, tends to bring convergence of regional income. To be sure, China has been doing market-oriented reforms in the last two decades and its record of economic growth is as "miraculous" as those East Asian tigers. But China's experience of the last two decades shows that convergence is by no means automatic. In a recent book on regional disparities, Dr. Hu Angang and I reach the following three conclusions.

First, inter-provincial inequality has been widening. The Chinese economy converged briefly in the early years of reforms, but the trend was soon reversed. Disparity in per capita GDP between China's coastal and interior provinces has been on the rise since 1983. And what is worse, the divergent trend has accelerated after 1990.[6] Figure 9 displays two sets of weighted coefficient of variation (CV_W) of per capita GDP in constant prices, which are measures of relative inequality between provinces. The top curve shows an U-shaped time path, with inequality declining from 1978 to 1991 and then reversing course. The bottom curve differs from the top one in that Beijing, Tianjin, and Shanghai are not included.[7] Excluding the three cities yields a noteworthy change in CV_W: the direction of change in CV_W is different. Regional dispersion did decrease marginally in the initial years of reform, but the 12 years following 1983 saw a steady increase in relative dispersion. Consequently, CV_W at the end of the period was 0.073 higher than that in 1978 (Wang & Hu, 1999: 56-57).

[FIGURE 10 ABOUT HERE]

Second, regional gaps in China are unusually large. Figure 10 presents data on per capita GDP in China's thirty provinces in 1997. Apparently, the coastal provinces were better off than the central provinces, which, in turn, surpassed the western provinces. Except Guangxi, all the coastal provinces had per capita GDP higher than the national average. Shanghai's was 4.5 times the average. At the other extreme, Guizhou's per capita GDP was equivalent to only 37 percent of the national average. In fact, aside from Heilongjiang, none of the central and western provinces had per capita GDP higher than the national average. Compared to seventeen countries for which data are available, China's degree of interregional inequality appears to be the worst (see Table 4).

[TABLE 4 ABOUT HERE]

Third, regional inequality is a multi-dimensional phenomenon. No matter which dimension we look at, there are notable regional variations. The rich and poor provinces do not differ merely in per capita GDP. Rather, regional inequality manifests itself in almost every aspect of economic and social life. Measured by human development indicators, for instance, the difference between China's most developed and least-developed provinces is comparable to that between the Western industrial countries and the poorest countries in the world (UNDP 1995: 139-141).

General Polarization

From the above discussion, it is clear that recent reforms have widened the gaps between regions, between urban and rural populations, and between rich and poor households in either urban or rural China. These inequalities are overlapping and interrelated. Together, the growing inter-regional, inter-personal, and rural-urban income differentials make China's overall income distribution much more unequal today than ever before in the history of the People's Republic (see Figure 11). In the early 1980s, China was an egalitarian society with income inequality well below the world average. By the mid-1990s, although the degree of income inequality in China was still lower than in most Latin American and Sub-Saharan African countries, "there is no room for complacency" (World Bank, 1997: 2). As Table 5 shows, China's income distribution has already exceeded the inequality found in most transition economies in Eastern Europe and many high-income countries in Western Europe as well as in some of its large Asian neighbors, such as India, Pakistan and Indonesia, countries that had often been treated in the development literature as classic cases of large income inequality (World Bank, 1997: 1-2, 7-8).

Income inequality has grown in many countries in the 1980s and 1990s but not in all countries. What really distinguishes China from all others, however, is the fact that in China it has increased both to a greater extent and more rapidly than almost anywhere else. The World Bank reports that the increase in China's overall inequality was "by far the largest of all countries for which comparably data are available" (World, 1997: 7-8). Such a steep rise in inequality in such a short period of time is highly unusual in both historical and comparative perspectives. Looking ahead, unless the trend of increasing polarization could be somehow halted or reversed, the glaring inequalities prevailing in Latin America and Sub-Saharan Africa are likely to emerge in China soon.

Growing inequality has given rise to a pervasive sense of economic insecurity in China (see Figure 12), which in turn threatens political support for the ongoing market-oriented reforms. It is against this background that China will join the WTO.

Who Stands to Lose from the WTO Membership?

A Win-Win Decision?

At a specially convened press conference on January 10, 2000, American President Clinton told the audience: "Bringing China into the WTO is a win-win decision." According to Clinton, what the United States got was a very good deal: American products and services would gain *significant new* access to virtually every sector of China's economy (AP, January 10, 2000). What did China get in return? U.S. Secretary of Agriculture Dan Glickman was frank: "Absolutely nothing."[8] Clinton agreed: "China makes one-way concessions to open its markets to American goods, services, and farm products…while the United States makes no new market access commitments" at all (Clinton 2000). If what Clinton said was true, one may wonder whether China has gained anything at all from this WTO deal.

Indeed, the short-term benefits China would attain through WTO membership are very limited, whatever the long-term benefits may be. As Nicholas Lardy points out, for China, the single most important economic benefit associated with the WTO membership is the permanent most-favored-nation (MFN) trading status in the markets of WTO member countries. However, China has already received permanent MFN status from every country in the WTO except the United States. And the United States has provided MFN status for China on a yearly basis for more than fifteen years. Although the US Congress has consistently threatened to revoke China's MFN status, nobody believes that it would even actually happen, because doing so would hurt the United State as much as it hurts China. Hence, as something already in hand, the value of this so-called “principal benefit of membership” should be heavily discounted.

Another potential benefit for China is that, according to the WTO rules, the United States—the largest market for Chinese exports—would have to remove import quotas on such Chinese labor-intensive products as textiles, shoes, and toys by certain dates. However, the United States has no intention to follow the WTO schedule. Therefore, in the November bilateral negotiation, it forced China to accept a four-year protection period for the US textile industry after the quotas are lifted in 2005. In addition, the United States introduces a mechanism of country-specific safeguard that addresses imports solely from China, rather than from other parts of the world. In case of an import surge that may threaten a particular American industry, the mechanism can be used to protect it. The country-specific safeguard applies to all industries and will remain in force for 12 years after China accedes to the WTO. Moreover, the agreement provides strong protections against dumping. China agreed that for 15 years after its accession to the WTO, the United States might maintain its current antidumping methodology (treating China as a non-market economy) in future anti-dumping cases. With all those protection measures in place, Clinton proudly told the audience at the press conference mentioned above: "In fact, we'll gain tough new safeguards against surges of imports, and maintain the strongest possible rules against dumping products that have hurt Americans in the past" (AP, January 10, 2000). Since any surges of exports to the United States are unlikely before 2015, this benefit of increased exports of labor-intensive products would remain a potential one for quite a long time to come.

Whereas China gains no new access to the U.S. market, the United States, and for that matter, other countries, will secure market access to whole areas of the Chinese economy to which they were previously denied, once China becomes a WTO member state.

Agriculture

Tariffs on agricultural products will decline sharply from an average of 31 percent to roughly 14 percent by January 2004. China will also create new tariff-rate quotas that allow American producers to export bulk commodities such as wheat, corn, and rice. In the meantime, China promises to eliminate all export subsidies. To prevent the Chinese government from manipulating imports, the agreement stipulates that private companies rather than state enterprises will handle the importing of a substantial share of these goods.

Manufacturing

Chinese tariffs on imports of industrial goods will drop from an average of 24.6% in 1997 to 9.4% in 2005. Foreign companies will have the right to sell, distribute and market industrial goods, including steel and chemicals, without the intervention of government bodies. And they do not have to go through Chinese middlemen as is now necessary. They also have the right to handle after sales service, repairs and maintenance.

Auto Industry

In the auto sector, China will cut tariffs from the current 80-100 percent level to 25 percent by mid-2006, with the largest cuts in the first years after accession. Auto parts tariffs will be cut to an average of 10% by mid-2006. Foreign auto companies will have full distribution and trading rights. The provision of credit to finance car purchases will also be permitted.

Finance

US banks will be able to lend to Chinese businesses in local currency two years after China joins the WTO, and to individual Chinese after 5 years. Foreign insurance companies can offer property and casualty nationwide. In addition, foreign firms will be allowed a 33 percent stake in all securities fund management joint ventures, rising to 49 percent three years after China joins the WTO.

IT and Telecommunication Industries

China will participate in the Information Technology Agreement (ITA) and eliminate all tariffs on products such as computers, semiconductors, telecommunications equipment, and other high-technology products. Foreign telephone companies, at present restricted to equipment sales, will be able to own up to 49% of all telecommunications service ventures upon China's entry into the WTO and up to 50% two years later. Foreign firms will also be allowed to invest in Internet companies, including content providers, from which they were previously barred.

Movies

China will import 40 foreign films a year, double the current number and 50 by the third year of the agreement, and foreign film and music companies can share in distribution revenues for 20 of the films.

Winners and Losers

Surely there are people in China who stand to gain from the country’s WTO membership. Educated elites, for instance, will definitely be winners because their investment in education would have higher returns once production factors are valued in international rather than domestic markets. Moreover, producers of certain industrial goods (e.g. textiles, toys, garment, shoes, color TV, washing machine, electric fan, bicycle, portable stereos and computer parts, and the like) and agricultural goods (e.g. tea, fruits, vegetables, livestock, and aquatic products) may gain because, with less trade barriers, those labor-intensive sectors may become more competitive in international markets.

In long run, the Chinese people in general may also benefit from the WTO membership. For one thing, as consumers, they may have more and better choices of goods and services at lower prices. Moreover, trade liberalization may increase China's overall productivity, thus helping improve the welfare of the nation as a whole. However, whether the general public can actually profit from the WTO membership is contingent on the equal distribution of gains and costs associated with greater openness.

People are consumers and producers at once. For those who lose their jobs, more choices of goods and services at lower prices may make little sense. Similarly, a productivity-enhancing change may not benefit everyone if the potential gainers do not compensate the losers.

As Olson (1965) points out, the losses of the potential losers tend to be concentrated and transparent, while the gains of the potential gainers tend to be diffuse. Thus, we would expect that the losers of the WTO deal strongly resist openness, while the winners only lukewarmly defend it. From political point of view, therefore, more attention should be paid to the losers rather than to the winners.

Who stand to lose once China becomes a WTO member? Farmers and workers are most likely to suffer negative consequences from the deal in the form of lost jobs and downward pressure on wages. The WTO membership requires China to dismantle its remaining import barriers. This will entail painful domestic restructuring and adjustment because these barriers have been used primarily to protect state-owned industries and farmers.

Once joining the WTO, China will have to cut agricultural tariffs substantially. The overall average duty for agricultural products will fall from 22 percent to 17.5 percent. On American priority agricultural products, tariffs will drop from an average of 31 percent to 14 percent by January 2004, with even sharper drops for beef, poultry, pork, cheese, citrus, other fruits, vegetables, tree nuts, forest and fish products, and other commodities (see Figure 13). In addition, the WTO membership will obligate China to use a tariff-rate quota (TRQ) system and state trading for certain sensitive commodities, including wheat, corn, rice, cotton, and soybean oil. Under this system, a specific quantity of imports will be allowed in at a low duty (on average1-3 percent) while imports above that level will face a higher duty. Moreover, a specific share of the TRQ will be reserved for importation through state trading enterprises and a specific share will be reserved for importation by non-state trading entities. If a TRQ share that was reserved to be imported by a state trader is not contracted for by October for any given year, it will be reallocated to non-state trading entities. The introduction of private trade is a way to ensure that the Chinese government does not impede quota-holders from utilizing their quotas and that imports occur.

[FIGURE 13 ABOUT HERE]

With such dramatically expanded market access opportunities, foreign companies are expected to sell China large amounts of wheat, corn, rice, cotton, soybeans, wool, dairy products, and other commodities. For example, China now imports roughly 2 million tons of wheat a year; the U.S.-China agreement immediately permits 7 million tons with almost no tariff. The China-U.S. agreement also promises to bind tariffs as a low rate for soybean (3%) and soybean meal (5%), and to eliminate quota limits on them. Moreover, under the agreement, China will establish a large, low-duty TRQ for cotton, with a substantial share reserved for private importers. All in all, the China-U.S. deal was so good that Scott Shearer, director of national relations for American Farmland Industries, called it “the largest market-access agreement in US agricultural history" (AP, January 10, 2000).

A good deal for American farmers means that China will see an upsurge of agricultural imports. In fiscal year 1999, American agricultural exports to China amounted to $1.1 billion. According to USDA’s “conservative” estimates, China’s WTO accession would result in $1.6 billion annually in additional U.S. exports of grains, cotton, oilseeds and related products by 2005. Exports of other products will bring in additional $350-450 million annually. Altogether, a gain of $2 billion each year in expanded exports to China is expected.

Based on individual households, China’s small-scale farmers can never compete with giant American producers. In the last two decades, prices of agricultural products, especially of grains, have been declining in international markets. But, the situation in China was just the opposite. Except in 1984 and 1989, such prices have been always moving upward. As a result, starting from late 1993, the prices of China's main agricultural crops (wheat, corn, rice, and cotton) have exceeded those in international markets. Take corn. In March 1999, it was priced at 1,440 Yuan per ton in the domestic market but only 720 Yuan at the Chicago market. Even taking into consideration of transportation costs, it was still much cheaper to buy from abroad (Wen 2000). Not only the prices of Chinese agricultural products are generally higher, their quality is also generally inferior. What is more, all those products are already over-supplied in China. It is estimated that the WTO membership would force China to reduce its corn production by 7.7 percent, wheat by 4.7 percent, soybean by 4.5 percent, cotton by 3.8 percent, oilseed by 3.6 percent, and sugar crop by 2.5 percent (Fan 2000). China now is a net corn exporter, but inflow of cheaper American corn will soon make it a net corn importer. Particularly, cotton growers will suffer badly. Currently, China is the world's largest producer and consumer of cotton, accounting for 20-25 percent of the world's total in both categories. Under the China-U.S. agreement, China will establish a large, low-duty TRQ for cotton with a substantial share reserved for private importers, which would lead to expanded U.S. cotton sales in China.

Large inflows from abroad could drive millions of Chinese farmers out of work. It is estimated that between 13 and 15 million of growers of China's main agricultural crops will become unemployed between 2000 and 2010, among whom about 10 million will have to be transferred to non-agricultural sectors.[9]

When millions of farmers flow into to cities, looking for jobs, they have to compete with millions of SOE and collective workers whose jobs are also threatened by foreign rivals. Under the terms of the agreement between China and the United States, not only industrial tariffs will be much lower, foreign manufacturers will also have the right to trade and distribute freely inside China--something China has severely restricted this far. With barriers to imports removed, foreign companies will be able to secure market access to those areas where Chinese producers are not competitive, including, among others, information industries, automobile, papermaking, steel, chemicals, petrochemistry, machine-making, pharmaceutical industries, telecommunications service, and the like. In the last twenty years, foreign exports to China have grown from negligible levels to more than $150 billion each year, a large proportion of which consists of manufactured goods. These figures can grow substantially with the new access to the Chinese market the WTO membership creates.

Due to over-investment in the first half of the 1990s, now almost every industry in China already has excess capacity. An indication of excessive production capacity is deflation. The prices of producer goods began to fall in 1996. The next year saw the decline of agricultural prices. What is worse, since October 1997, consumer prices have been falling for 30 months in a row. According to surveys conducted by Ministry of Domestic Trade, 93.8 percent of commodities were already over-supplied in 1996. The ratio increased to 98.4 percent in 1997. After 1998, there is no single commodity in the Chinese market that is not over-supplied (Chen 1999). Zheng Xilin, Deputy Director of the State Commission of Economy and Commerce, recently disclosed that in 1999 the use rate of production capacity for over half of the industrial goods was less than 60 percent.

Greater openness would exacerbate the problem of excess capacity. China has hesitated to dismantle its remaining import barriers because they could protect domestic firms, especially those state-owned and collective entities. Without Western-style safety nets, in the past, China, like many other third world countries, has relied on public employment to reduce social risks. Today, these state-owned and collective entities still employ over two-thirds of all urban workers. Removing import barriers will force thousands of such firms out of existence and the remaining ones to downsize themselves. It is estimated that redundant industrial employees alone amount to about 20 million. Overall redundant urban labor force is probably in the neighborhood of 25 to 30 million. Restructuring may be necessary for China's long-term development and downsizing may be desirable from the perspective of efficiency, but if restructuring and downsizing go too rapid, it will result in massive urban unemployment. Only a fraction of these newest additions to the ranks of unemployment will find jobs in new, foreign-owned, labor-intensive manufacturing enterprises. Even those who survive the great shocks of bankruptcy and lay-off are unlikely to enjoy rising real wages to go along with their rising productivity, for flood of imports will put more downward pressure on wages in general, and the wages of unskilled Chinese workers in particular.[10]

The impact of the WTO membership may also have a regional dimension. In the last two decades, China's coastal provinces have performed extraordinarily well, leaving inland provinces far behind (Wang & Hu, 1999). External shocks associated with greater openness may cause some pain for coastal provinces, but they should be able to adapt to the new situation with relative ease. Inland provinces are much more vulnerable to international competition. Historically, wheat, corn, cotton and oil crops have been their staples, while coastal provinces tend to have more diversified agricultural structure, producing, in addition to grains and cotton, tea, fruits, vegetables, livestock, aquatic products, and the like. As far as industrial structure is concerned, inland provinces tend to concentrate in resource extraction and heavy industries, while coastal provinces are good at producing consumer goods. With poorer natural endowment and more limited financial resources than their coastal counterparts, inland provinces would find it much harder for them to restructure their agriculture and industry, even if they were determined to do so. Thus, the WTO membership would mean more opportunities for relatively affluent coastal provinces but fewer opportunities for struggling inland provinces.

In sum, the social consequences of the WTO membership will be profound. As foreign imports begin to flood the Chinese market, millions of Chinese farmers and workers will be made redundant, thus deepening the urban-rural divide,[11] widening regional disparities, exacerbating tension between social groups, and thereby making the overall inequality even worse.[12]

The Political Implications

The above discussion makes it clear that the potential losers of the WTO membership are exactly the same groups that have borne the costs of recent reforms. They are farmers and workers, especially those living in inland provinces. What is the political significance of this finding? Anyone who knows a little bit about China must also know that those people have been the very social foundation of the Chinese Communist regime. In the first decades of the People's Republic, farmers and workers benefited from redistribution of land and wealth and enjoyed high political, if not economic, status. Therefore they supported the regime with no reservation. The early years of reform made their life less secure, but nevertheless most of them experienced income increases. If there was discontent at all, their discontent then was targeted mostly at their immediate superiors, namely village heads and factory managers. Entering the 1990s, as China's reform looked more and more like a zero-sum game, farmer and workers became more frustrated. In comparison with Mao's era, they found their political and social status declining; in contrast with their expectation of comfort life (xiaokang), they were disappointed by slow material improvement in recent years; witnessing the rise of “new riches” in the Chinese society, they considered the growing gap between the “haves” and the “have-nots” unjust and unacceptable. In one word, when farmers and workers made social comparisons, they felt deprived.

The uneven distribution of gains and costs of recent reforms have given rise to distributional conflicts. Such conflicts take various forms, including revolts against illegal levies in the countryside, labor disputes in urban areas, and crimes in the society at large. Table 6 gives the information about the incidence of labor disputes. In the first half of 1994, the total number of labor disputes was barely 8,000. The same period of 1999, however, witnessed over 55,000 cases, almost seven times the 1994 number. Whereas most labor disputes involved only individual workers, they may also assume organized form. As Table 6 shows, the incidence of collective labor disputes has also been on the rise, increasing from 1050 cases in 1996 to 3955 cases in 1996, quadrupling in the space of three years. These figures indicate that labor-management relations have deteriorated considerably in last few years. When disputes cannot be mediated through existing institutional means, workers may resort to strikes. There are no time-series data on strikes available, but one thing is certain: strikes have become a common form of distributional conflict and the incidence of strike has been increasing. Some strikes involved as many as over 10,000 workers (Ru Xin, et al, various years). The situation in the countryside is more or less the same.

[TABLE 6 ABOUT HERE]

Growing inequality may hurt the legitimacy of the Chinese government in two ways.[13] First, for a regime whose claim of legitimacy has long been based upon egalitarian principles, it can never justify an ever-growing inequality. Were one to single out one factor underlying the support for the Communist regime by farmers and workers, it would be their expectation of protection from insecurity, inequality, and uncertainty by a strong redistributive state. Recent reforms might be necessary for restructuring the economy, but from the perspective of farmers and workers, those reforms eroded security, equality and certainty. The government may be able to persuade them that some people must get rich first so that everyone will eventually get rich. But, if it fails to distribute the gains from reforms more or less evenly and if the gap between those who flourish and those who stagnate becomes unacceptably large, then the moral foundations of the regime would be shaken.

Second, higher inequality may lead to slow economic growth. An ability to achieve high growth rates has been used to justify everything the government does since the late-1970s. Before 1997, the Chinese government was able to deliver what it had promised, even though the gains of growth were not evenly distributed. Now the economy is slowing down and no one knows whether the economy can resume its growth potential any time soon. A number of recent cross-country empirical studies sound an alarm: they establish that countries with higher inequality tend to grow slower than others. For instance, Persson and Tabellini (1994) and Alesina and Rodrik (1994) found that inequality variables had significantly negative coefficients in growth regressions, when controlling for variables such as initial income, schooling and physical capital investment.[14] China's own experience seems to confirm this observation. When China was a relatively egalitarian society, its reforms yielded high growth. When inequality reached a relatively high level in the mid-1990s, however, China's engine of growth seems to have lost steam.[15] Economic stagnancy may undermine the legitimacy of a regime that gives first priority to growth.

If the WTO membership would further concentrate the benefits of greater openness and market transition in the hands of few, and no adjustments through redistribution would take place, people's patience with growing inequality would wear thin and their frustration would sooner or later reach a crisis point. Experience elsewhere suggests that no political regimes could maintain political stability under conditions of severe economic disparity. China's own history is also full of uprisings, rebellions, and revolutions sparked by economic injustice. Social tension and instability are harmful to market-oriented reform, trade liberalization as well as economic growth.

Growing inequality is by no means an inevitable consequence of market-oriented reform or greater openness. There are open market economies with fairly even distribution of wealth and income. An important intervening variable here is the role of government. The government may exacerbate or alleviate inequality in a country. If the government does not pay any attention to the issue of distributive justice, it is not possible for inequality to diminish. However, a government that commits itself to distributive justice may not be able to reduce inequality, either, if its extractive capacity is weak. Only when the government's commitment and capacity to reduce inequality are both strong, is it likely for the distribution of gains and costs of reform and openness to be fair.

In all of today's advanced industrial countries, the expansion of markets' role and greater exposure to international trade has gone hand in hand with the strengthening of the institutions of social insurance. The governments in those countries seem to have responded to the fear of internal uncertainty and external risk by showing their commitment and capacity to ensure relative equal distribution of gains and costs. In other countries (e.g. Latin American countries), market transition and greater openness are often not accompanied by mechanisms that can make domestic and international competition socially bearable. This is due to the lack of either willingness or capacity or both to tackle the issue of inequality. As a result, liberalization is often short-lived.

In the entire 1980s and much of the 1990s, the Chinese government set aside the socialist ideal of distributive justice. Deng Xiaoping seemed to believe that the prosperity would automatically "trickle down" as long as the economic bloom would continue. To foster faster growth, they therefore were willing to tolerate growing inequality. In this sense, the increasing inequality in China was part of a deliberate scheme from the outset. By the late 1990s, it became increasingly clear that growth by itself could not address to the issue of inequality. On the contrary, growing inequality might derail market reform and imperil future growth. The circumstance forced the Chinese government to change its policy orientation. Since 1997, the government has made efforts to ameliorate the polarizing tendencies in the Chinese society.

With the commitment to distributive justice restored, now what matters is whether the Chinese government has the ability to do deliver. Numerous studies show that the massive fiscal decentralization practiced between 1978 and 1993 significantly weakened the central government's extractive capacities (Wang & Hu, 1993). Consequently, the ratio of central revenue to GDP shrunk to a level far below those in most countries. The severe fiscal strain deprived the central government of the ability to redistribute resources across the country even if it so desired. In 1994, the Chinese government introduced a new fiscal system that aimed at increasing its fiscal revenue. However, while the new system helped to stop the so-called "two ratios" (namely, the ratio of total government revenue to GDP and the ratio of central to total revenue) from further declining, it failed to strengthen the central extractive capacity (Wang 1997b). As Figure 14 shows, in the 21 years between 1978 and 1998, the ratio of total government revenue to GDP fell from almost 31 percent to around 12 percent, a drop of nearly 20 percent. The situation was particularly bad for the central government, whose revenue accounted for only 7 percent of GDP in 1998. Even compared to low-income countries, the extractive capacity of the Chinese central government appears to be week (see Table 7). By the mid-1990s, over half of the central government expenditure was financed by debts (see Figure 15). With so little at its disposal, the Chinese central government can hardly play the role of redistributor, thus unable to tame market forces and to make them socially bearable.

[FIGURES 14 AND 15, AND TABLE 7 ABOUT HERE]

Once China joins the WTO, globalization may further undermine the government's power to tax. Foreign investors are very adroit at playing nationals governments against one another. In their view, low taxes are synonymous with good business climate. If the Chinese government were tricked into reducing taxes, its extractive capacity could be further crippled.

The Future

Recent reforms in China have produced their winners and losers. As inequality grows at a very fast pace, the distributive conflicts between the winners and losers have been intensified. It is against this background that China joins the WTO. If the Chinese government sit by idly and remain indifferent, the WTO membership would aggravate the distributive conflict. Such conflict is a threat to political support for the ongoing market-oriented reforms and greater openness. Unless an open market economy is accompanied with institutions that can mitigate pains it may cause, it would not be able to deliver sustainable growth. When an open market economy becomes socially insufferable, even its own survival will be at risk. "Social insurance legitimizes a market economy because it renders it compatible with social stability and social cohesion" (Rodrik 1999). Thus, dealing with pervasive economic insecurity should a key component of the unfinished agenda of the Chinese reforms.

The Chinese government seems to have placed the task on its agenda, which is exemplified by a number of its recent decisions. In the last couple of year, the government has speeded up its efforts to establish social safety nets. In the second half of 1999, the government increased the income of urban poor, especially of those unemployed and retired. A total of 54 billion Yuan was allocated to about 84 million of urban residents. This was the largest transfer scheme China had even seen (Xinhua, March 5, 2000). In its coming Tenth Five Year Plan (2001-2005), the government makes the development of inland provinces its top priority, which is a crucial step to narrow the regional gaps. All these moves indicate that the Chinese government has been moving away from the reform strategy that is based on "the Washington Consensus," and begin to launch what Stiglitz calls "the second generation reform" (1998b). Since the willingness to provide social insurance is in place, now the key is whether the Chinese government is able to re-engineer its institutions of resource extraction, a prerequisite for the institutions of social insurance to function.

The Chinese government has realized this need. Since 1993, it has tried to rationalize its fiscal system. But merely working on the fiscal system may not be able to fix its underlying defects. Cross-national evidence suggests strongly that societies with institutions of voice or participation are better at extracting social resources necessary for providing social insurance (Rodrik 1998). Indeed, when large segments of the population lack an effective mechanism of voice in matters that affect them, they would naturally resist any effort of state extraction. On the other hand, if most people do not feel alienated from the economic and social system and believe they have a stake in it, they can be induced to become more cooperative. Hence, the institutionalization of voice is probably the best way to alleviate economic insecurity and eventually produce more stable economic outcomes in China.

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Table 1
Winner and Losers of Recent Reforms

Question: In your opinion, which social groups have benefited most/least from recent reforms?

(A) Elite View

Survey Of Party Officials, October 1997

	Benefit Most		Benefit Least
1	Private business owners	1	SOE workers
2	FDI employees	2	Farmers
3	Farmers	3	Government employees

Survey of Party Officials, October 1998

	Benefit Most		Benefit Least
1	Private business owners	1	SOE workers
2	Artists	2	Farmers
3	FDI employees	3	Government employees

Survey of Party Officials, November 1999

	Benefit Most		Benefit Least
1	Private business owners	1	Unemployed workers
2	Artists	2	Farmers
3	FDI employees	3	SOE workers

(B) Popular View

Survey of Urbanites, November 1997

	Benefit Most		Benefit Least
1	Private business owners	1	SOE workers
2	Artists	2	Farmers
3	Bank employees	3	Migrants

Survey of Urbanites, December 1998

	Benefit Most		Benefit Least
1	Artists	1	SOE worker
2	Corrupted officials	2	Farmers
3	Private business owners	3	Migrants

Survey of Urbanites, August 1999

	Benefit Most		Benefit Least
1	Artists	1	SOE workers
2	Corrupted officials	2	Farmers
3	Private business owners	3	Migrants

Source: Ru Xing, et al. eds. Shehui lanpishu: zhongguo shehui xingshi fenxi yu yuce [Social Bluebook: Analyses and Forecast of Social Situation in China], 1998, 1999, and 2000 editions. Beijing: Shehui kexue wenxian chubanshe [Social Science Literature Press].

Table 2. Urban Population Groups with Reduced Incomes, 1997, by Quintile of Income Distribution (%)

	Total (100%)	Low Income Group (20%)	Relatively Low Income (20%)	Middle Income Group (20%)	Relatively High Incomes (20%)	High Income Group (20%)
Percentage of families with lower incomes	39	60	53	33	39	20

Source: *Annual of Prices and Family Incomes and Expenditures in Chinese Cities*, 1998, China Statistical Publishers, 1998, Beijing, p.9

Table 3

Growing Inequality in Urban China, 1990-1998

Year	Income of Top 20%/ Income of Bottom 20%	Bottom 20%'s Share of Total Income	Top 20%'s Share of Total Income	Top 10%'s Share Of Total Income
1990	4.2 Times	9.0%	38.1%	23.6%
1993	6.9 Times	6.3%	43.5%	29.3%
1998	9.6 Times	5.5%	52.3%	38.4%

Source: Xu Xinxin and Li Peilin. 1999. “1998-1999nian: zhongguo jiuye shouru he xinxi chanye di fenxi he yuce” [Employment, Income, and IT Industry: Analyses and Forecasts, 1998-1999], in Ru Xin, et al (1999)

Table 4
International Comparison of Regional Disparities in Per Capita GDP or Per Capita Income

Country	Year	Max/Min	CV
China(a)	1978	14.27	0.73
China(b)	1978	3.87	0.34
China(a)	1994	13.96	0.87
China(b)	1994	4.13	0.39
Yugoslavia	1988	7.80	0.54
Greece	1988	1.69	0.10
Spain	1988	2.23	0.17
Germany	1988	1.93	0.13
France	1988	2.15	0.26
Canada	1988	2.30	0.28
Japan	1981	1.47	0.12
Italy	1988	2.34	0.26
Portugal	1988	1.66	0.23
Belgium	1988	1.61	0.15
Britain	1988	1.63	0.15
Netherlands	1988	2.69	0.19
USA	1983	1.43	0.11

Australia	1978	1.13	0.05
South Korea	1985	1.53	0.15
India	1980	3.26	0.36
Indonesia(a)	1983	5.30	0.46
Indonesia(b)	1983	4.00	0.34

Source: For data on China see China Statistical Yearbook 1995 (Beijing: China Statistical Press, 1995), p. 38; 1995 statistical yearbooks of 30 provinces and autonomous regions (Beijing, China Statistical Press, 1995). For data on Yugoslavia, Italy, Greece, Portugal, Spain, Belgium, Germany, UK, France and the Netherlands, see Daniel Ottolenghi and Alfred Steinherr, "Yugoslavia: Was it a Winner's Curse?," Economies of Transition, Vol. 1, No. 2 (1993), p. 229. For data on Canada, see Donald, J. Savie, Regional Economic Development: Canada's Search for Solution, 2nd edition, Toronto: University of Toronto Press, 1992, p. 191. For data on the United States, see David M. Smith, Geography, Inequality and Society, Cambridge: Cambridge University press, 1987, p. 41. For data on Japan, see Institute of Japan Studies, the Chinese Academy of Social Sciences, Problems, Solutions, and Mechanisms: Experience and Lessons of Japan's Economic Development, Beijing: Economics Science Press, 1994, p. 235. For data on Australia, see Benjamin Higgins, "Economic Development and Regional Disparities: A Comparative Study of Four Federations," in R. L. Matheas, ed., Regional Disparities and Economic Development, Canberra: The Australian National University, 1981, pp. 69-70. For data on India, see K.R.G. Nair, "Inter-State Income Differentials in India, 1970-71 to 1979-80," in G.P. Mishra, ed., Regional Structure of Development and Growth in India, New Dehli: Ashish Publishing House, 1985, p. 9. For data on Indonesia. see Haj Hill and Anna Weidemann, "Regional Development in Indonesia: Patterns and Issues", in Haj Hill, ed., Unity and Diversity: Regional Economic Development in Indonesia Since 1970, Singapore: Oxford University Press, 1980, pp. 6-7. For data on South Korea, see Kyung-hwan Kim and Edwin S. Mills, "Urbanization and regional Development in Korea", in Jene K. Kwon, ed., Korean Economic Development, New York: Greenwood Press, 1990, p. 415.

Table 5

Inequality in Comparative Perspective (Average Gini coefficient)

Region/Country	1980s	1990s
East Europe	0.250	0.289
High-Income	0.332	0.338
South Asia	0.350	0.319
East Asia and Pacific	0.387	0.381
Middle-East/North Africa	0.405	0.380
Sub-Saharan African	0.437	0.470
Latin America/ Caribbean	0.498	0.493
China	0.299	0.388
China (Zhao Renwei)	0.382 (1988)	0.445 (1995)
China (Qiu Xiaohua)		0.450 (1997)
China (Li Qiang)		0.458 (1997)
China (Chen Zongsheng)		0.403 (formal economy, 1997)
China (Cheng Zongsheng)		0.515 (including informal economy1997)

Source: Kang Xiaoguang (2000)

Table 6

Incidence of Labor Disputes

Period	Total Number of Labor Disputes	Number of Collective Labor Disputes	Total Number of Workers Involved in Labor Disputes	Number of Workers Involved in Collective Disputes
Jan-Jun 1994	7905			
Jan-Jun 1995	12956		31144	
Jan-Jun 1996	14852	1050	40413	33646
Jan-Jun 1997	26600	1821	97006	56425
Jan-Jun 1998	34879	2798	134436	84208
Jan-Jun 1999	55244	3955	230243	144273

Source: Ru Xin, Shehui lanpishu [Social Bluebook], various years.

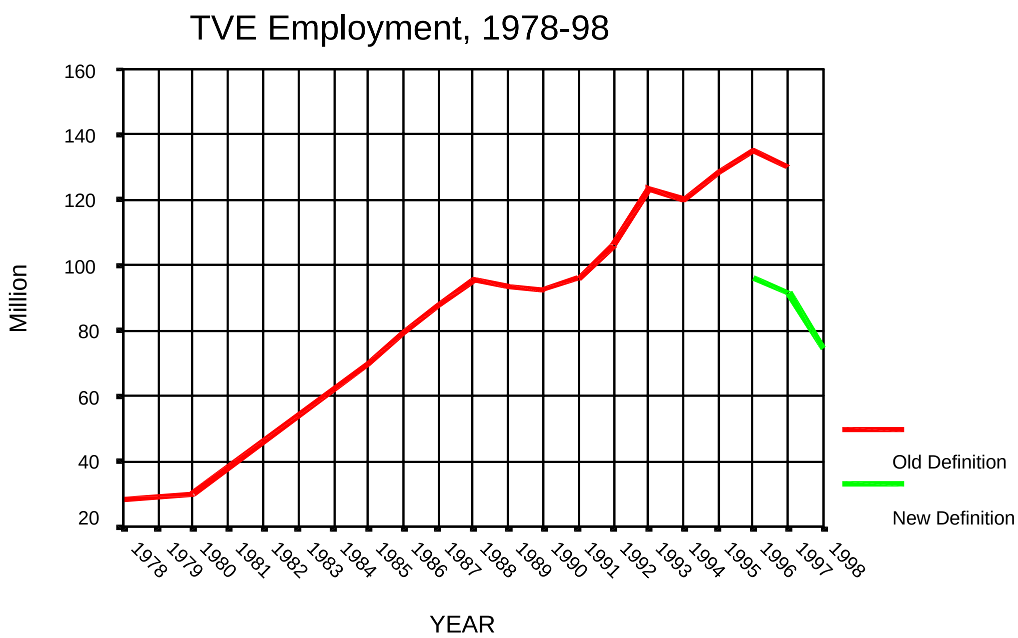
Table 7

Central Extractive Capacity in Comparative Perspective

Country/Area	**Central Government Revenue as % of GDP**		**Central Government Expenditure as % of GDP**	
	1980	**1996**	**1980**	**1996**
China	13.2	5.5	14.4	8.0
Low Income	12.9	14.4	14.8	17.4
Middle Income	N/A	17.9	N/A	19.9
High Income	22.7	28.7	26.2	32.1
East Asia & Pacific	N/A	11.0	N/A	11.6
World	22.2	26.6	25.4	29.8

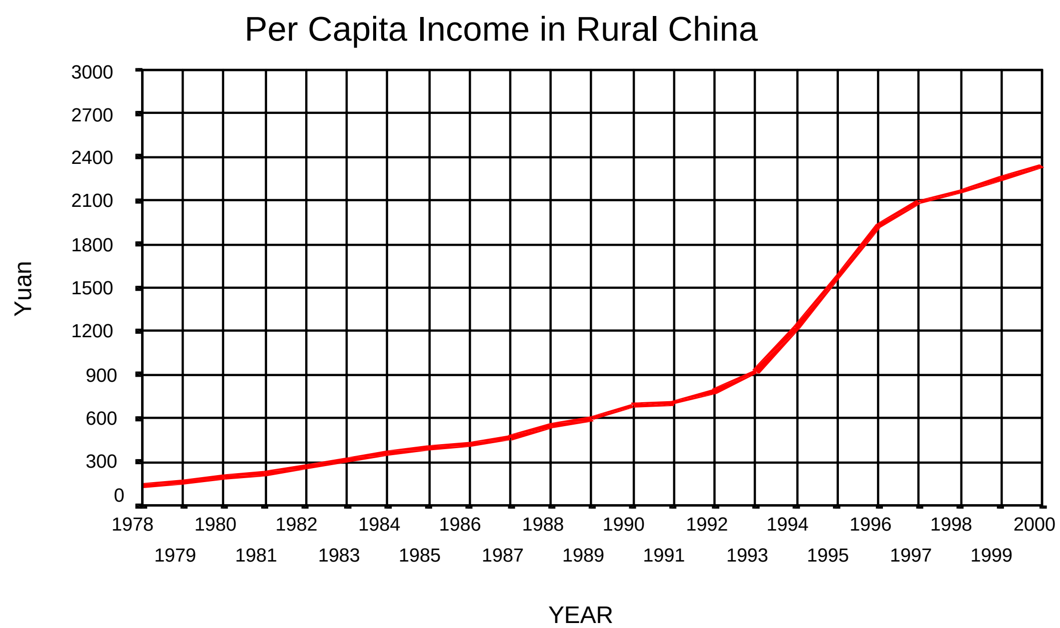
Source: World Bank. 1999. 1999 World Development Indicators. Washington, DC: World Bank

Figure 1



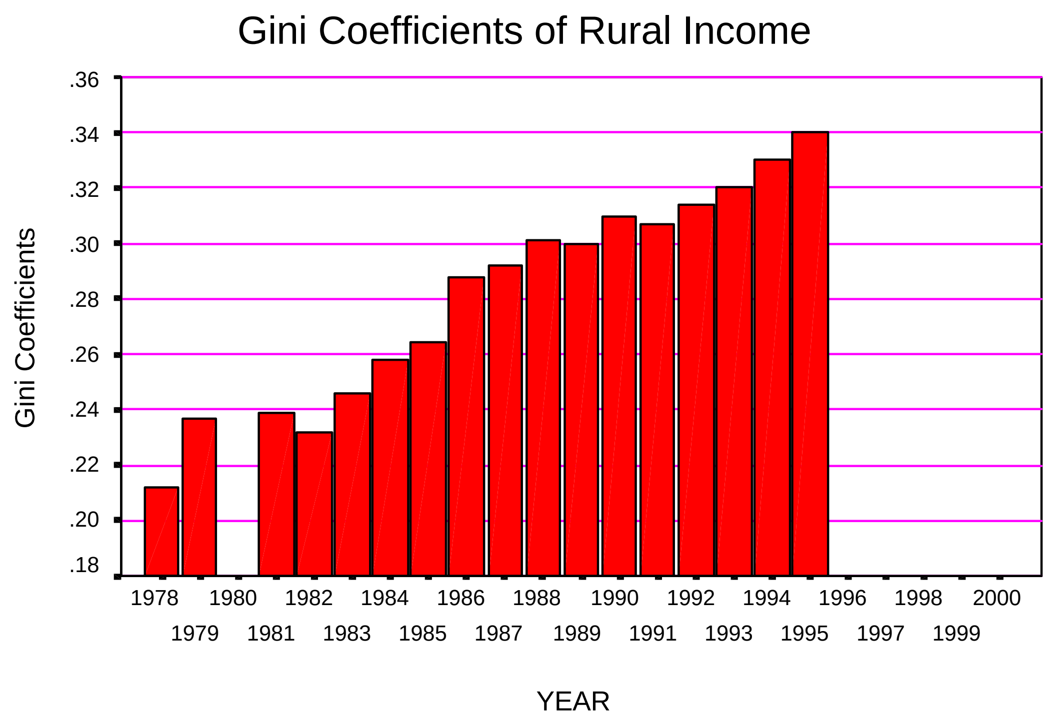
Source: State Statistical Bureau: China Statistical Yearbook, 1999. Beijing: China Statistical Press, 1999, p. 388.

Figure 2



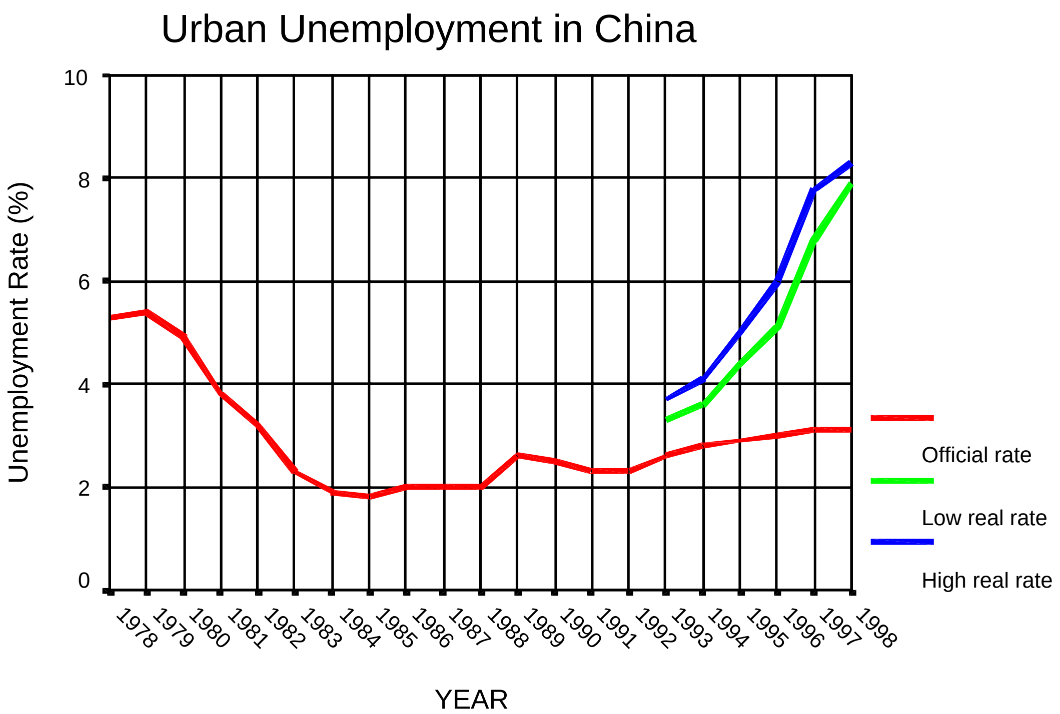
Source: State Statistical Bureau, Statistical Yearbook of China, various years.

Figure 3



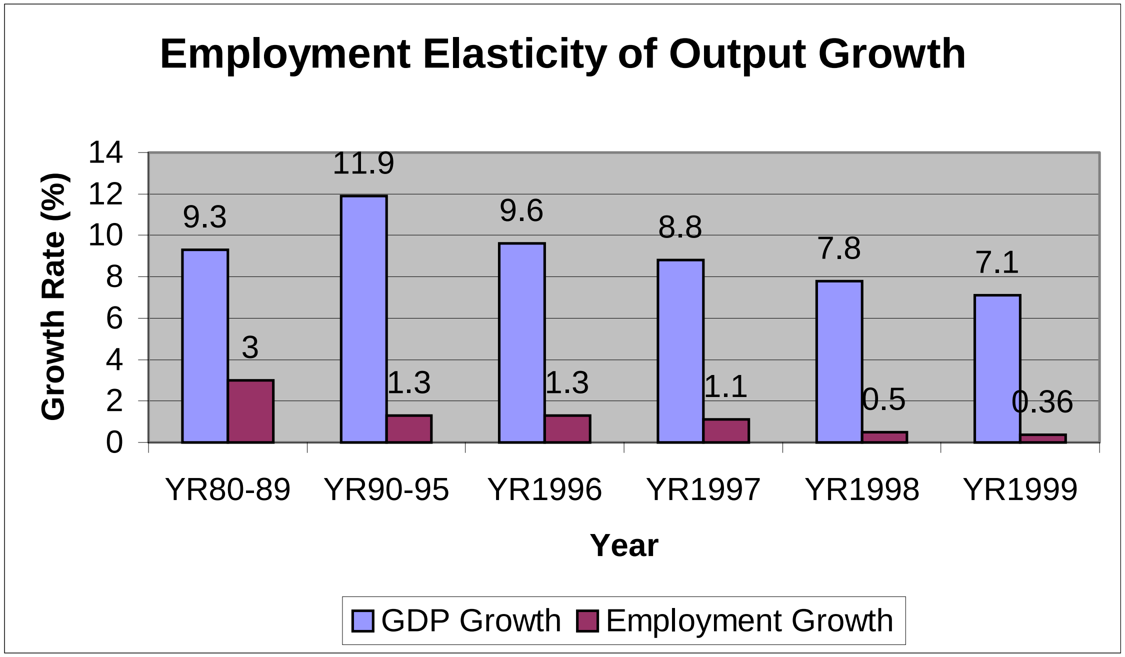
Source: Kang Xiaoguang (2000)

Figure 4



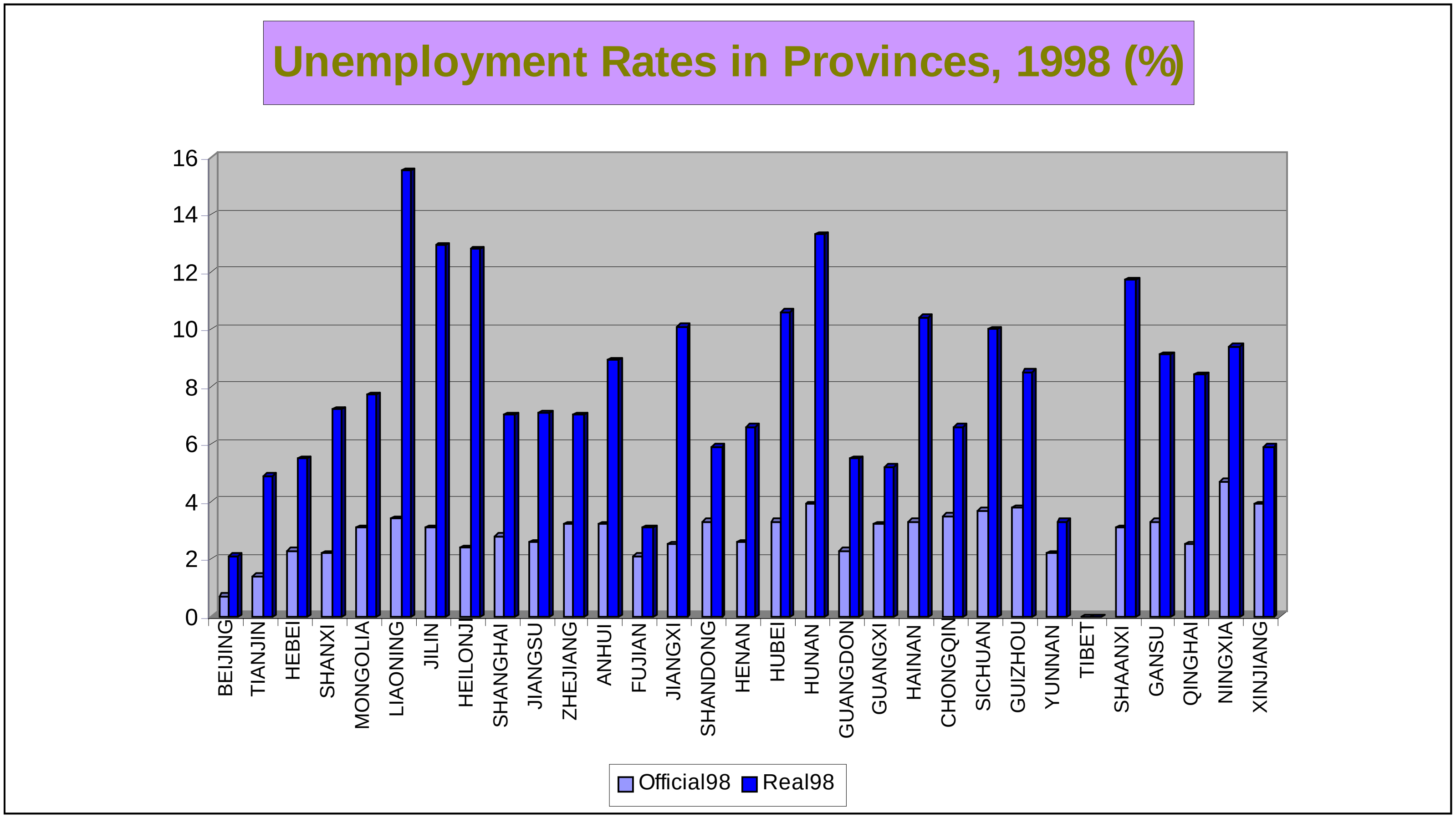
Source: Hu Angang (1999b)

Figure 5



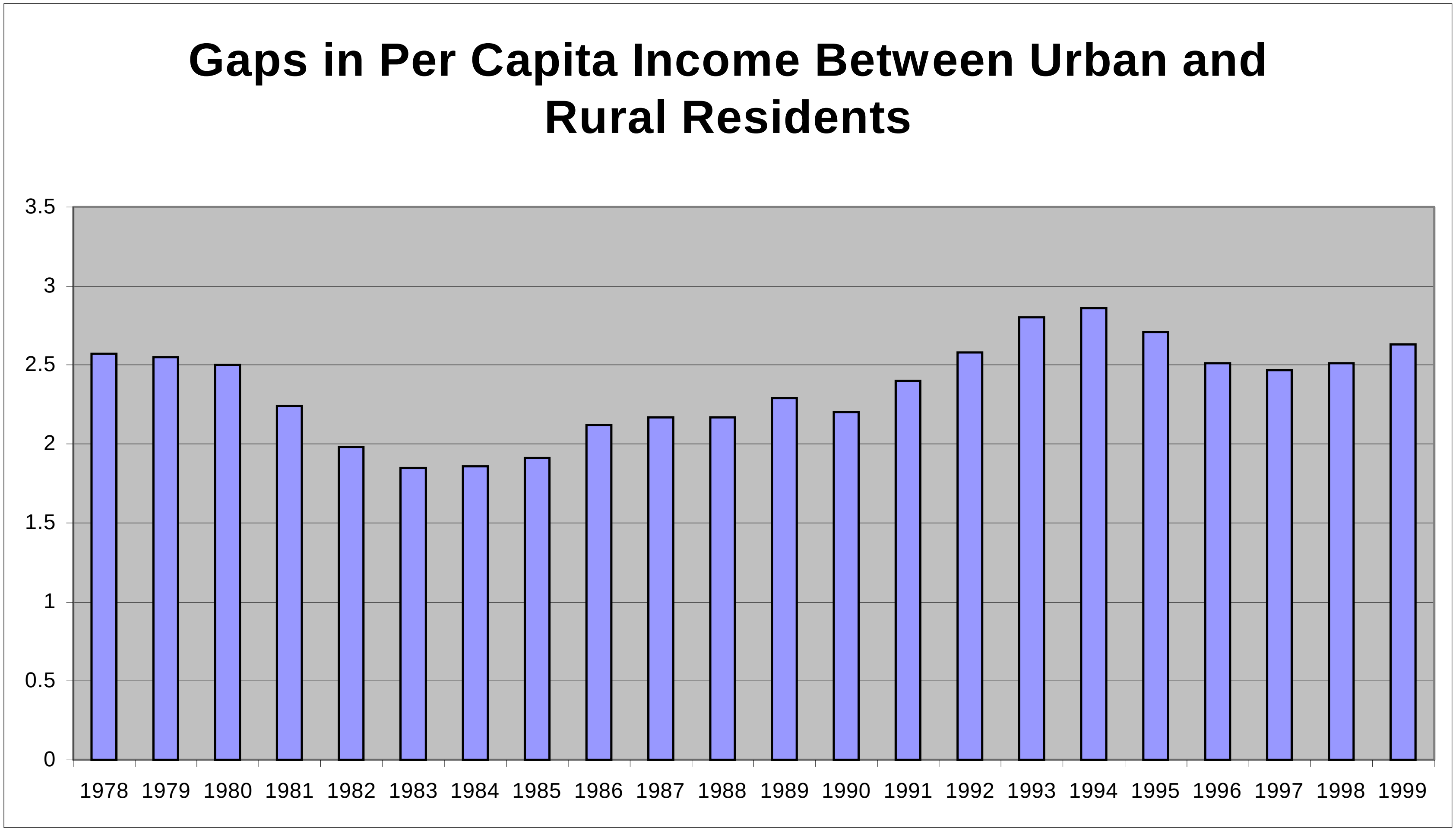
Source : Hu Angang (1999b)

Figure 6



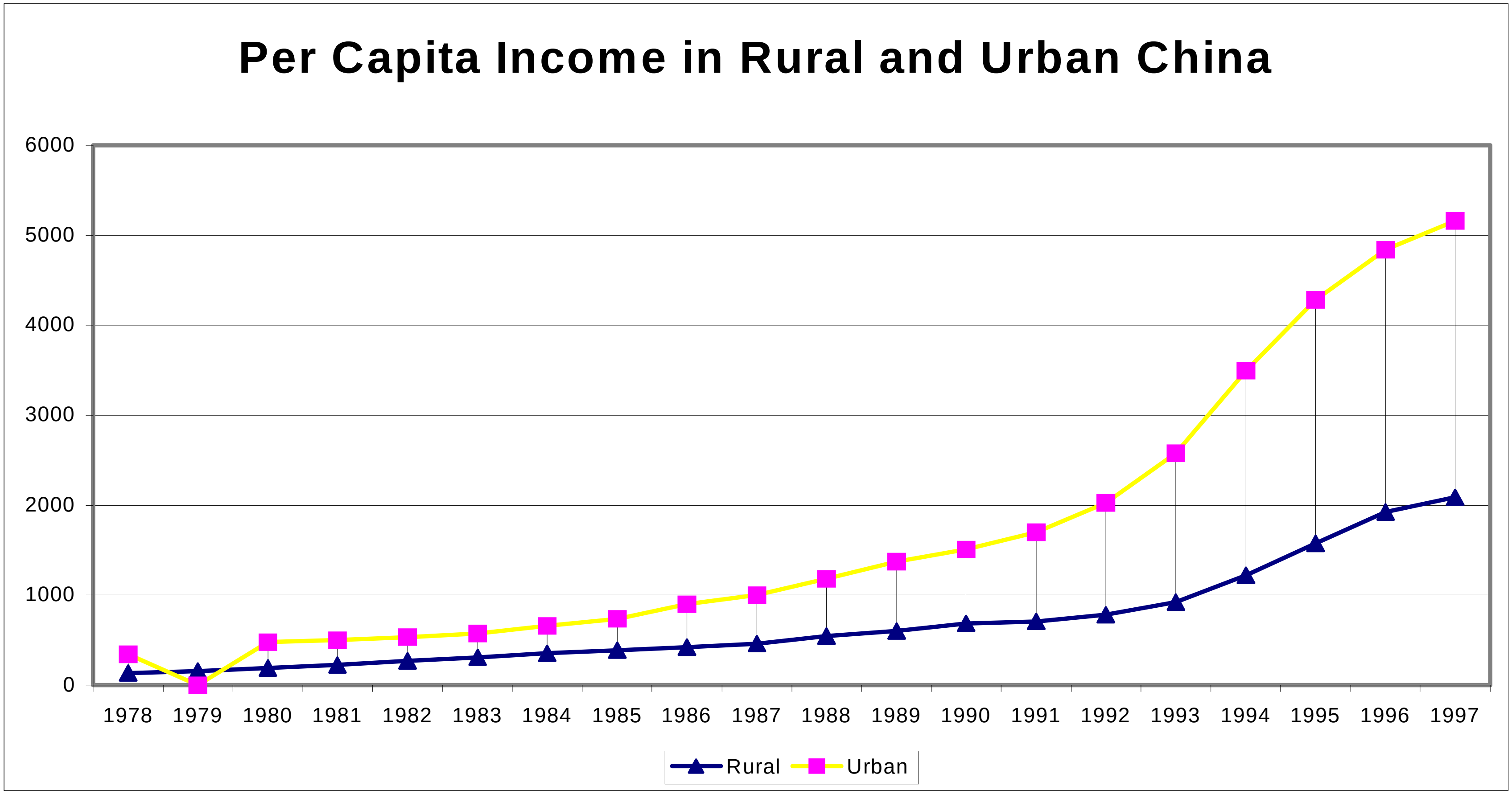
Source: Hu Angang (2000)

Figure 7



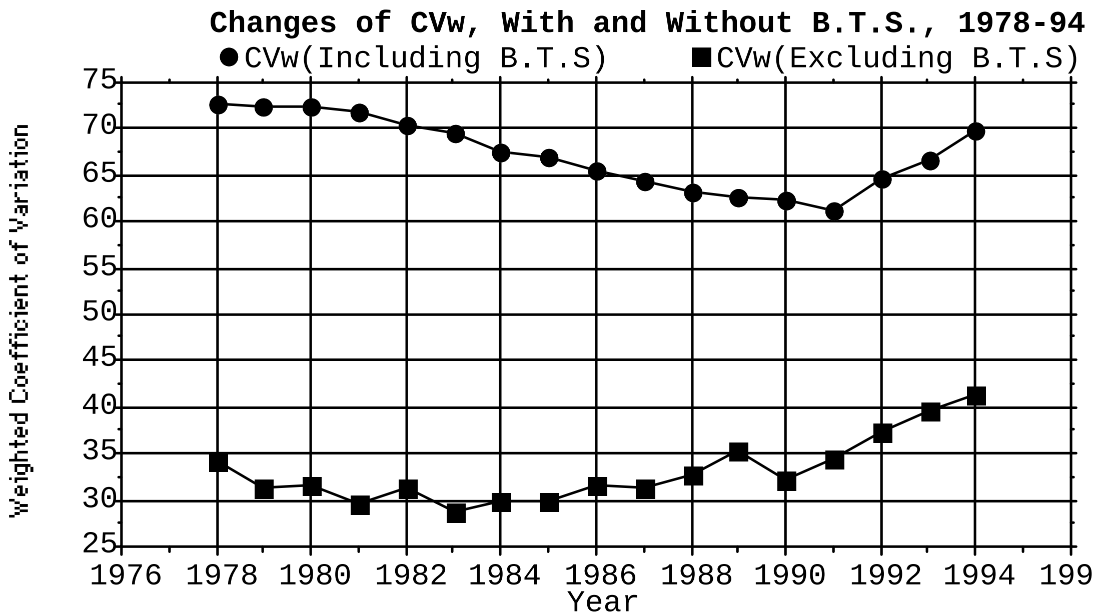
Source: State Statistical Bureau (1999).

Figure 8



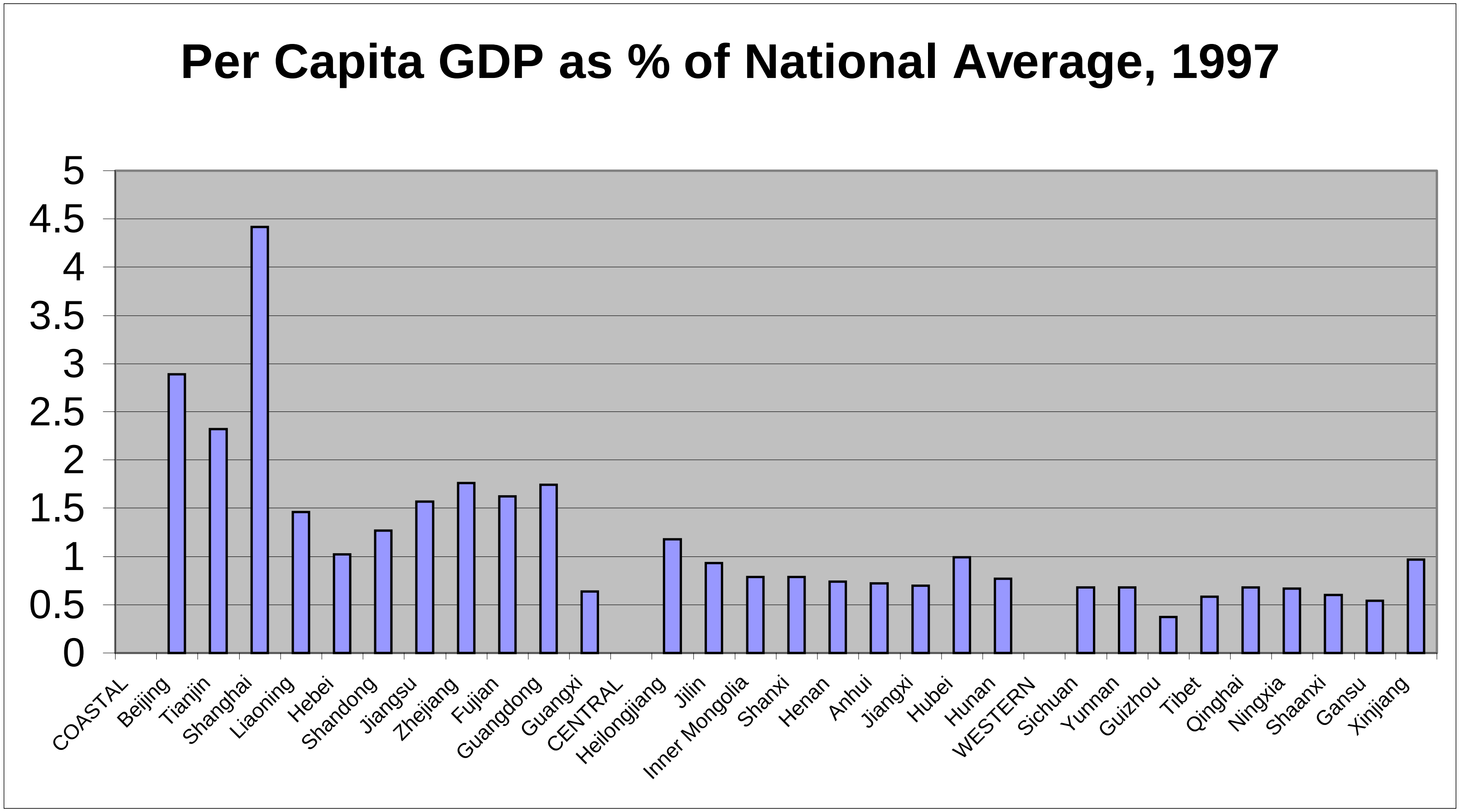
Source: State Statistical Bureau (1999)

Figure 9



Source: Wang & Hu (1999: 57).

Figure 10



Source: Kang Xiaoguang (2000)

Figure 11

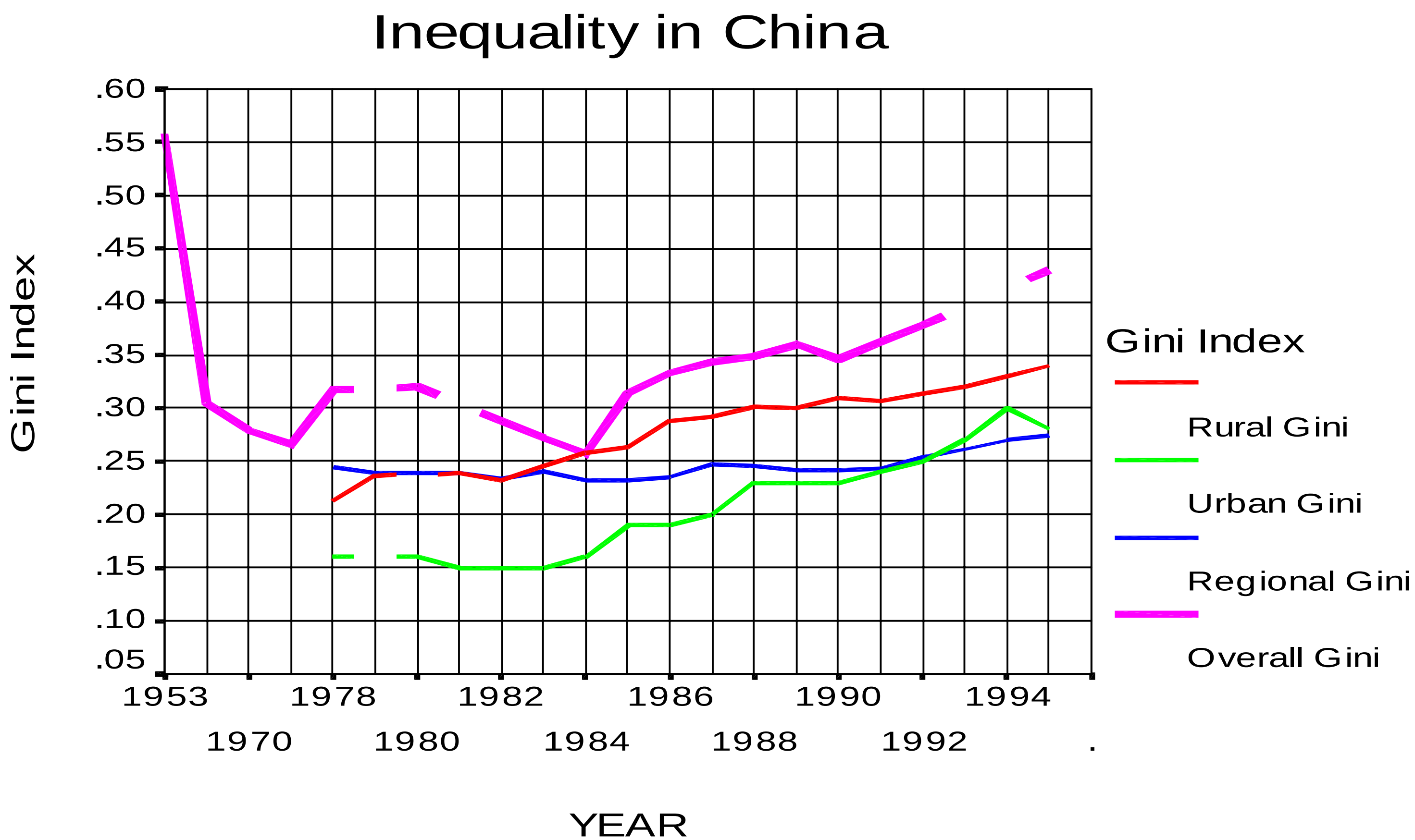
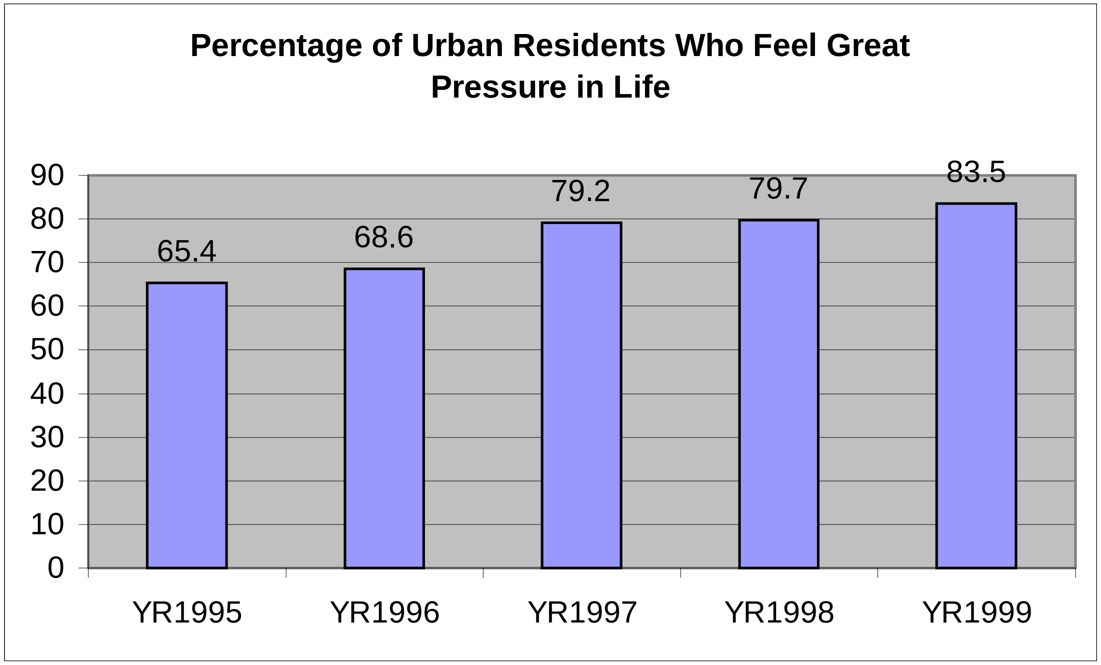

Inequality in China
.60
.55
.50
.45
.40
.35
.30
.25
.20
.15
.10
.05
Gini Index
1953
1970
1978
1980
1982
1984
1986
1988
1990
1992
1994
YEAR
Gini Index
Rural Gini
Urban Gini
Regional Gini
Overall Gini

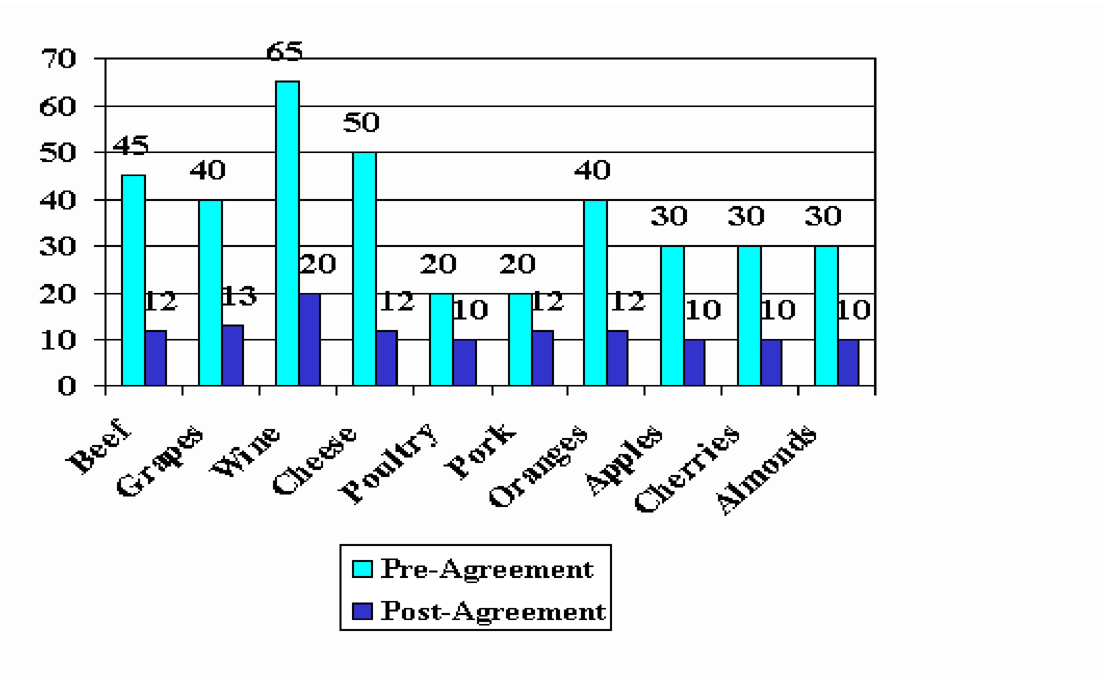
Figure 12



Source: Ru Xin (2000: 77)

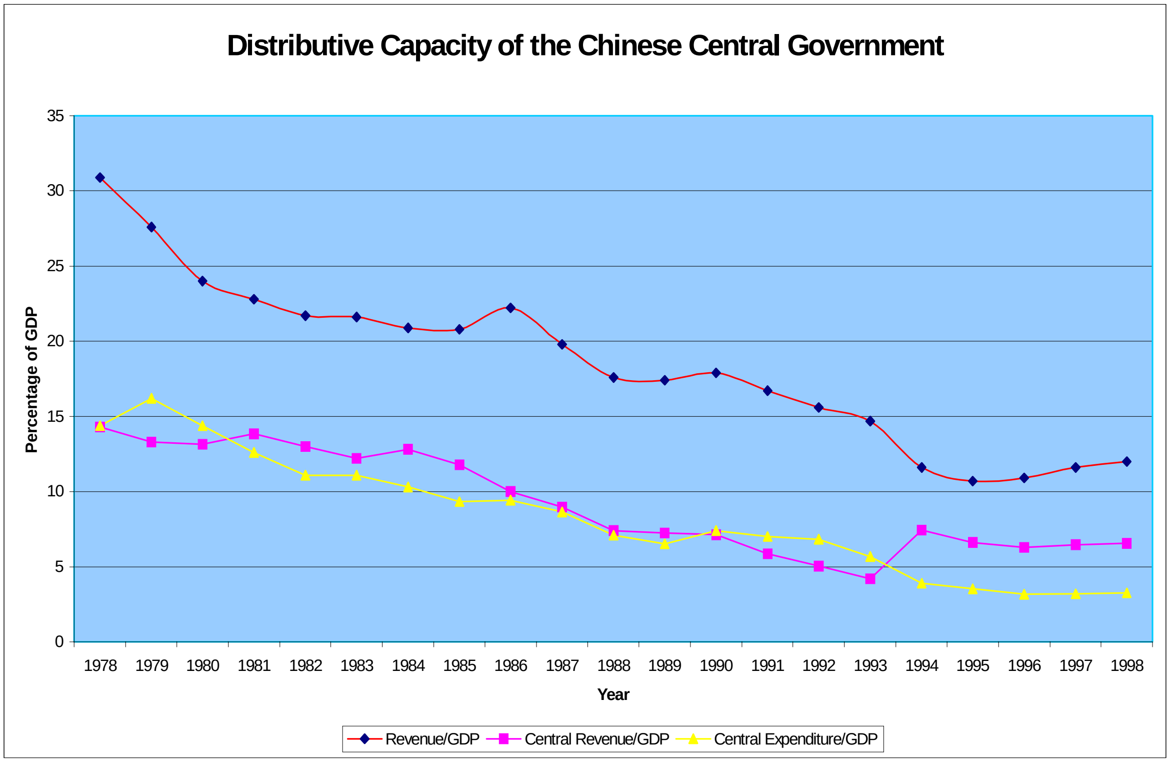
Figure 13

Tariff Reductions on Priority Products



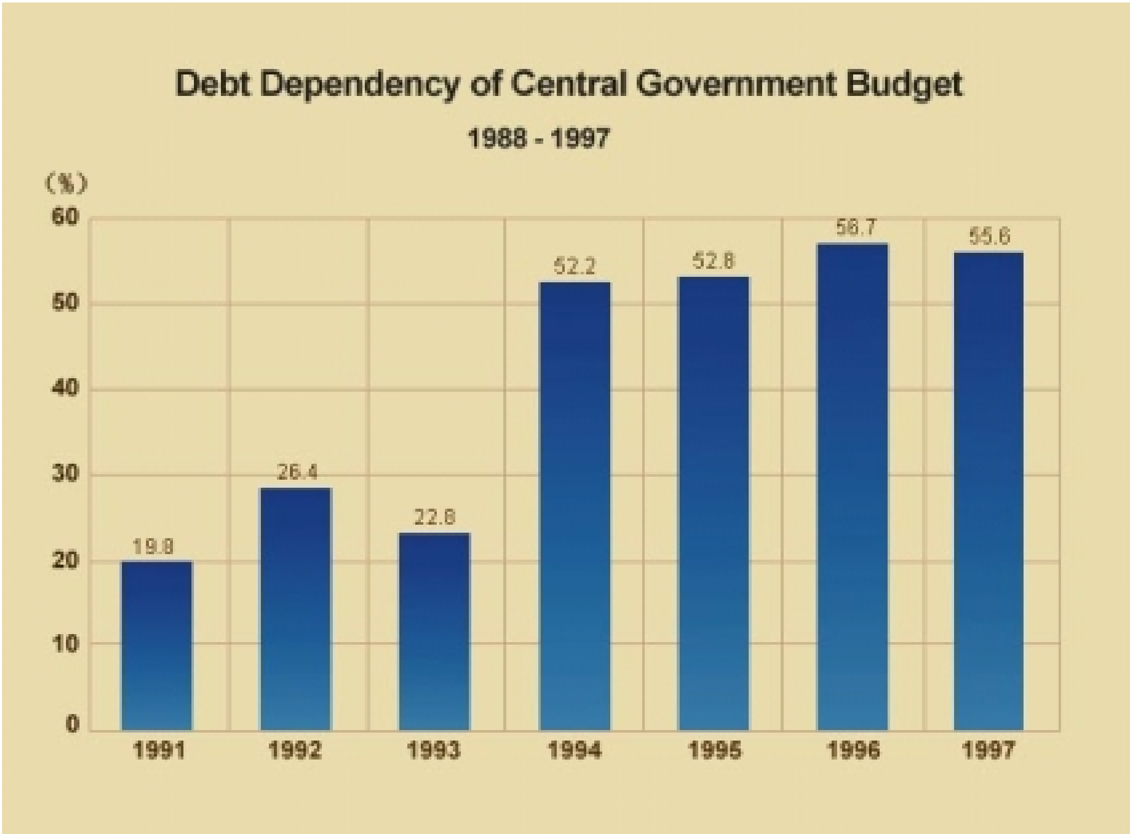
Source: www.whitehouse.gov

Figure 14



Source: State Statistical Bureau. 1999. Statistical Yearbook of China 1999. Beijing: Statistical Press.

Figure 15



Source: http://www.mof.gov.cn/eng/1-tableL.htm

ENDNOTES

[1] See articles and exchanges in such Chinese websites as www.chinabulletin.com, <202.99.23.237/cgi-bbs>, www.washeng.com.

[2] For instance, the small, highly open economies of central and northern Europe (e.g., Austria, Netherlands, Norway) have some of the world's highest shares of government spending in GDP.

[3] In Chile, for instance, the first priority of the incoming democratically elected government in 1990 was to restore benefits for low-and middle-income groups and to develop new social programs targeted at high-risk groups, because the country had become increasingly open to trade under the Pinochet regime.

[4] During this period, there were moments when the game looked like a zero-sum one. For instance, it was reported that in 1988 more than one third of the urban households experienced declines in their real income. That was one of the reasons why millions of Chinese took to the street in the early summer of 1989 (Wang 1992).

[5] Gini coefficient is a measure of relative inequality ranging from 0, absolute equality, to 1, absolute inequality.

[6] The World Bank arrives in an essentially similar conclusion in its Sharing Rising Incomes: Disparities in China (Washington DC: World Bank, 1997), p. 21.

[7] Unlike most provinces, the three centrally administered metropolises are much more urbanized and industrialized. As a result, they enjoy extraordinarily high levels of per capita GDP relative to the national average. For this reason, treating these metropolitan areas like other provinces may greatly bias our analysis of regional disparities.

[8] Remarks by U.S. Secretary of Agriculture Dan Glickman at 2000 Commodity Classic in Orlando, Florida March 6, 2000. www.whitehouse.gov

[9] www.cei.gov.cn December 3, 1999.

[10] Some in China hope that the WTO membership would allow the country to export more labor-intensive goods so as to alleviate its employment pressure. A report by the Center of Development Research under the State Council, for instance, forecast that once China joins the WTO, its textile industry would be able to create 5.4 million additional job opportunities. However, a detailed study done by State Textile Bureau concludes that

the benefits the WTO membership would bring to the Chinese textile industry have been exceedingly exaggerated, because about 80 percent of China's textile exports go to countries that impose no quota control. The WTO membership would not affect such exports one way or another. It will affect only part of exports to the United States and European countries whose markets are somehow protected by the WTO agreement on Textile and Clothing before 2004. It is estimated that, before the agreement expires, China's exports of textile at best will increase by $200 million each year. Even after 2004, the United States has forced China to accept a country-specific textile safeguard that will remain in effect until December 31, 2008, four years after the WTO agreement on Textile and Clothing expires. Thus, even though China's textile industry is competitive, it is unlikely for its exports of textile to increase speedily in the next eight years.

[11] Chinese economists predict that, before 2005, rural residents' income will drop, while urban residents' income will increase, which will further widen the already existing urban-rural gaps.

[12] In Brazil, after a quarter century of liberalization, the difference between rich and poor is wider than ever. Unemployment is over 9.5%, and workers buying power is 27% of what it was in the 1980s. The situation in Mexico is more or less the same.

[13] Lipset points out: "legitimacy involves the capacity of the system to engender and maintain the belief that the existing political institutions are the more appropriate ones for the society" (Lipset 1981: 64)

[14] A survey by Benabou (1996a) listed a number of other cross-country empirical investigations of this relationship, and reported that the vast majority of them reached the same conclusion.

[15] Why would that be the case? Because "the central processes that determine resource allocation – through capital markets, through the political system, and through social circumstances – are influenced by the distribution of wealth in important ways. More unequal societies tend to develop larger groups of people who are excluded from opportunities others enjoy – be they a better education, access to loans, or to insurance – and who therefore do not develop their full productive potentials…These incomplete realizations of economic potential…affect aggregate economic potential, and therefore aggregate output and its rate of growth" (Ferreira, 1999)