
**Development of Rural China
in the 21st Century:
Progress Made and Challenges Ahead
From the Perspective of Economic Freedoms
and Social Rights**

Guangjin Chen

July 2009



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Background: China Enters a New Era

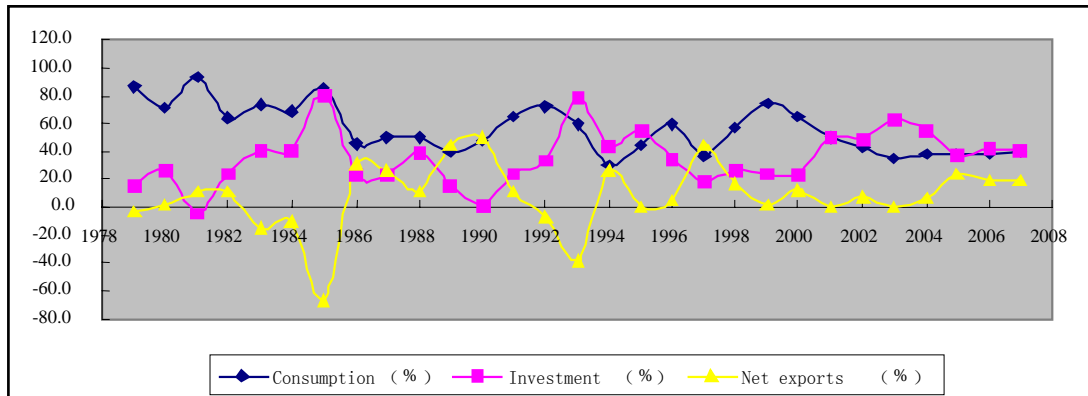
Upon entering into the 21st century, China began another stage of its development. At the macro-economic level, three factors are worth paying attention to.

Lack of Effective Domestic Demand

Lack of effective domestic demand has become the major obstacle which is hindering China's sustainable economic growth. Thus it is necessary for China to stimulate domestic demand and consumption, as the basis for a new dynamic of economic growth. Such issues have come out since the mid-1990s. In approximately 1994, China's domestic market experienced a transition from a seller's market into the so-called buyer's market, and the domestic market's weak demand began to affect the growth of the national economy. At that time, China's strategy consisted in the large-scale introduction of foreign investment and in the active expansion of exports so as to maintain the continued growth of the national economy at its fast pace through increased investment and foreign trade. This strategy was rather effective until 2008 (see figure 1).

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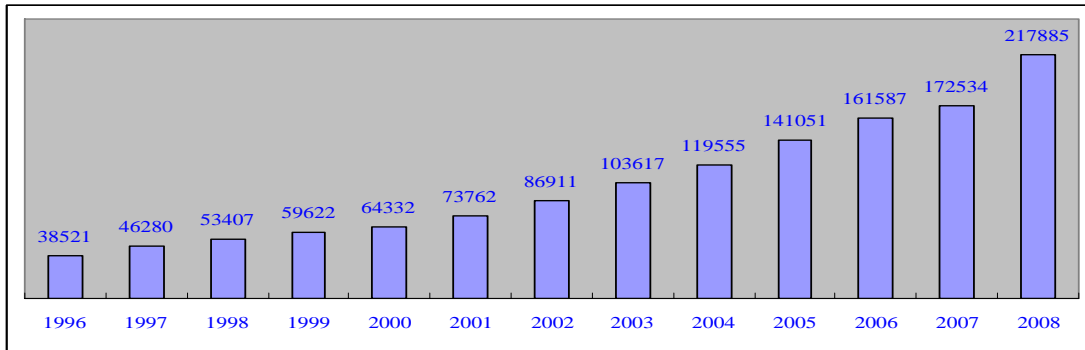
Figure 1: The contribution of consumption, investment, and net exports to China's economic growth



Source: Yearbook of China's Statistics, 2008.

After the second half of 2008, economic growth slowed down greatly due to the drop of China's export caused by international financial crisis. Actually, the real growth rate was only 8% to 9%. A considerable number of small and medium-sized enterprises entered a difficult situation. In such a context, stimulating domestic demand becomes the most important priority. In fact, since 1996, the Chinese government began to consider how to increase domestic demand to stimulate growth. Some measures were taken by the government. Between May 1st, 1996 and June 10th, 1999, China's central bank cut down the deposit and loan interest rates seven times and levied taxes on interest in order to drive money out of the banks and into consumption and investment, so as to increase economic growth. However, the effect was very limited, and bank deposits continued to increase rapidly (figure 2). Chinese residents both in urban areas and rural areas tended to put their money in banks. Why do they do so? Do they have too much money to be spent? I don't think so. The reason is that they want to prepare for their children's education or their children's purchase of a house before marriage as well as preparing for other uncertainties in their future lives (figure 3). Moreover, there is a huge imbalance between the rich depositors and the other depositors. It is generally admitted that 80 percent of the depositors are rich people who only represent 20 percent of the total national population, and that the other 20 percent of depositors belongs to the remaining classes.

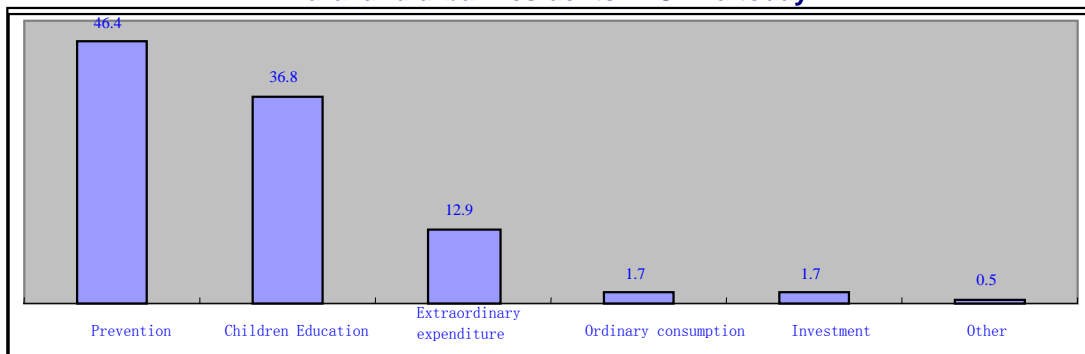
Figure 2: Savings deposits of urban and rural households (100 million yuan)



Note: It is estimated that about 30 percent of the total bank balance at year end is public money owned by governments or companies but deposited under personal names.

Source: *Yearbook of China's Statistics*, 2008.

Figure 3: The distribution of saving purposes of rural and urban residents in China today



Note: the purposes under the protective item include preparation for the aged supports, treatment of illness and the unemployed supports; those under the education item include education at home or abroad; those under preparation for bulky expenditures includes housing and marriages of children; those under the common consumption item include car purchasing, durable consumer goods purchasing, house finishing and tourism; those under the investment item include commercial and industrial investments and bond transactions.

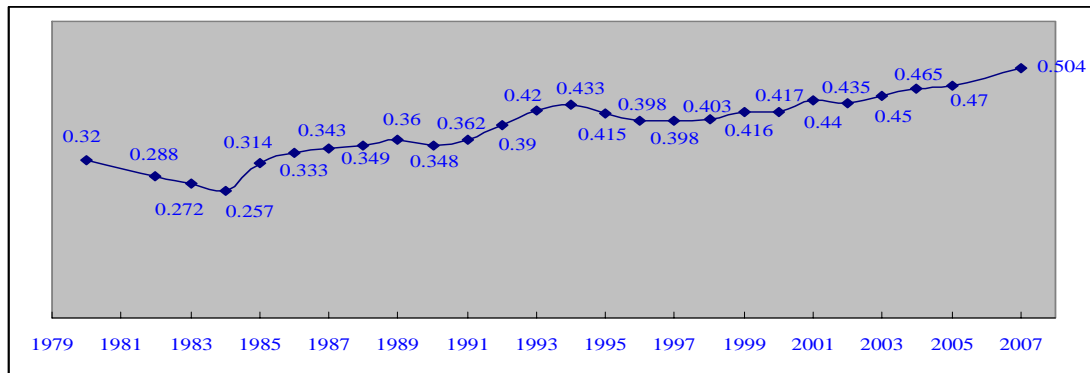
Source: Yan, 2003.

The Widening Income Gap: How to Alleviate Social Conflicts and Maintain Stability

Imbalances in income distribution are among the highest in the world (figure 4). Generally speaking, The evolution of China's income distribution can be described in four periods. Before 1984, the difference in the distribution was reduced, and in 1984, reached its lowest point at 0.257. However, between 1985 and 1994, the difference ratio increased, and reached 0.433 in 1994, but still under

the danger zone of 0.45 as stipulated by Chinese scholars. Between 1995 and 1998, there was only a slight fluctuation in terms of Gini coefficient. But since 1999, China's resident income distribution gap has greatly increased, with a Gini coefficient reaching 0.45 in 2003, and 0.5 in 2007.

Figure 4: The changing tendency of the income gap (Gini coefficient) among Chinese habitants since 1980



Sources: the data before 2003 was announced by the official authority, the data for 2006 and 2008 were calculated based on the national household sampling survey of CASS.

The widening income distribution gap results in a lack of effective consumption demand, which limits the room for economic growth. Hence it also has social consequences and thus is the cause of various conflicts. In today's China, various social conflicts break out frequently, which are mostly related to the distribution of benefits. For instance, there is a sharp increase in the number of incidents involving at least five persons, related directly to the distribution of benefits (Table 1).

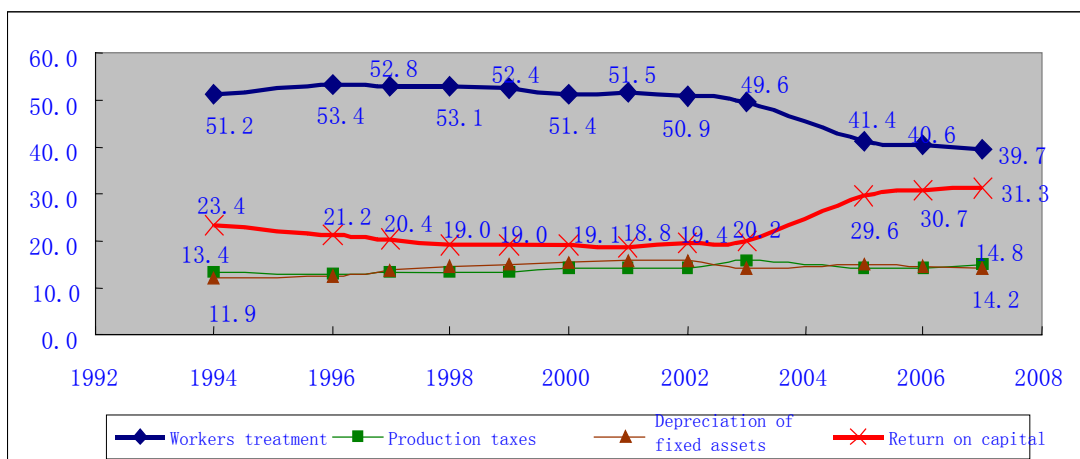
Table 1: The distribution of opinions of respondents about conflicts of interest in Chinese society today (%)

Question: what is the degree of conflicts of interest?	2008	2006	Question: will conflicts of interest be intensified or not in the future?	2008	2006
	Serious conflicts	4.7		4.8	Absolutely to be
Large scale conflicts	15.7	18.2	Possibly to be	31.8	33.6
A little conflict	45.1	44.9	Possibly not to be	28.5	30.4
No conflicts	17.3	16.3	Absolutely not to be	10.1	8.6
Uncertain	17.1	15.8	Uncertain	25.1	22.4
Samples	7139	7061	Samples	7139	7061

Sources: national household sample surveys by CASS in 2006 and 2008.

Concerning the reasons for a widening income distribution gap, scholars have their own views. Some scholars attribute it to the current unfair redistribution. Some scholars, especially neo-liberalistic economists, attribute it to the high salaries of workers in state-owned enterprises, especially in the State-owned monopoly sectors of the economy, which deteriorate the situation of distribution as a whole. Hence they make a strong indictment of China's state-owned monopoly sectors. Indeed, in China, compared to the private sector, employees of state-owned enterprises have relatively higher income levels, but we can also argue that, precisely because the private sector employment wage level is too low, the pattern of income distribution in China is so appalling. However the neo-liberal scholars also acknowledge that the persistence of large-scale cheap labor is an important factor of the 30 years of China's economic growth; they continue to defend this form of "comparative advantage" argument against the Chinese Government's desire to implement a minimum wage system and Labor Contract Law effected in 2008. In our view, China's structural imbalance of the initial distribution of income is the main reason for the widening income gap (figure 5). From figure 5, we can see that since entering the 21st century, in terms of GDP, the proportion of salaries declines continuously, while the operating surplus (return on capital) began to rise greatly. Especially after 2003, this trend became very apparent. Even in America, this kind of income distribution structure never appeared. Income gap caused by the imbalance structure of initial distribution may come from the liberalization of labor. In China this kind of liberalization takes place in private sectors, not in the state-owned sectors. This supports the argument that the high income level in state-owned sectors is not the main reason for the widening income gap.

Figure 5: Income approach components of gross domestic product (%)



Source: Yearbook of China's Statistics, 2008.

Given this social reality, adjusting income distribution and narrowing income gap have now become the most difficult and pressing task for the authorities. In fact, as soon as the mid 1990s,

Deng Xiaoping began to express his concern about China's widening income distribution gap, and said that Chinese government should put the issue of income distribution gap on its agenda no later than 2000. However, interest differentiation in Chinese society is now very strong, The government efforts to adjust income distribution gap will be faced with a strong resistance from various interest groups, and there is no voice for the vulnerable groups. This Deng Xiaoping did not expect.

The Need for a Better Social Management

People's livelihood has become China's most urgent dilemma. The problem is due to public service development lagging behind economic development and a social management system unfit for economic and social development. In the context of China, livelihood means employment, growth of resident income, education, and social security.

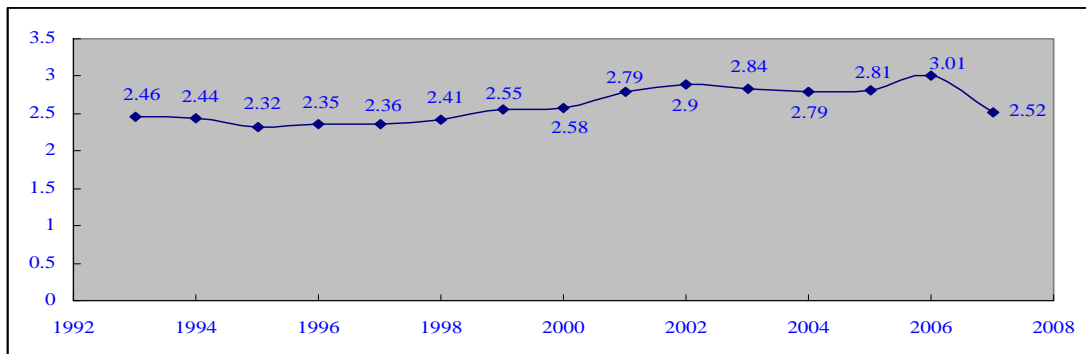
Employment

Concerning issues of employment, there are many different factors to consider including excessive labor supply, structural shortages and employment of the recent graduates from colleges. Regarding excessive supply of labor, the present position in academic circles and at the government level is that, at present, the annual labor increase for the urban population reaches 10 million and that there are about 12 million laid-off workers who are in need of re-employment. In addition there are about 150 million surplus labor workers in rural areas under the category of hidden unemployment or half-employment. Concerning China's economic growth in terms of employment, GDP growth of 1 percentage point represents employment of about one million people. Therefore, one can infer that the supply of labor is very excessive compared to labor needs. However, at the same time, there exists a kind of structural shortage of labor. The most urgent needs is for skilled labor, technicians and senior engineers. The proportion in terms of supply to demand is 1 to 4.05 ; 1 to 2.02 ; and 1 to 1.86 respectively. Moreover there is a problem concerning young graduates from university or college. China's university graduates' employment rate is around 70%, according to official statistic data. A survey by MYCOS in 2008, with a sample size of 202 651, shows that the percentage of students out of the total graduating class who find work immediately after graduation is 55.8% and, half year later, it's 87.5%. However, 12,1 % lose their employment again after 6 months. (Li Chunling, Wang Boqing, 2008).

Education

Since its reform and opening, China has made great achievements in education. Nine-year compulsory education in urban and rural areas has been mostly generalized and there is a significant drop in the illiteracy rate, according to official statistics. The illiteracy rate of the country's population went down from 15.88% in 1990 to 8.33% in 2004. The enrollment rate for higher education rose from 2% in the earlier stage of the reform and opening to 23% by 2008. However there remain many problems concerning education, such as, for example, the lack of investment at the government level, the unfair allocation of education resources and the high costs of education. China's national funding for education should have reach 4% of GDP at the end of the 20th century, as stipulated by *China's Reform and Development Program on Education*, but this target has still not been reached (figure 6). For a long period, there existed a situation of unfairness and injustice in the allocation of public resources, caused by lack of government investment and the focus on efficiency instead of justice. Moreover, the cost levels for education increased year per year, which created a heavy financial burden for families. A survey of household by CASS in 2006 shows that education cost covers 18.2% of total family costs.

Figure 6: The proportion of China's fiscal expenditure on education (of GDP)



Source: Statistical Bulletin of the Implementation of National Education Funding (1994-2008), China Statistical Yearbook 2008.

Social Security

Concerning social security, the system has gone through a painful process of transition from “State-unit security system” (国家—单位保障体制) during the planned economy era to a “State-social security system” (国家—社会保障体制). This transition began in 1986 and thereafter until 1997, China's social security system has been in a period of test. Government has denied its responsibility by maintaining that “Social Security is not a free lunch” and “giving priority to efficiency with due consideration to fairness”. This reform mixed the concept of social security with the concept of economic policy. For some people, the objective of the reform is to minimize the principle of government responsibility and to enhance the principle of

personal responsibility to the greatest level. After 1998, this orientation began to be reversed. The new social security system was expected to seek balance between fairness and efficiency by establishing a "social pooling account and individual accounts system" (社会统筹加个人账户). Currently, a Chinese-style social security system generally speaking has been basically established which covers basic old-age insurance, basic medical insurance, unemployment insurance, industrial injury insurance and maternity insurance, in addition to minimum subsistence a guarantee system for urban and rural areas and a rural new cooperative medical care system. By 2007, those above-mentioned insurance programs reached 201.07 million, 220.51 million, 116.45 million, 121.55 million, 77.55 million people respectively. The Minimum subsistence guarantee system for urban areas concerns 22.7 million, for rural areas 34.5 million; and rural new cooperative medical care system concerns over 700 million Chinese.

However, in China's current social security system there still exist many problems, among which are four major problems.

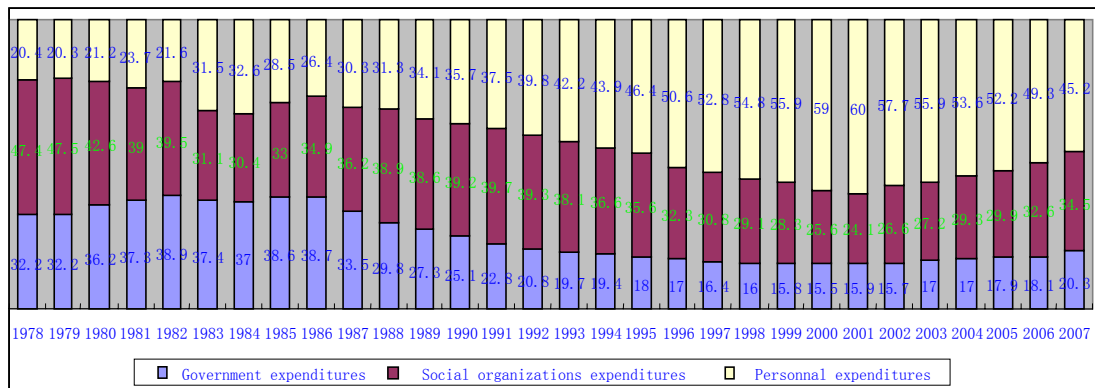
- The first is the issue of small coverage. For example, in 2007, China's total active population reached 769.9 million, if we add the unemployed and the elderly population, the total number may be close to 10 billion people, then, the national basic insurance for the aged and the basic medical insurance cover no more than 20 percent of the population and unemployment insurance and industrial injury insurance cover around 15%.
- Secondly, the level of social security is very low. So-called "low-level, wide coverage" has been the principle of the social security system in China.
- Thirdly, there is an imbalance between different social groups. These groups have different levels of participation in social security. The main groups targeted by the existing social security belong to the "insider system" groups, including town authorities and state-owned enterprises workers. However those who belong to flexible workers, unemployed and rural workers categories are excluded from the social security "safety net".
- Fourthly, there exists a tendency of fragmentation. Different social groups have different arrangements for the social security system. Peasants, migrant workers from rural areas, urban residents and urban workers have their own security arrangements. In urban areas, public servants and enterprise's workers has different security arrangements. It is also different from province to province; the so-called social

pooling is limited to the provincial level. Migrant peasant workers can't transfer their security fund to another province if they want to move to other province.

National Health

Concerning national health system reform with “market” orientation, in some places, all public health institutions are privatized. Hence the government escaped the responsibility by investing less in public service and increasing personal cost for medical coverage (see figure 7). For the ordinary people, the difficulty to see a doctor and the high cost have become an unbearable burden. “Expensive to go to school”, “expensive to see a doctor”, “expensive to have a house”, have been regarded as the new “three big mountains”.

Figure 7: The structure of total health expenditure of China, 1978-2007 (%)



Source: Ministry of Health, PRC: *China Health Yearbook 2008*; “Reform and Development of Health in China in 2008”.

The above-mentioned significant changes in development marks China's passage into a new stage. In fact, social development lags behind economic development. When reviewing China's 30 year's reform, we can see that the real meaning of reform, in the economic field is basically in terms of power-sharing and decentralization, which allow local governments to become powerful forces for economic development. The Government gave the people greater economic freedom which led to the implementation of the rural contract responsibility system. In the area of social development, the Government's market-oriented reforms neglected their own responsibility to society, and disregarded their obligation to promote social justice; or refused to reform social management system so as to give more power to the people, and even continued to maintain inequality in terms of the social rights of citizens. When the social rights of citizens are not well protected, their economic rights are also vulnerable to. At this stage, all the while continuing to promote

economic development, China should also at the same time speed up the process of social development. Let us turn to the following description of China's rural areas over the past 30 years and the development of major problems and challenges.

Rural Reforms and Development in China

Rural Reforms in China: Nature and Significance

Chinese rural areas experienced rapid development in the past 30 years. It begins with China's agriculture reform in the early 1980s. As a result of the reform, the household contract responsibility system was established. The nature of the system was to transfer the decision-making power in production and operation to the household. Most scholars in the field of China's rural development research believe that rural areas were changed by the household contract system, which greatly enhanced peasants' enthusiasm for production (see Lin, Cai and Li, *The China Miracle, Development Strategy and Economic Reform*, 1994). There's some truth in this explanation but it remains incomplete.

Reviewing the process of the reform, it is not difficult to see that with the transfer of decision-making power, peasants became relatively free. Peasants were able to decide independently what to produce, they also could sell their surplus product at restored rural fairs in urban and rural areas, the goods they sold were not just farm products but also non-farm necessities of life; Moreover, they could start their own industrial enterprises in manufacturing and in the construction business.

The whole rural reforms provided Chinese peasants the space and opportunity for development. The reform began with "fixing farm output quotas for each household" in 1978. Township enterprises emerged in the early 1980s and developed quickly starting in 1984. They represented peasant collectives' desire to be part of the industrialization process and to promote the migration process. Since 1988, the emergence of private enterprises and self-employed entrepreneurs reflected individual peasants' and their families' aspirations to improve their livelihood. In the 1990s, the migration process from rural areas to urban areas started and is still ongoing today. Peasants who went to work in the city were called "migrant workers", they have still not obtained their due citizenship through the reform of the social management system of China.

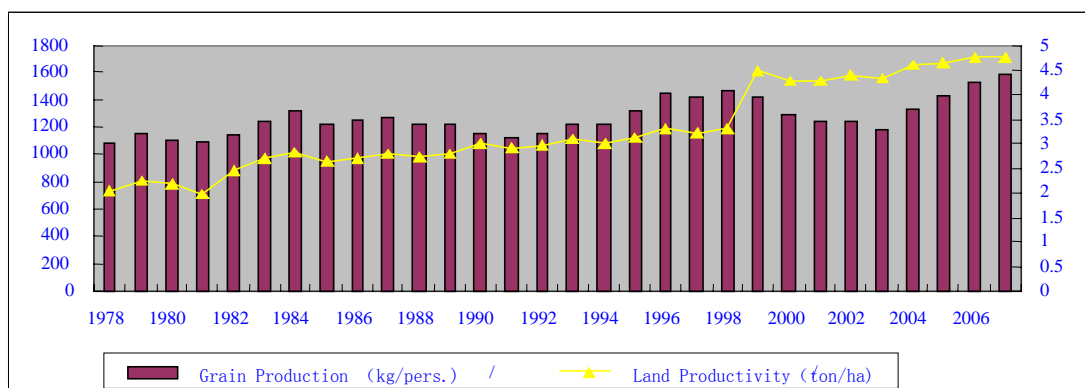
Obviously, one mustn't overlook that peasants also obtained, through the reform process, greater economic freedom and the right to development, which greatly contributed to rural economic and social development.

Rural Economic Change in the Past Thirty Years

At the macroscopic level, the rural economic developments since the reform can be broken down into three facets: agriculture development, rural economic structure change and rural employment structure change.

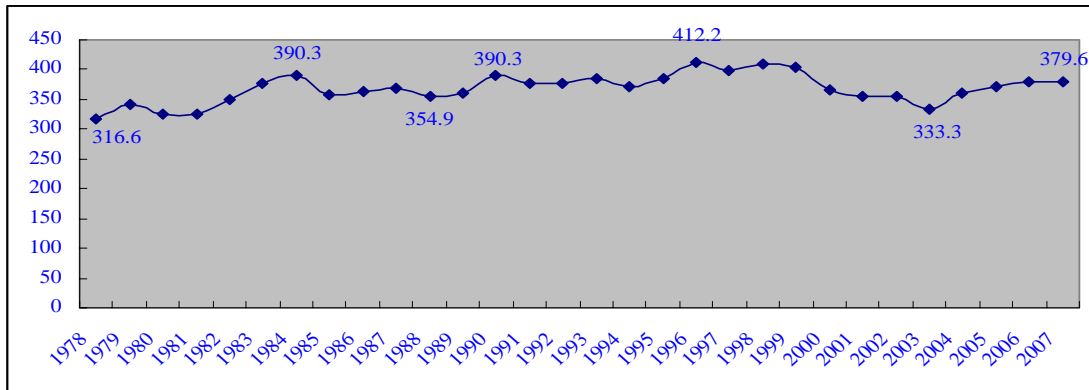
In the past 30 years, Chinese agriculture developed in a variety of ways. The best indicator would be grain output, which solved the problem of the shortage of provisions that had plagued China for hundreds of years. Rural reforms have largely emancipated most of the rural population from the fear of famine. In terms of grain productivity, from 1978 to 2007, per capita output of grain rose from 1076.2 kg to 1595.2 kg, with overall growth rate at 48.2%. In the same time period, the land productivity of grain increased from 2.03 tons per hectare to 4.75 tons per hectare (figure 8). Finally, the per capita share of grain was 316.6kg in 1978 and increased to 412.2kg in 1996, then it slowly diminished and was reduced to 379.6kg in the year of 2007, but per capita share of grain was still more than 1kg per day (figure 9).

**Figure 8: Grain production (kg/person) and land productivity (ton/ha)
1952-2007**



Source: China Statistical Yearbook 2008.

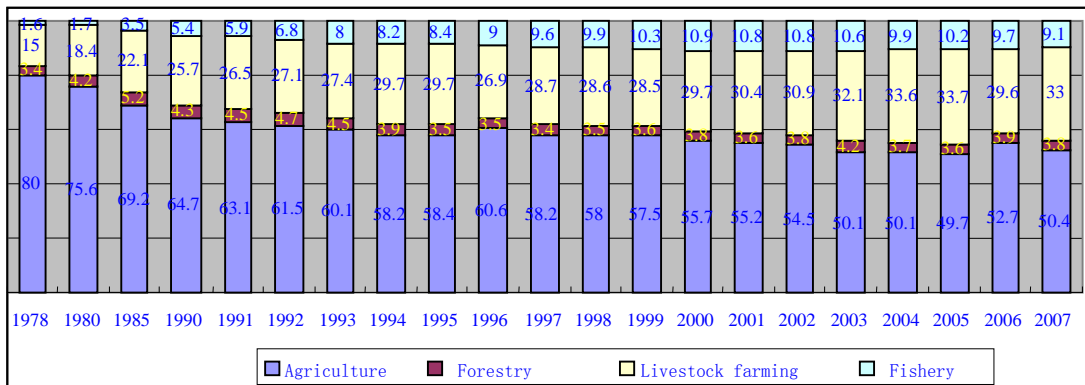
Figure 9: Per capita share of grain 1978-2007 (Kg per capita)



Source: China Statistical Yearbook 2008

The changes of agricultural structure also indicate how rural areas have developed in the past thirty years. On the one hand, the average income of households has increased evidently and the structure of income sources has changed a great deal. On the other hand, significant changes have also taken place in the rural residents' food structure and the quality of living has increased considerably. According to official statistics, agricultural output value accounted for 80% of the total output value of farming, forestry, animal husbandry and fishery in 1978. In 2007, it declined to 50.4%. Correspondingly, output value of animal husbandry rose from 15.0% to 33.0%, output of fishery increased from 1.6% to 10% (figure 10).

Figure 10: Changes of the output value structure: agriculture, forestry, livestock farming, and fishery 1978-2007 (%)

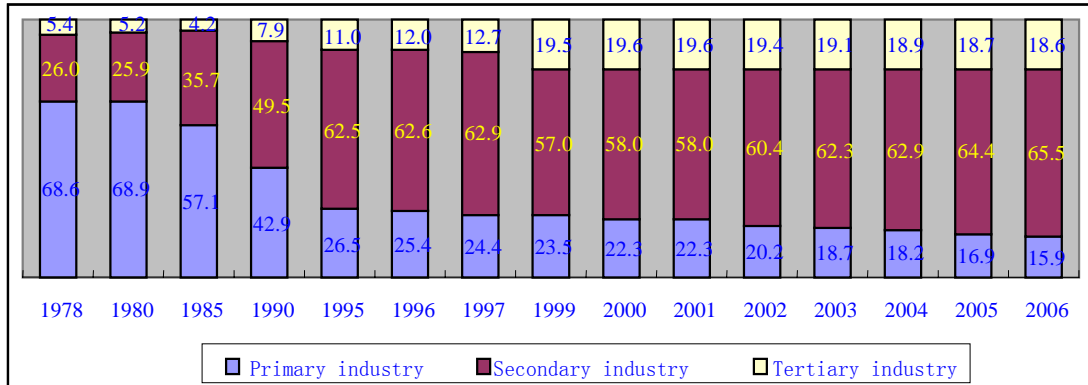


Source: China Statistical Yearbook, 2008.

Meanwhile, the whole economic structure in the rural areas also experienced great changes. The proportion of non-agricultural industries output value rose rapidly. The proportion of total output value (income) of farming, forestry, animal husbandry and fishery was 68.6% in 1978; it declined to 16% in 2003; in the meantime, the proportion of non-agricultural industries output value rose from less

than one-third to more than 84% (figure 11). After the collapse of the planned economy, peasants were allowed the right to engage in non-agriculture activities, which led to such structure changes.

Figure 11: Rural economic structure (output/income) 1978-2006 (%)



Source: Ministry of Agriculture of PRC: Report of Agricultural Development of China. Beijing: China Agriculture Press.

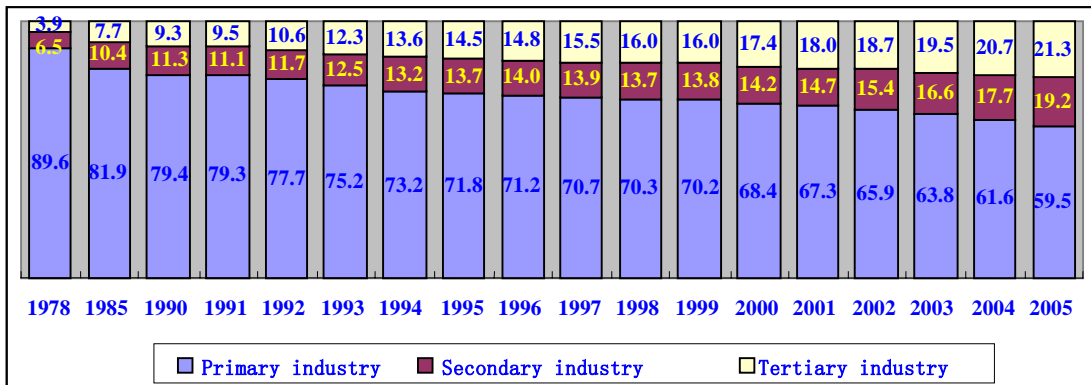
Rural employment structure has experienced considerable changes. As shown in figure 12, almost 90% of rural labor forces were employed in the primary industry in 1978, those working in non-agricultural industries accounted for slightly over 10%. In 2005, rural labor forces working in agriculture decreased to less than 60%. Furthermore, it should be pointed out that migrant workers are not included in the statistical category of non-agricultural employment.

Change in Chinese Farmers' Living Conditions Since the Launch of the Reform 30 Years Ago

With the development of the rural economy, the quality of life of Chinese farmers has improved dramatically, which can be shown by three markers: their income, their consumption and the level of rural poverty.

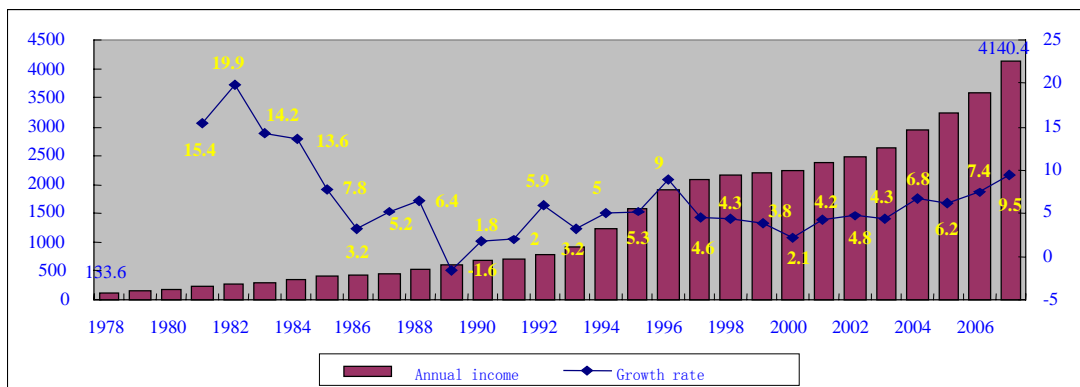
The last 30 years have witnessed a constant increase in Chinese farmers' income. According to nominal income, net income per capita has grown from 133.6 RMB to 4140.4 RMB from 1978 to 2007. In table 13, their net income per capital growth rate is calculated according to the constant price in 1978. It was multiplied 7.34 times. However, the actual increase of net income per capita fluctuated heavily during these years, which could be divided into four stages. Changes in these four stages reflect different phases of institutional reform aimed at farmers and changes in their socio-economic rights.

Figure 12: Employment structure of rural labor forces in 1985-2005 (%)



Source: China Statistical Yearbook 2007

Table 13: Farmers' income (RMB yuan) and its growth (%)



Source: China Statistical Yearbook 2008, 2008 Statistical Yearbook of China's rural areas.

The first phase ended in 1982, during which, farmers' income increased rapidly. Their income in 1982 was 19.9% higher than the previous year, which was a record increase. Such growth resulted without question from farmers' acquisition of household operation rights.

The second phase was from 1983 to 1989, during which farmers' pure income per capita increased on a slower rate. From 1984, rural development in China suffered from a structural surplus of agricultural products and it was difficult for farmers to sell their grain. The Institutional effects engendered by the rural land management reform had come to an end (Chen, 1996), This was the main reason why farmers' actual income growth rate decreased during this phase (it was even negative in 1989 due to the impact of the June 4 event). However, during the same period, rural enterprises kept on developing, which allowed the phase to maintain its strong rate of increase.

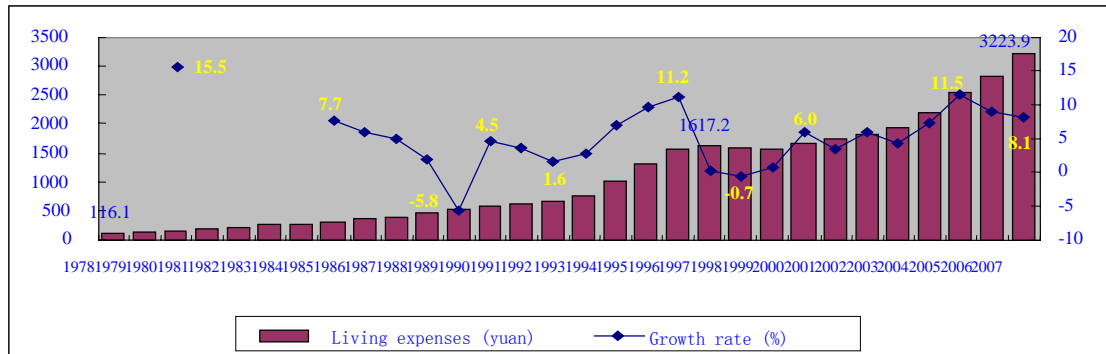
The third phase started in 1990. The income growth in this phase is attributed to development of the non-agricultural economy. Furthermore, numbers of rural workers had migrated to urban areas. Starting 1997, the income growth rate slowed down. Rural reform in

this period focused on property rights reform of township-owned enterprises. Almost all the township enterprises were privatized and the owners of the newly established companies were trying to maximize investment profits instead of community welfare. Rural community members then lost their rights linked to rural companies, which then seriously restricted farmers' income. Some scholars, based on their surveys, argue that, although rural enterprises were initiated by its community members, "they were excluded from the 'game' since they lacked political and economic resources and have neither the right to say nor the right to know. It is those elites possessing political authorities and economic power that benefited from rural enterprise reforms. What's more, rural governments and corporate managers are all in pursuit of maximizing self-interest; while those grassroot people had to adopt an optimistic attitude due to their lack of a spokesman for their own interests, All of this indicates that market machismo cannot bring equity to all groups in a society since there are great disparities amongst different interest groups concerning their bargaining power" (Du, Yuan and Bao, 2004).

Since 2001 we have entered the fourth phase, the per capita net income of farmers increased rather stably and in 2007 reached their highest point since 1985, with an annual increase of 9.5 %. With the restructuring of township enterprises in progress, the number of their employees was reduced by 50% (Du, Yuan, Bao, 2004). It prompted new flows of migrant rural workers towards the cities. Confronted with the new waves of migrants, government organs had to make concessions, allowing or even encouraging the migrant rural workers work in cities, though urban governments maintain policy restrictions to migrant rural workers settlement. Nowadays, there are about 200 million migrant rural workers in China, and they are the main source of income growth in rural areas. Additionally, since 2005, the new government has increased the financial and political support to agriculture and has canceled the agricultural tax. These measures re-stimulated farmers' production, alleviated their burden, and also increased their income.

The consumption level of Chinese farmers has increased substantially during the last 30 years (figure 14). Between 1978 and 2007 the consumption items jumped from 116.1 to 3223.9 yuan. But the real increase, which accounts for the price effect, showed much fluctuation and even negative growth in the years 1989 and 1998. Generally speaking, the average annual growth rate of per capita living expenses in Chinese rural families was 4.8% during the period 1985-2007, equal to the growth of per capita net income of farmers in the same period. Therefore, from an overall perspective, the growth of consumption level is in phase with that of income, though in some specific years there may have been discrepancies.

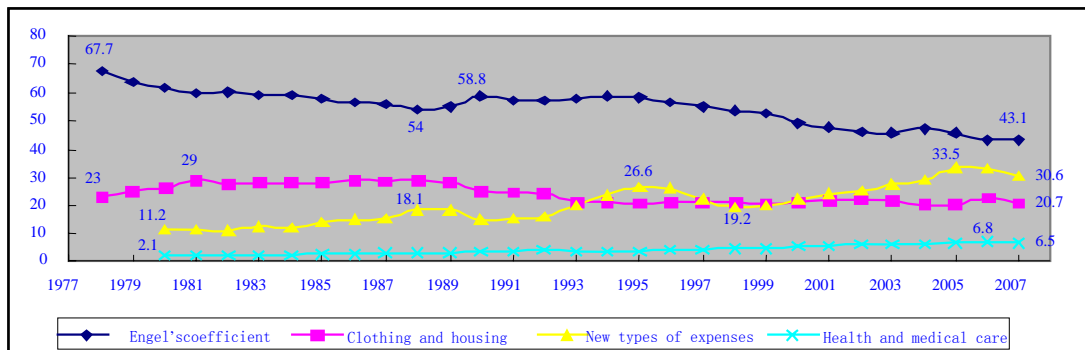
Figure 14: Average annual consumption in Chinese rural household (yuan/capita/year) and its growth (%), 1978-2007



Source: Annual Yearbook Statistics on Countryside (*Zhongguo Nongcun Tongji nianji*), 2008.

To better understand the growth of Chinese farmers' consumption, we also need to observe the changes in consumption structure and the quality of food consumed. Figure 15 shows the changing trend of expenditure structure of per capita consumption in Chinese farmers' families. It is noticeable that the proportion of food consumption expenditures among living expenses, namely the Engel coefficient, decreased by 24.6% in 30 years. According to international standards, an Engel's coefficient of more than 60% indicates people lives in poverty; a coefficient between 50-60% shows that people can merely cover food and clothing needs, when the coefficient is between 40-50%, it signals that people live in well-being.

Figure 15: Structure of the rural households consumption 1978-2007 (%)



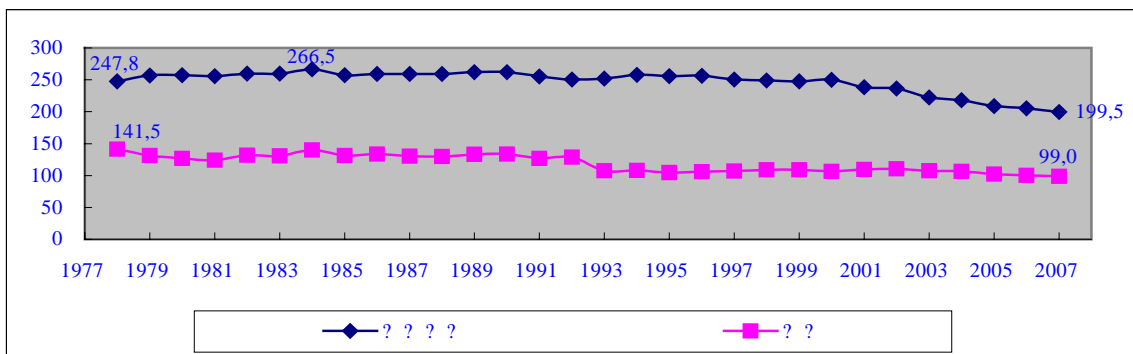
Source: idem figure 14.

In accordance with these standards, Chinese rural citizens lived in poverty before 1982, merely covered food and clothes needs during the period of 1983-1999, and since 2000 they have lived in well-being. In addition, from figure 15 we can also see that the proportion of clothing and housing expenses increased before 1981, kept relatively stable during 1982-1989, declined steadily after the year of 1990. Furthermore, new types of expenditure (including

household appliances and services spending, culture, education, transportation and communication expenses and cultural, educational, entertainment supplies and service expenditures) have already developed. Health and medical care expenditures have also risen steadily. These prove that the life conditions of Chinese rural citizens are improving gradually.

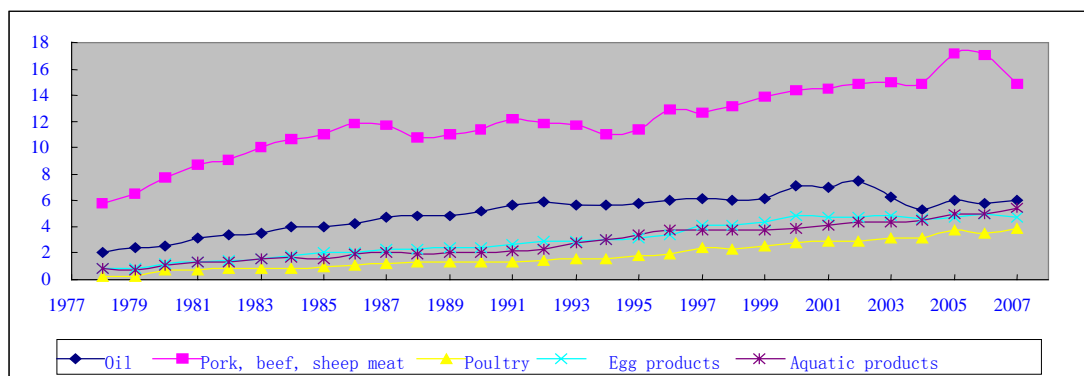
The structural changes of food consumption by Chinese farmers is significant factor in the improvement of their living conditions (see figures 16, 17). Vegetable consumption has been reduced and compensated by the consumption of highly nutritive food. A more detailed examination show how, over the past 30 years, pig, cattle, sheep meat consumed by farmers increased nearly 2-fold; per capita edible-oil consumption increased 2.6-fold, per capita consumption of poultry meat increase 12-fold, consumption of egg products increased 4.9-fold and per capita consumption of seafood increased 5.8-fold.

Figure 16: Average consumption of grain and vegetables in Chinese rural households (kg/capita/year)



Blue=grain, pink=vegetables.
Source: idem fig. 14.

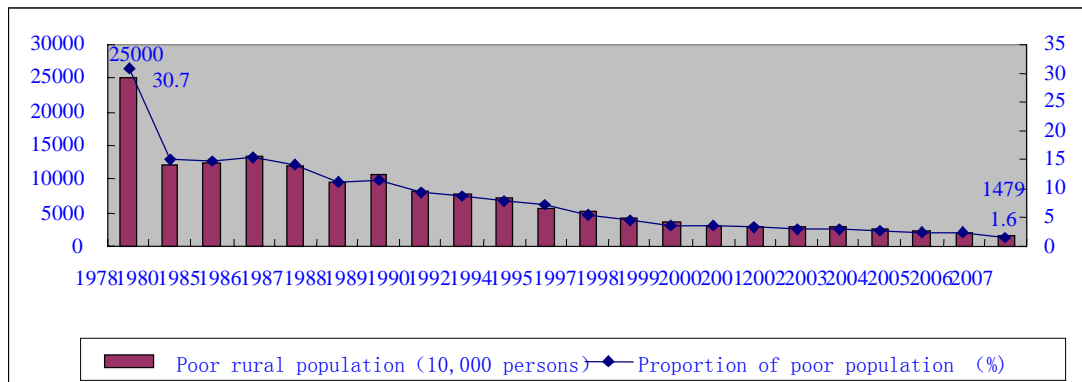
Figure 17: Consumption of highly nutritive food in Chinese rural households (kg/capita/year)



Source: idem figure 14.

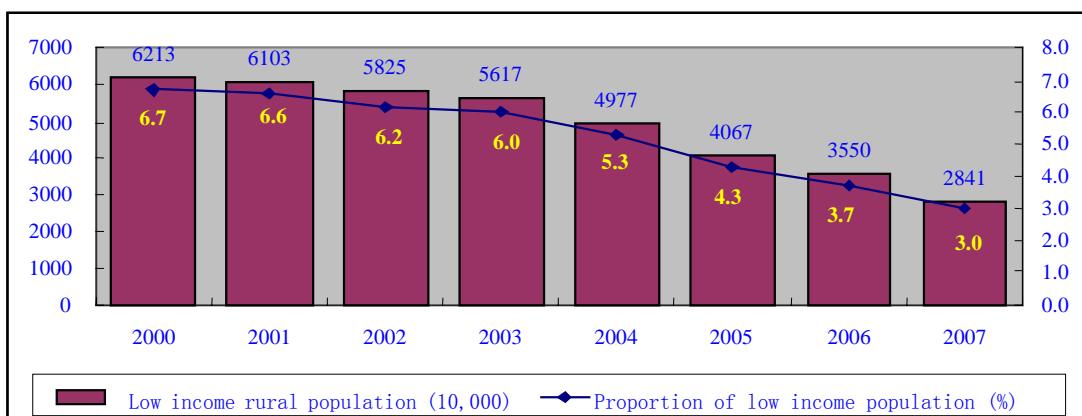
According to the official poverty standards, the poverty-stricken rural population in China reached 250 million in 1978 (30.7% of rural population). It declined to 14.79 million in 2007 (1.6%), but the Chinese official standards have been criticized, for only survival needs are taken into account and development needs are neglected (Chen Guangjin, 2007). As a response to these critics, the relevant organs of central government established a low-income standard in 2000, which is considered by experts as a relative poverty standard for China's rural areas, and a means to measure the low income population in rural areas. According to the monitoring results carried out by the Social Survey Division of National Bureau of Statistics (see figure 19), the low income population in China's rural area reached 62.13 million in 2000, accounting for 6.7% of the whole rural population in China, and declined to 28.41 million and 3.0% in 2007. Therefore, in the year of 2007, if we add the low-income population to the population in poverty, the total amount was 43.20 millions, accounting for 4.6% of rural population.

Figure 18: Poor population in rural China



Sources: National Bureau of Statistics, *Surveys on rural economy and social conditions*, 2001, 2008.

Figure 19: Low income population in Chinese countryside 2000-2007



Source: idem fig. 18.

However, the extent of poverty in rural China may be still underestimated. According to our national sample survey of households in urban and rural areas in 2006, in accordance with the poverty line established by the National Bureau of Statistics (683 yuan/year), the low-income line (683-944 yuan per year) and the daily consumption of one U.S. dollar line recommended by the World Bank (equivalent to 830 yuan per year), we proceeded to measure household poverty in 2005, and found that the proportion of population living in poverty was respectively 8.8%, 5.2%, and 12.0% (Chen Guangjin, 2008).

Social Development of Rural China During the 30 Years of Reform

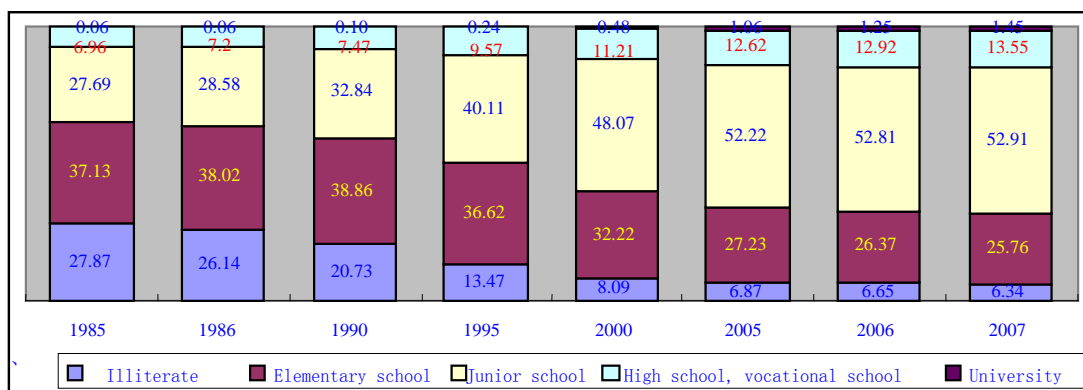
In parallel to its economic development, other remarkable changes have taken place in China's rural community. This report will focus on the development of social and cultural rights. One can distinguish six kinds of social rights. The first is the right of access to education. In modern society, education access has become the fundamental condition for the realization of the individual development. The second is the right to freely choose one's work. China is promoting economic liberalization as well as greater mobility for allowing rural workers to find better jobs in the cities. The third is the right to choose where to live. When one accounts for the imbalance in China's urban and rural development, urban areas have far superior survival and development conditions and opportunities than rural areas. To give farmers the right to live in urban area is a test of social equity. The fourth right is the right to have social security. The modern social security system is not only a reallocation system to enhance social equity, but also a social protection system to help people handle various social risks. The fifth is the right to political participation as a means to promote public welfare and fair public policy, as well as the only way to protect people's self-interest against other interest groups. The sixth is the right to set up an organized social public sphere outside the governments and markets, i.e. to form nongovernmental, nonprofit and voluntary social organizations. In the world today, the development of civil social organizations has proven to be important for the emergence of modern civil society. Some scholars even describe their development as the "revolution of association" (Salamon, 1994). These six kinds of rights consist of the most important set of social rights for the economic and social development of rural China.

Education

In 1986, a new law on education extended compulsory basic education to nine years. Today the implementation of this law mainly concerns rural areas, since this level of education has almost been

achieved in the cities. The process was also much less advanced in western areas. In 2003, the Chinese government decided to direct its efforts in these western regions in order to reach a level of 85% of population with nine-years of compulsory education by 2007. In 2008, the Ministry of Education announced that at the end of the year 2007, the proportion of students having completed the nine year of school reached 98%. Even if this number may be over estimated, the aim of 85% for 2007 has most probably been reached. During the period starting from the law on education, the upgrading of the labor force is largely due to the better education of the rural workers and can be seen in the figure 20. Most noticeable is the proportion of illiterates which decreased from 27.87% in 1985 to 6.34% in 2007.

Figure 20: Education level of the rural workforce (%)



Sources: China Rural Statistical Yearbook, 1987, 2007.

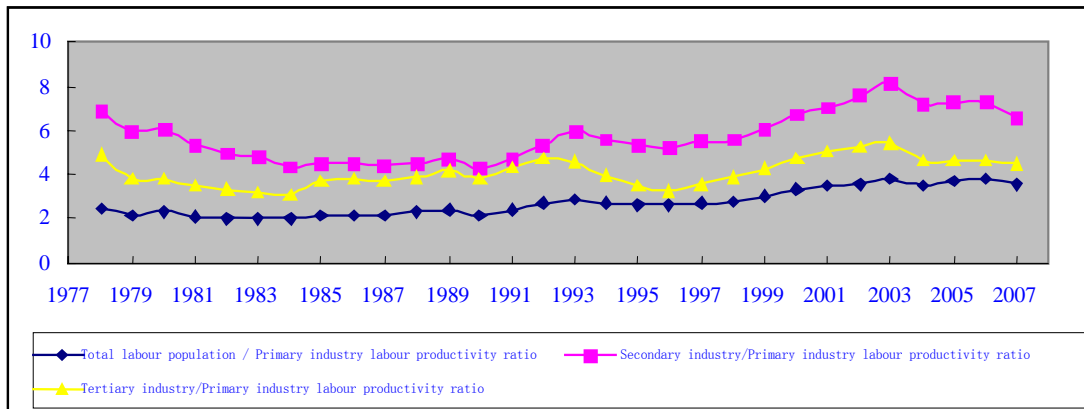
The Right to Choose One's Professional Occupation

The rural labor force has increasingly gone to cities to find jobs, even if they are not recognized there as citizens. The economic benefits that can be obtained from agriculture are usually so low that it only covers basic needs and does not allow workers to prosper. Thus, rural workers do not only go to cities under economic incentives, but also because they are attracted by the life in the cities.

Another factor in explaining rural departures is the position held by local rural authorities who consider 'outgoing work economy' as a way for local society to develop. Therefore, since the late 1990s, and especially after the 21 century, many local governments took steps to encourage peasant worker to leave to work.

According to the statistics, the number of outflowing peasants was 70 million in 1993. It increased to 140 millions in 2003. In 2007, according to the Department of Agriculture statistics, there were 126 million migrant labor from rural villages and 150 million rural workers in town and township enterprises. After deducting the workers that overlap both categories, there were 226 million migrant workers.

Figure 21: Labor productivity of the primary industry and its comparison with labor productivity in the secondary and tertiary industries, China, 1978-2007

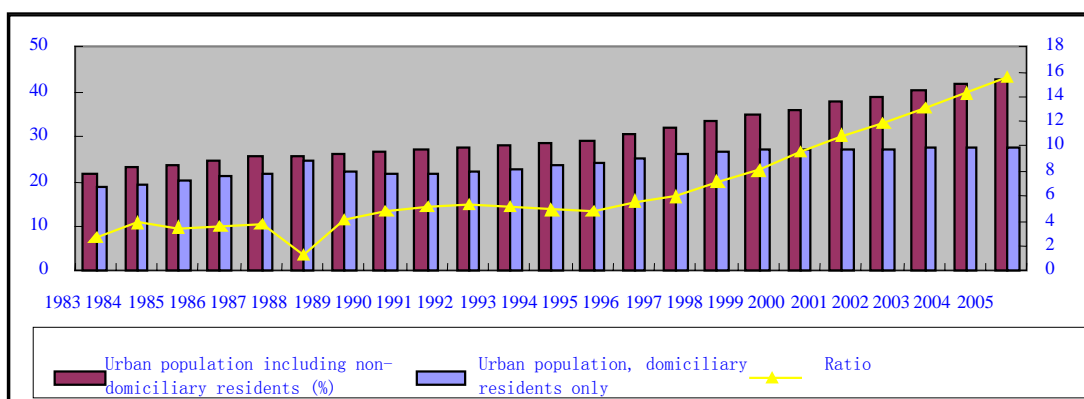


Sources: China Statistical Yearbook, 2008.

The Right to Freely Settle Down

Urbanization has sped in the past 30 years. According to statistics, the number of towns jumped from 884 in 1985 to 19,249 in 2007, and the number of cities from less than 200 in 1978 to around 670 in 2007. In much the same way, the scale of towns and city dwelling populations are increasing year by year. The figure 22 shows the urbanization rate, calculated respectively by the domiciliary population and the resident population. The comparative difference between the two reflects the size of the rural population without urban household status who have dwelt in the city for more than half a year: about 206 million peoples in 2005. They were obviously coming from rural areas and most of them are migrant workers, but also their parents and children.

Figure 22: Urbanization progress in China, 1983-2005



Sources: calculated based on data from *China Statistical Yearbook 2006*.

The government has listed them as resident population and thus, recognize at least their presence through the statistics. This came after a painful process: since 1990, the city government did not approve peasants' right to reside in the city for long periods and often drove them out of city in the 'weaving net' way. However, the peasants' aspirations to seek and obtain this right wasn't stifled and their numbers always bounced back after every 'weaving net' action. Finally, the city governments had to approve the peasants' right to dwell in the city, even though they still uphold some policies that discriminate against peasants.

Social Security

It wasn't until 2004 that the social security system for the rural population had been taken into any real consideration by the central government. Before the reform, the people's commune actually provided peasants with considerable social security. The most eminent systems were built around rural cooperative medical care, 'barefoot doctors', or the 'Household enjoying the five guarantees'.

With the reform, these systems lost their efficacy to varying degrees. The system of rural cooperative medical care almost entirely disappeared. The general adoption of the market principle in the health system as it occurred in the middle of 1990 made it 'expensive and hard to see a doctor' for the rural population. The system of 'Household enjoying the five guarantees' was maintained only if the villagers committees had enough collective property. However, after 2004, the government felt this situation had impacted the development and stability of society and thus decided to endeavor new solutions.

Political Participation

After the reform, the main progress in favor of the right of political participation for rural populations was the creation of the villagers' self-governing system which accompanied the disintegration of the people's communes.

In 1982, the village constitution of a committee was written into the constitution; the National People's Congress approved the Organization Law of the Villagers' Committee in 1987, which was later revised in 1998. The revised version contains strong modern democratic ideas and strict democratic program specifications.

During the 1990s, villagers' committees were gradually promoted throughout the entire country by way of experimentation and exposition. However, the local governments strengthened their control on the villagers committees and gave them sundry assignments, leading to the global inefficiency of the self-governing system.

The self-governing right of villagers was vested through legislation, and had not occurred naturally. Thus, it was difficult to resist the extensive penetration of government power and it was even more difficult to solve issues concerning agriculture, the countryside and farmers (*san nong*) according to the principle of villagers' autonomy. Paradoxically, the development of villagers self-government relies on the government's decentralization of power and the transfer of budget. By the start of the 21st century, the system of self-government of villagers gradually became more consistent and villagers became more active. Since its inception, some villages have experienced about 8 or 9 election runs while others have only conducted 3 or 4. Moreover, some places are trying to perform a system of town self-government. However, in the whole, the rural's civic and political participation has remained mainly confined to the governing of village business.

The Chinese scholars believe that the very reason for the slow progress of self-governance among villagers can be attributed to their low organizational level. The earliest attempts at organization in the villages after the launch of the reform were not in governmental form, but by the revival of conventional patriarchal clans. The revived patriarchal clan played an important role in the peasant social life and intervened more and more in the villagers self-governance and the election of its council. The Chinese political and academic circles held different opinions on this development, resulting in three theoretical doctrines: banning, restricting and utilizing. No matter what attitudes people hold towards it, both its revival and development represents the emergence of a peasants' consciousness to self-organize and the government's endorsement of this right to a certain extent, since the Chinese government after all never banned outright this kind of organization.

In Chinese rural villages, the second social organization that experienced wide development are the peasants' multifaceted organizations in the field of specialization and cooperation including technical associations relative to production, production-selling associations and co-adjutant financial associations. Organizations in this type received government support from the very beginning and some local governments even led in establishing them.

The third kind of social organization emerging after the end of the peoples communes is based on the volunteer sector, mainly those carrying out some actions in the peasant civic and social domain (the patriarchal clans are not all necessarily volunteer-based), like all sorts of elder men associations, councils that handle weddings and funerals and other kinds of organizations that govern amateur, recreational and sports activities. The government always approves of these organizations, and has even given some support and directives, but for the most part do not control them. Chinese scholars have done extensive research on those organizations (even including lineage organizations) and discussed their sociological significance. The prevalent doctrine argues that the development of civil society organizations in rural areas exert significant influence on the social governance of rural areas, and could be the social foundation of civil society (Tong, 2005; Yu Keping, 2006).

Besides the three categories of social organizations discussed above, religious organizations should also be viewed with some concern. Religions have developed rapidly since the 1990s, including indigenous religions and foreign religions, such as Buddhism, Taoism, Christianity, Catholic, Islam and all kinds of folk beliefs, which grew so strongly that many people believed the Chinese rural areas were experiencing a form of “religious fanaticism”. In response to the revival of religions beliefs and the development of religious organizations in rural areas, *The Regulations on Religious Affairs* was put forward in November 2004, which reiterated that the Chinese government respects the right to freedom of religion, and claimed to correctly induct religious organizations and activities. Those religions opposed to government, or that sought improper interests or harmed the body and mind of its believers, would be prohibited and combated. The attitudes and practices towards religious growth in rural areas vary for each local government. Some local governments support the development of local religions, while others restrict the religious organizations, judging they could jeopardize the local social order (Wei Jinping, 2005).

The Contradictions and Challenges of China's Rural Economic and Social Development

In this section, we examine a number of important contradictions and challenges in the economic and social development of China's rural areas, from the perspective of economic freedom and social rights. We will analyze the problems the rural population are confronted with through three aspects: (1) the difficult economic and social situation; (2) the inequality in terms of basic social rights; and (3) the impairment of economic and social rights.

Chinese Peasants' Dire Situation in the Current Economic and Social Environment

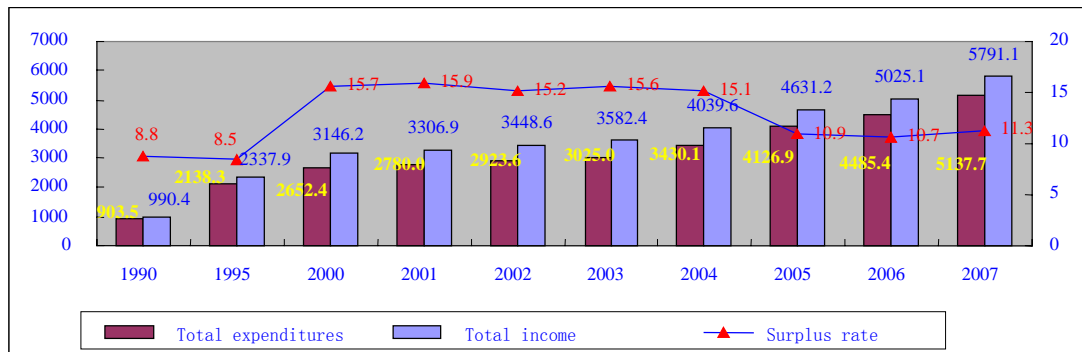
Resource Constraint

Resource constraint is the main obstacle to the future development of Chinese peasants. For instance, China had 121,735,200,000 hectares of arable land and 92,750 million rural workers in 2007, which signifies 0.131 hectare arable land per laborer in that year. Since 31,444 million rural workers were in the primary industry, farmers exploited on average 0.387 hectares of arable land. According to official statistics, rural family were composed of an average of 4.03 people permanently living in rural areas in 2007, so each family had only 0.528 hectare of arable land. Thanks to the increase of agricultural subsidies of government, every hectare arable land is able to obtain somewhere between 3,000 and 5,000 RMB. So one family alone can earn about 1,600 to 2,400 RMB in agriculture, which represents about 200-400 RMB each person.

One should also remember that arable land is unevenly distributed in China: some places have rich arable land resources while others don't, especially in the central and eastern areas of China.

Because of their low incomes, rural population savings are very limited and they can hardly invest any capital to enhance the scale of their production. They have to turn to external support, like bank loans, but most of them are not qualified to apply for them.

Figure: 23: Peasant households average expenditures and income (yuan) and balance rate (%)

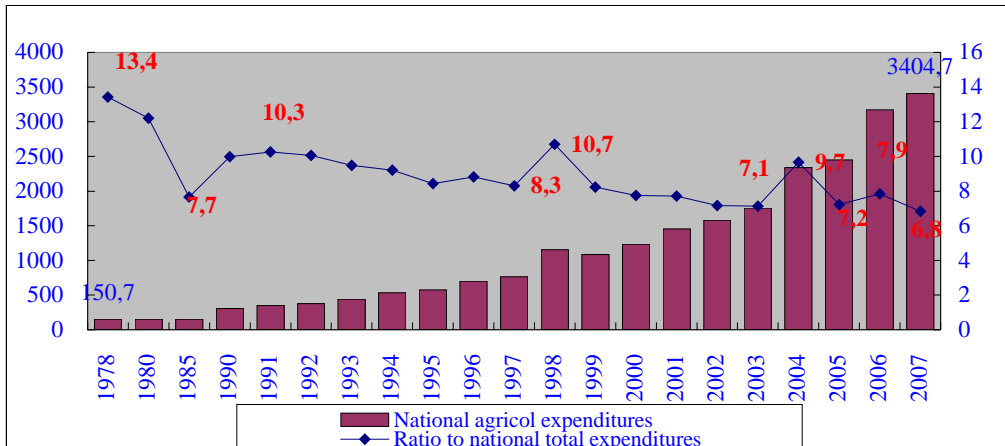


Sources: *Statistical Yearbook*, 2006, 2008.

According to estimates of the China's National Bureau of Statistics, annual outflow of funds from the rural areas is estimated to reach 300 billion yuan in State-owned commercial banks and the county level banks; annual outflow for deposit reserves, at the Central Bank of China, (government bonds and financial bonds in Rural credit cooperatives) is estimated at 1 trillion yuan (*Economic Information Daily*, 2005). The effect of Chinese financial institutions in rural areas has been described as a “pump” effect. The only solution to solve the problem of insufficient inputs in rural areas is to increase the Government's financial investment.

During the last few decades, total national expenditure has increased, but the amount allocated to agriculture among government's total fiscal expenditure has shown a downward trend, especially since 1999 (see figure 24). Moreover, the state financial expenditure in agriculture is not primarily used for farmers, but for the management of large rivers, land improvement projects, as well as for administrative costs.

Figure 24: National agricultural expenditures (yuan, hundred of million) and its ratio to national total expenditures (%)



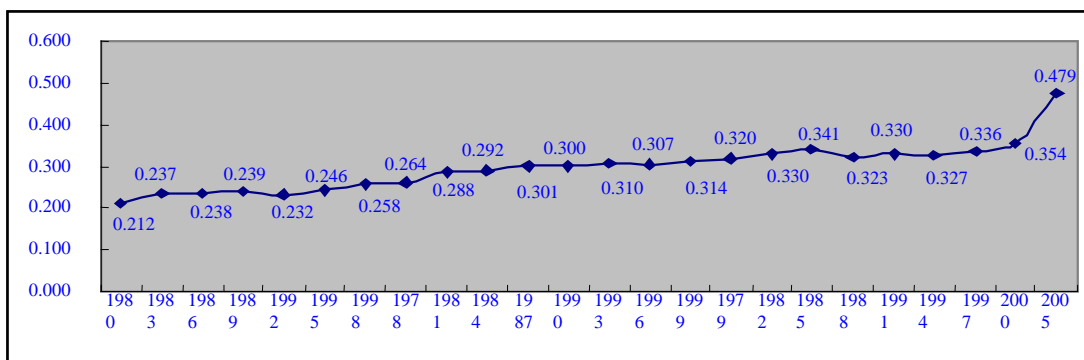
Source: Statistical Yearbook, 2006, 2008.

Manifestation of Rural Social Differentiation

Significant progress has been made in Chinese rural areas, but there are enormous imbalances in the distribution of interests. Rural social disparities has become increasingly prominent, and the majority of peasants do not get much benefit from the rural economic and social development. Such disparities is indicated by the Gini coefficient of distribution of rural residents' income. As illustrated in figure 25, the Gini coefficient has been rising over the past thirty years.

According to a survey held in 2006, the Gini coefficient of rural household has reached a level of 0.6425. The 20 percent with the highest income level earned 41.5 times more than the 20 percent with the lowest incomes.

Figure 25: Evolution of the inequalities among rural households income in China (Gini coefficient)

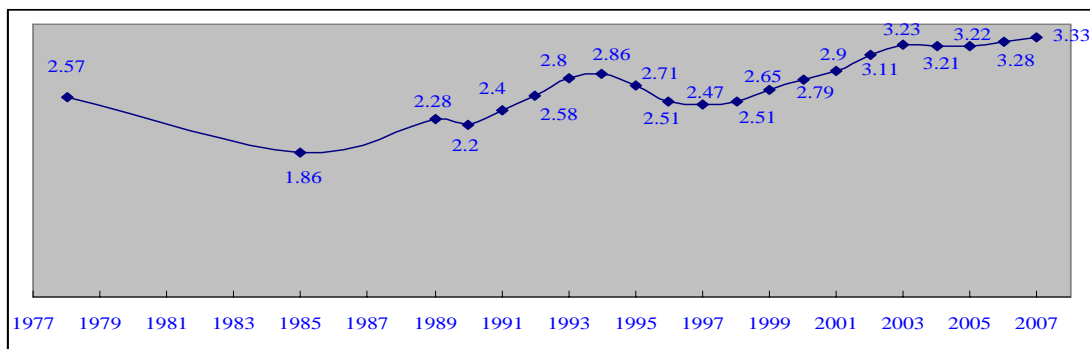


Sources: *Statistical Yearbook 2001* for the years 1980-2000; for 2005, results of a national scale survey by the Institute of Sociology, Chinese Academy of Social Sciences.

The Increasing Gap of Income Between Urban and Rural Areas.

Two striking characteristics marked the problem of uneven development in China: one is the uneven development between the urban and rural populations, and the other one is the unbalanced economic and social development. The increasing gap of income between urban-dwellers and rural-dwellers illustrate the uneven development. As shown in figure 26, the gap of income between urban and rural underwent two stages. Before 1985, the income gap declined, due to the fact that rural reform led over urban reform. Since 1986, the income gap has been increasing. In 2007 the per capita disposable income of urban households was 3.33 times that of the per capita net income of rural households (figure 26). Moreover, if we add various subsidies urban residents obtained through urban welfare institutions, then the gap would be even larger. For example, in 2002 the income of urban residents was 4.35 times higher than that of rural residents (Li Shi, 2008).

Figure 26: Changes in income inequalities between urban and rural residents 1978-2007



Source: *Statistical Yearbook* (different years).

Economic and Social Inequities

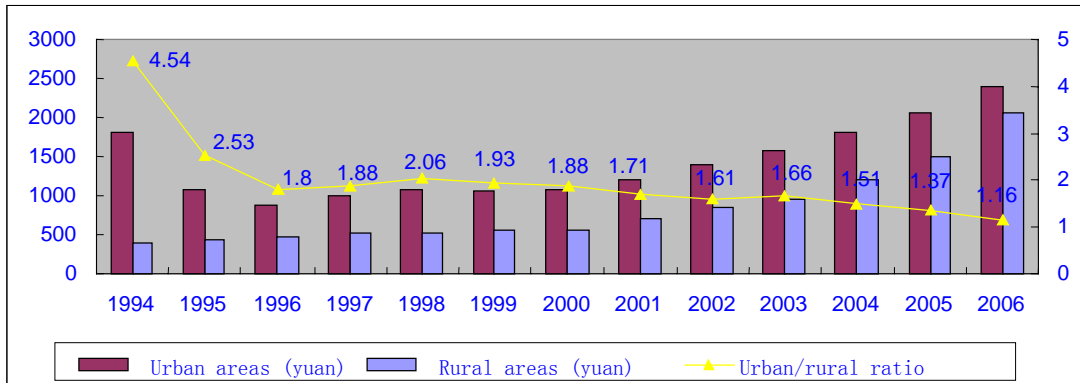
Inequities between rural and urban population is particularly visible in the exclusion of peasants in urban areas from the supply of public goods, and economic and social rights.

Inequity in the Supply of Public Goods

Three of the most important aspects of the inequities can be analyzed. First, there exists a gap of public educational investment in urban and rural areas. The figures 27 and 28, underline the unequal investment in the case of junior secondary school and primary school. Funds dedicated to education inevitably impact the quality of education. The new legislation in place and the free nine-year compulsory education principle in both urban and rural areas are not

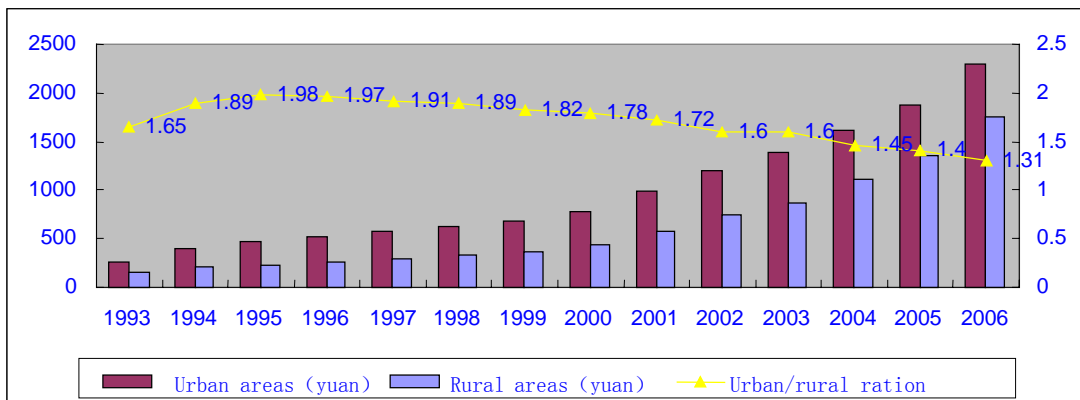
enough to eliminate the disparities in quality of education. One should also notice that, according to the “decision on reforming the educational structure” promulgated in 1985, local authorities assume responsibility for compulsory education. Thus, education is a burden on local authorities, especially the county and township governments.

Figure 27: Inequalities of average budget allocation to junior secondary students in rural and urban areas 1994-2006.



Source: China Ministry of Education Website.

Figure 28: Inequalities of average budget allocation to elementary students in rural and urban areas 1993-2006



Source: China Ministry of Education Website.

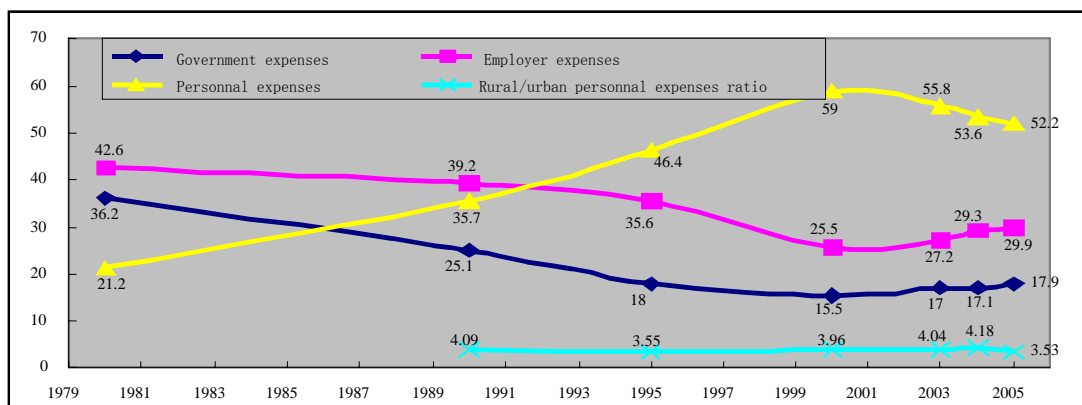
This transfer of responsibilities to local authorities was aimed at enhancing their means to develop education, but it did not take into account the economic development of the counties and towns which do not have the same financial resources.

While arguing that “local authorities shall assume responsibility for compulsory education”, central authority transferred the burden of responsibility under the guise of increasing local authorities’ powers. Today the proportion of educational expenses financed by the central budget is low, A survey by Liu Fuxing has shown that, of all the educational investments, about 78% were covered by the township authorities, 9% by the counties, 11% by the provincial authorities and 2% by the central government. The

fundings provided by counties and towns accounted for 87%. It came largely from extra charges for education and all kinds of education surtaxes paid by peasants (Liu, 2003).

The second aspect of the unique distribution of public goods regards the governmental expenditures on sanitary and medical service. Since 1978, in order to pursue overall efficiency, the percentage of governmental expenditures on sanitary and medical services has been decreasing year by year, while personal consumption expenditures have been climbing (see figure 29). Furthermore, the government has thrown more funds into urban sanitary and medical services than into rural ones. According to statistical results, the national government raised the sanitation and medical services budget by 50.671 billion yuans over the course of 1991-2000, but only 6.308 billion yuans (i.e. 12.4%) have been allocated to rural areas where the largest portion of the population resides (Beijing Committee of Chinese Peasants and Workers Democratic Party, 2005).

Figure 29: The changing structures of total health expenditures and the gap between urban and rural areas, 1980-2005.



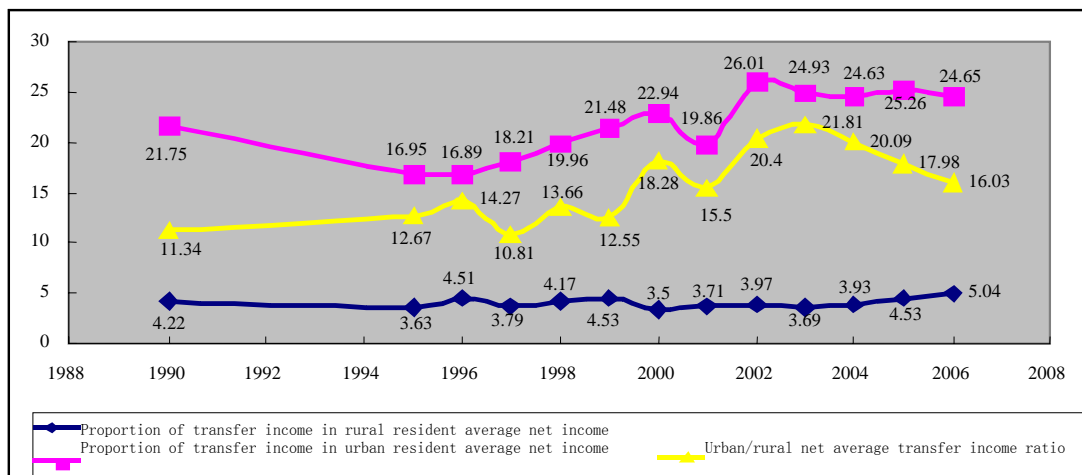
Sources: Ministry of Health.

Statistics of Urban & Rural Medical Insurance also helps to measure the inequalities. For instance, the New Rural Co-operative Medical System of Beijing collects 150 million yuans from the city government, village communities and personal contribution and is supposed to cover 1.91 million residents. By contrast, the city Urban Employee Medical Insurance collects a huge fund of 4.4 billion, for less than 3 million urban residents (Beijing Committee of Chinese Peasants and Workers Democratic Party, 2005).

The third aspect of inequality is the transfer payments *via* which the government and employers provide various benefits to their residents or employees. Urban & Rural inequalities embodied by the transfer payment effect are by no means inferior to that of other aspects developed previously. The China Statistical Yearbook measures the proportion of Average Rural Transfer Payment Incomes (ARTPI) in the Rural Per Capita Net Income (NRPC) as a whole, the

Average Urban Transfer Payment Incomes (AUTPI) in the Urban Per Capita Net Income (NUPC), and the ratio of both results (figure 30). Though the percentage of ARTPI and AUTPI has increased, large difference of these two indexes suggests alarming levels of inequality. Moreover, the already unacceptable gap has widened to an even greater level in the 21st century when it reached a peak ratio of 21.81 in the year of 2003. Although this trend has been halted and kept under control afterwards, it remains on a high level.

Figure 30: The gap between the transfer incomes of rural and urban regions since 1990.



Sources: China Statistic Yearbook (many years).

Social Exclusion of Rural Population From Cities and Towns

The exclusion of rural population from cities and towns is mainly due to the institutionalized city-countryside household registration system. The government is not planning to radically reform the current household system even though the system affects rural population negatively and it attracted a storm of criticism and demands for drastic innovation or even abolishment. Even if some local governments have announced the end of the distinction between cities and countryside in the household registration system, the implementation remains incomplete and access to social rights are not harmonized.

The exclusion of rural population from the cities is especially striking in the case of rural migrant workers who works in cities, as well as their families. For rural migrant workers, the social exclusion affects the whole employment process from the entry point to the employment guarantees. In the 1990s, some local governments released industrial lists which stipulated the terms for permissible employment of rural migrant workers and set a threshold and bulwark in the recruitment procedures, recruitment ratios, employment fields and industrial occupations, which discriminated against the

employment of rural migrant workers. Nowadays, the publication of such lists has faded away, mostly because of the mobilization of academics. But the rural migrant workers still mainly work in heavy, dirty, arduous industries and positions. Very few rural migrant workers sign working contracts, they usually accept long working time, low salaries, bad working conditions and an absence of social guarantees. They hardly enjoy any protection of their rights, including the right to democratic participation in the company and city access to public services (The General Report of China Rural Migrant Workers Problems Composers, 2006).

Low ratio of labor contract.

Before new Labor Contract Law in 2008, it was common for rural migrant workers not to sign any labor contract with their employers. According to a survey run in 40 cities by the Ministry of Labor and Social Security in 2004, the percentage of rural migrant workers with a labor contract was only 12.5%. The absence of contracts allow the employer to reduce labor costs, to evade duties and to abuse the probationary period.

Long working time.

According to the survey of the National Bureau of Statistics in 2004, rural migrant workers average work time was 11 hours per day and more than 26 days per month, 76% of workers had overtime work during festival and holidays without being paid for it. Our own field survey with rural migrant workers showed that they often accepted overtime work in order to increase their income.

Low salaries.

A recent survey indicates that if rural migrant workers work longer hours than city-town employees, their average salaries per month is less than 60% of that of city-town employees. Their actual salary per hour equals a quarter of that of city-town employees. Furthermore, the salaries of rural migrant workers are not only low, but payment is also often delayed.

Bad working conditions.

It is obvious that working conditions of rural migrant workers are appalling. One of the proofs is the number of severe industrial injuries. Based on the statistics of the State Administration of Work Safety, there is an average of 700,000 disabilities caused by industrial injuries per year countrywide.

Absence of social guarantees.

A large majority of rural migrant workers do not share basic social guarantees because of the current city-town social guarantee system arrangements. Firstly, the rate of subscription to insurance against industrial injuries is low even if this insurance is the only one that has not set obstacles to rural migrant workers' subscription. According to a survey of the Ministry of Agriculture in 2005, only 12.9% of rural migrant workers applied for industrial injuries insurance. Many rural

migrant workers do not receive due treatment and indemnities. They become the new poverty-stricken families in the countryside because of their disabilities.

Secondly, few migrant workers have any medical insurance or endowment insurance. A survey by the Ministry of Labor and Social Security in 2004 showed that only 10% applied for medical insurance and 15% for old-age insurance. Furthermore many cancel their membership to basic old-age insurance since the system is not transferable from one province to another. For example, there were 400,000 persons who canceled their membership to basic old-age insurance in 2004 in Dongguan, Guangdong, and the average time span of their insurance policy was seven months.

Difficulties in rights protection.

Nowadays, many cases are reported regarding industrial injuries, labor disputes and infringement of personal rights. Some enterprises restrict the personal freedom of rural migrant workers by detaining identity card, or even by physical punishment and abuse.

When conflicts arise, rural migrant workers lack any effective protective channels. According to the Labor Law, labor disputes must first go through labor arbitration before it can be prosecuted by a court, but the law imposes a prescription of 60 days for labor arbitration which leaves little time for workers to make their case. Furthermore, since the arbitration process can take one to two years, by the time the decision is taken, the company or its managers may have long disappeared.

Absence of democratic participation right.

Many private enterprises, especially medium and small enterprises, have not yet set up labor unions, which makes it difficult for rural migrant workers to defend their rights even if they have worked in the enterprise for years and have become its technical backbone. In some state-owned enterprises and public institutions, rural migrant workers do not have the same status as city-town employees, and often cannot take part in the employee-representative conference and their normal democratic management rights.

Difficulties in changing one's status.

On the one hand, rural migrant workers' employment is not one of stability but of fluidity. Most of the enterprises do not consider them as steady company employees and rural migrant workers themselves do not develop that kind of employee consciousness. In the labor-intensive processing industry and construction industry in which most of rural migrant workers work, many employment positions come and go, and change frequently following market cycles. On the other hand, rural migrant workers are considered a temporary population in the cities and they do not share the same rights as city-town residents and it is hard to become a citizen with the same status as the city-town residents.

Difficulties in sharing city public services.

The main difficulty is the education of rural migrant workers' children since they are not considered as beneficiaries of the local compulsory education system. Some local schools still collect extra fees from rural migrant workers' children for the elementary schools, these representing some 600 to 800 yuan per term and for the junior high school, about 1.000 yuan per term. Some special schools for rural migrant workers have been created but they are not supported by the local government and they demand higher fees which aggravates the cost burden. Some other children are left-behind in the countryside and may lack good care and education.

The above-mentioned forms of social exclusion are all the result of the rural-urban household registration system which creates a dichotomy between the urban and rural areas. It is now urgent for China to resolve the problems encountered by rural migrant workers in order to preserve the social harmony.

Peasants' Vulnerability

In Chinese social structure, peasants belong to disadvantaged groups. They not only suffer various inequalities in terms of economic and social rights, but the few rights they have are also often the object of abuse.

Before the central government decided to cancel the agricultural tax in 2005, the tax burden tended to be a very heavy, almost insufferable burden to many peasants. Their burden became extremely cumbersome during the 1990s. As peasants said, the situation then was just like "First tax is light, second tax is heavy, third or fourth unable to pay". "First tax" refers to agricultural tax and tax on agricultural special products, which are collected on a national level and under the regulation of law, thus quite low. "Second tax" refers to town coordination fees and village control, regulated by local governments or even villager committees. "Third or fourth" taxes refer to the apportion quota assigned by county or town governments, and some fees collected by some department even not directly involved with rural affairs. These heavy burdens are actually a form of deprivation to peasants, a clear assault on their rights and triggered great opposition. At the end of 1990s, the central government launched a reform of this tax system and established a so-called "change from fees to taxes" and "a singular tax". Central government claimed that the tax collected by the country should not exceed 5% of peasant's net per capita income in the year before. Plus 2.5% as additional education tax and some other fees, the sum should not exceed 7.5%. Nevertheless, these policies were not well-implemented in practice. Peasants' burden was even heavier than before. Some field research show that the actual tax burden may reach as high as 25% of peasant's total income. During that period, a

peasant's net per capita annual income was about 2.000-3.000 yuan, i.e. 200 yuan per month. In urban areas, the personal income tax was collected only towards people whose monthly income exceeded 800 yuan. It is quite clear that the tax imposed on peasants is unfair.

Ever since the 1990s, China's industrialization and urbanization processes were hastened and new spaces were needed. Under this situation, peasants' rights on the fields suffered great pressure. As the corresponding law says, local governments can levy peasants' fields for public, social benefits. The governments must calculate the average annual grain income of the levied agricultural land in the past 3 years. Based on this average income, it must pay 15 years of grain income (later increased to 30 years) to peasants, as well as other attached subsidies. Growing grain can only enhance a low income, so governments need to pay no more than 30.000 yuan per *mu*, sometimes even less than 1.000 yuan per *mu* to get the fields.

The real problem is that there is no legal definition of the so-called "public benefits", so the government could legally levy fields for "public benefits" but turn them into industrial or commercial lands. During this process, after land market transaction, the levied fields often bring millions of premiums. Peasants do not share these premiums. In the era of planned economy, when a city wanted to levy rural fields, it did not give villagers subsidies but at least could give them jobs. Nowadays, no one will do so. A survey shows that the gains produced by levying fields from countryside are shared as follows: 20%-30% for local governments, 40%-50% for enterprises, 25%-30% for village committees; 5%-10% for villagers (Wang Ping, 2005). The government is estimated to have gained 2000-5000 billion RMB, and 60 million peasants have lost their lands, more than one third of whom has no job, no income and no social security.

We could develop many other aspects of peasants' rights violation. The main reason of their vulnerability is the lack of respect towards their economic, social and political rights. For example, while village autonomy has been encouraged, the power was actually controlled by village committees or local elites. Villagers' right to attend collective affairs meetings had been badly harmed. In some places, driven by personal gain, leaders of village committees conspired with governments and field developers to sell fields which belonged to the collectivity. They did not consult villagers and even prevented them from attending meetings by using violent methods. Sometimes even the village leaders lose their consultation rights and are prevented from negotiating with governments or developers. What's more, the designation of land price is still monopolized by the government. When some peasants try to denounce abuses by local governments or developers, they often see their right to judicial proceeding hindered or blocked: the Chinese highest judicial power sometimes demands that local courthouse refuse their appeal process. The core problem is that peasants are lacking representation

in the legislation sphere. Very few peasants have access to a seat in the National Congress. The rare peasant representatives are more symbolic than anything

Conclusion: New Reform, New Hope?

China is entering a new stage of its development: on the one side, private consumer goods are overstocked as consumption cannot increase fast enough; on the other side, the country does not provide enough public goods. Both phenomena are key obstacles to further economic development of China.

Chinese countryside is also entering a new stage of its development. The rural population needs more economic initiatives and they need their social and political rights to be better respected and protected. This new stage requires new reforms and only these reforms, which could satisfy rural demand for equal rights, would bring new hope and confidence into the process of development.

The advent of this new stage has been illustrated by a series of national affairs, some of which were planned, others accidental. The year 2003 may be considered the starting point. The SARS epidemic revealed how new social risks could possibly affect Chinese society and gradually showed the imbalances in China's economic & social development and urban & rural development. From then on, each year has been marked by remarkable events: violent conflicts due to individual or collective opposition against agricultural taxes and land acquisitions; large-scale conflicts between officials and the population triggered by accident; murder or suicide. The urban/rural gap is worsening and questions the ability of the Chinese to support a third-world economic community. All of these elements has pushed China to new directions, namely towards emphasizing social equity more than economic efficiency, and to pay more attention to the frameworks restraining the Chinese people, especially in the rural areas.

In recent years, the Chinese government has already launched a series of proposals and policies, focusing on increasing the people's power in rural areas.

In **2002**, the 16th CPC National Congress confirmed the Chinese reform's goal in the future to build a more harmonious society under the guide of the concept of scientific development. To achieve this goal, China had to coordinate economic and social development, urban area and countryside development, humane and environmental development, domestic and overseas, as well as inter-

regional development. This formed the core principles of CPC's policies in the next five years. During CPC's 6th Plenary Session of the Sixteenth Central Committee (2006), a Proposal on the Establishment of a Socialistic Harmonious Society was passed. The 17th CPC National Congress also systematically developed the theory of Socialism in Chinese Characteristics and the concept of scientific development, confirming "Developing Well and Fast" and "Solving Living Problems" as the government's core goals.

In **2003**, some local government began to propose a unified household registration system between cities and countryside, or to propose a coordinated management of urban and rural areas. The practical implementation of these systems vary from region to region. In general, their goal is to reduce the gap, to lead development in rural areas and to solve the problem of agriculture, peasant and countryside.

In **2004**, the government began to experiment a new cooperative healthcare system in rural areas. After 2005, it was extended to the whole country and government provided greater investments every year. Nowadays, the new rural cooperative healthcare funding increased from the initial 50 yuans (personal funds provide 10 yuans, local and central government provide 20 yuans for each) to 100 yuans (personal funds provide 20 yuans, local and central government provide 40 yuans respectively). This system is now covered across the whole countryside.

In **2005**, the central government decided to cancel the agricultural tax, which had been in existence for two millennia. The same year, Chinese government began to carry out the minimal living subsidy system in urban areas.

In **2006**, under the power of the newly modified Law of Compulsory Education, central government and local governments agreed to share the responsibility of offering educational funds. The school fees during the compulsory education period would be waived, and government's compulsory educational fund support would be regulated by law. 70% of the central government's increased educational expenses would be spent on rural education. Furthermore, the Proposal on the Establishment of a Socialistic Harmonious Society confirmed the goal of educational equity. A new round of healthcare reforms has been set up. The resolution of employee/employer conflicts is the focus and a system to solve the salary back-pay problem was also launched.

In **2007**, the State Department published its Outline on National Education Development for its 11th five-year plan. The outline claimed that government will bring urban compulsory education into the area of public financial security. The Ministry of Labor and Social Security announced its plan to improve the minimum wage system, seeking better protection of rural migrant workers. Some officials claimed that a set number of rural migrant workers must seat at the National People's Congress so that the

workers can be better represented and can themselves present their ideas. The State Department announced the creation of a Minimal Living Subsidy System, offering a legal base for this subsidy system. In August, the Ministry of Civil Affairs claimed that the minimal living subsidy system had been set up in 31 provinces, meanwhile many of the new rural endowment insurance systems were being experimented. On the aspect of the employee/employer relations, an Employment Promotion Act was proposed and a new Labor Contract Law went into effect on January 1st, 2008. A national inspection of wage-paying of rural migrant workers was organized all over the country, and many wage back-pay problems were solved.

In **2008**, the most important event was the implementation of many laws and regulations regarding labor relations: The New Labor Contract Law, the Labor Dispute Arbitration Regulation Law, the Regulations for the Implementation of the Labor Contract Law and the Regulations for the Implementation of Enterprises Employee's Paid Annual Leave. The rate of contract workers rose, but the number of conflicts also increased. Compulsory education is supposed to be entirely free.

In **2009**, under the impact of the international financial crisis, China finally recognized the great importance of effective domestic demand on economic growth. In order to stimulate consumption, a series of policies were proposed. The No.1 file released by the central government was the Proposal on Advancing Reform Development in Countryside. It proposed 28 measures to advance agriculture development. The file proposed a financial system reform, setting and improving land markets, hastening the development of small- and middle-scaled regional banks, emphasizing the need to support credit in the countryside, supporting the development of cash crops, increasing agricultural subsidies, increasing the lowest grain procurement prices, employing more rural migrant workers in fundamental-facilities construction, helping rural migrant workers in unemployment, making more people gain benefits in employment policies and completing collective forest rights reform in five years. Public opinion considers these measures as a new dynamic force towards the development of rural areas.

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