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**SOCIETY MUST BE DEFENDED:
REFORM, OPENNESS AND SOCIAL POLICY IN CHINA**

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REFORM, OPENNESS AND SOCIAL POLICY IN CHINA**

Yongnian Zheng*

Abstract

This paper attempts to answer two questions. First, how could China's open-door policy, which began in the late 1970s, provide dynamism to the transformation of China in almost all aspects? Second, what does this transformation mean for Chinese society? The paper examines China's grand transformation from different perspectives, including economic, social and political; it discusses how these transformations are linked to the country's open-door policy and draws implications for China's social policy reform. The paper argues that the most powerful force driving China's rapid transformation is its openness. At the domestic level, openness creates an institutional environment in which different existing factors reorganize themselves, thus providing new dynamics for change. At the international level, openness links China and the world together, and the interplay between China and the world produces an external dynamism for China's internal changes. Openness, however, has social consequences. While China as a whole has benefited from the open-door policy, the benefits of openness have been unevenly distributed. Some social groups have benefited more than some others; some are winners and some are losers. A society can be understood to be in a state of equilibrium, a relatively stable state where different elements accept one another. Openness implies that new elements are introduced into society which breaks the existing state of equilibrium. If a new equilibrium cannot be reached, society will become unstable and make sustainable development problematic. How can such a new equilibrium be achieved? Social policy has an important role to play in this process. Society often becomes the weakest link in the process of globalization and opening up, therefore, it must be defended by all means and in all major policy areas.

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**Society Must Be Defended:
Reform, Openness and Social Policy in China**

Yongnian Zheng

1. Development dynamics and social consequences

Among my intellectual curiosities on contemporary China, two have stood out for many years. First, how could China's open-door policy, which began in the late 1970s, provide dynamism to the transformation of China in almost all aspects? Second, what does this transformation mean to the Chinese society?

Shortly after he came into power in the aftermath of the Cultural Revolution, the late Deng Xiaoping, China's great statesman after Mao Zedong, began his ambitious reform and open-door policy program. The reform of China's old systems and the opening of China's door to the outside world were two related but separate policy processes. The former turned out to be easier than the latter.

In the thirty years under Maoist rule (1949-1979), China's doors were closed to the outside world, especially the West. The Chinese Communist Party (CCP) cadres and government officials—most of them old revolutionaries—lacked sufficient knowledge and experience in dealing with the outside world. They greatly feared opening China's door to the outside world as they were haunted by bad memories of the regular humiliation of their country by Western powers after China entered its modern age. Nevertheless, most cadres and government officials understood and accepted domestic reforms. Even under Mao, there were several waves of reforms, though terms such as "adjustment" and "rectification" were frequently used instead of "reform."

Drawing on China's history and experience with the outside world, the leadership under Deng Xiaoping focused on three main arguments (or three hypotheses) in justifying its open-door policy: 1) China had been bullied in the past because of its backwardness; 2) China's backwardness was due mainly to its isolation from the outside world; and 3) The only way that China could become a strong state again was to open its door to the outside world. This mindset provided the justification for China's opening-up policy, a policy which continues today after three decades of reform and opening up.

So, the question is: How could the open-door policy lead to China's transformation? Over the years, China has persisted in implementing its open-

door policy. The Tiananmen event in 1989 did not interrupt the process; instead, it unexpectedly became a powerful motivation for the Chinese leadership to open the country's door even wider to the outside world. China now ranks fourth in the world in terms of total GDP, after the United States, Japan and Germany. The rise of China has become *the* topic in both academic and policy circles. In the course of my research on how different factors such as rising nationalism, globalization and democratization are linked to China's transformation,¹ I have come to realize that the most powerful driving force behind China's rapid transformation is its openness. At the domestic level, openness creates an institutional environment in which different existing factors reorganize themselves, thus providing new dynamics for change. At the international level, openness links China and the world together, with the interaction between China and the world producing the external dynamics that lead to changes within the latter.

Openness, however, has its social consequences. So, another important question is: What does this transformation mean for the Chinese society? Put it simply, while China as a whole has benefited from its open-door policy, the benefits of openness have been unevenly distributed. Like other societies, some social groups have gained more than others with some being winners and others, losers. A society can be understood as being in a state of equilibrium, a relatively stable state in which different member elements accept each other. Openness implies that new elements are introduced into this state, which breaks the existing equilibrium. If a new equilibrium cannot be reached, this society will become unstable and sustainable development problematic. How can such a new equilibrium be achieved? Social policy plays an important role in this regard. Empirically speaking, society often becomes the weakest part of the process of globalization and opening up. Therefore, society must be defended by all means and in all major policy areas.

In this paper, I attempt to put together the ideas which I have developed over the years. I examine China's grand transformation from different perspectives, including economic, social and political. I then discuss how these transformations are linked to the country's open-door policy, and draw implications for China's social policy reform.

Before I begin, I should add a note on what I mean by "openness." The term "openness" normally and mainly refers to China's open-door policy. In this

¹ See, Yongnian Zheng, *Discovering Chinese Nationalism in China: modernization, identity, and international relations* (Cambridge, England: Cambridge University Press, 1999); *Globalization and State Transformation in China* (Cambridge, England: Cambridge University Press, 2004); and *Will China Become Democratic? Elite, Class, and Regime Transition* (Singapore and New York: Eastern Universities Press, 2004).

paper, this term refers not only to China's opening-up to the outside world, which I call "external openness," but also to "internal openness," meaning the opening of the processes of economic, social and political processes to different social actors. Empirically speaking, external openness takes place first before generating the necessary dynamics for internal openness. Needless to say, the two kinds of openness reinforce each other.

2. Mancur Olson and Karl Polanyi

My thinking on openness and its social consequences is inspired by the two great thinkers, Mancur Olson and Karl Polanyi. Through Olson, I came to know how China's transformation is linked to its openness, while from Polanyi I realized how openness can affect a given society and why social policy must play an important role in protecting society.

In *The Rise and Decline of Nations: Economic Growth, Stagflation, and Social Rigidities*,² Olson forcefully argues that the behaviour of individuals and firms in stable societies leads to the formation of dense networks of collusive, cartelistic, and lobbying organizations that make economies less efficient and dynamic, and polities less governable. The longer a society goes without an upheaval, the more powerful such organizations become and the more they slow down economic expansion. Societies, in which these narrow interest groups have been destroyed, by war or revolution for example, enjoy the greatest gain in growth. Olson was very innovative in arguing that over time a stable democracy will tend to accumulate more and more distributional coalitions whose political power will accumulate, thus gradually impeding the economic growth of the society. He focuses especially on the post- World War II performances of Germany and Japan as compared with that of the United Kingdom, arguing that the defeat of Germany and Japan in the war led to the overthrow of narrow special interest groups that impeded growth. In the UK, such groups, then at the peak of their power, had been responsible for the relatively weak performance of the British economy.

At the very beginning of the book, Olson states that "many have been puzzled by the mysterious decline or collapse of great empires or civilizations and by the remarkable rise to wealth, power or cultural achievements of previously peripheral or obscure peoples."³ Olson focuses on the economic side of the rise and decline of nation-states. I propose that his theory is also applicable to other

² Mancur Olson, *The Rise and Decline of Nations: Economic Growth, Stagflation, and Social Rigidities* (New Haven: Yale University Press, 1982)

³ *Ibid.*, p. 1.

aspects. Although Olson's book was published in 1982, when China was at an early stage of its open-door policy, and thus did not pay much attention to the case of China, his theory is helpful in improving our understanding of the dynamics of China's transformation. China's experience in the past three decades also proves the practicality of Olson's logic.

While I agree with Olson's starting point about stable societies, I disagree with his conclusion. I believe that all policies that encourage openness can replace upheavals, wars, and other forms of social conflict to provide greater dynamics for sustainable transformation which will prevent vested interests from becoming deeply rooted or, as Olson terms it, a society becoming too stable and lacking the dynamics for sustainable development. In China, the process of openness is initiated and sustained by the CCP, the only organization that is able to withstand all social forces.

While Olson focuses on how a society becomes rigid, Karl Polanyi, a Hungarian political economist, shows us how a society could be devastated by the rapid rise of a market economy.⁴ In *The Great Transformation*, Polanyi explores the social and political upheavals that took place in England during the rise of the market economy. He contends that the modern market economy and the modern state should be understood not as discrete elements, but as a single human invention that he calls the Market Society. He reasoned that a powerful modern state was needed to push changes in the social structure that allowed for a competitive capitalist economy, and that a capitalist economy required a strong state to mitigate its harsher effects. For Polanyi, these changes implied the destruction of the basic social order that had existed throughout all earlier history. Market society is unsustainable because it is fatally destructive to the human and natural contexts it inhabits.

In assessing the role of the state in the unleashing of the market force, Polanyi highlights the historical novelty of the nineteenth-century market economy and its concomitant ideological distortions. He argues that laissez-faire was planned; that the movement toward a market society was a conscious and planned phenomenon in which state action was the driving force. There was no natural evolution toward this occurrence. The road to the free market was paved with continuous political manipulation.

On the other hand, as opposed to the careful and deliberate construction of a market society, the counter-movement or social protectionism was spontaneous, unplanned, and came from all sectors of society in response to the

⁴Karl Polanyi, *The Great Transformation: The Political and Economic Origins of Our Time* (Beacon Press, 1944).

devastating impact of the market. Polanyi argues that the construction of a “self-regulating” market necessitates the separation of society into economic and political realms. While the self-regulating market has brought unheard-of material wealth, it has also resulted in massive social dislocation and spontaneous moves by society to protect itself. The market, once it considers land, labor and money as “fictitious commodities,” subordinates the substance of society itself to the laws of the market. When the free market attempts to break away from the fabric of society, social protectionism is society’s natural response, a response Polanyi calls the “counter-movement.”

According to Polanyi, this counter-movement of protectionism is a movement of general interest toward the goal of general welfare; it especially included workers, yet also incorporated capitalists. All sought some form of protection from the vagaries and perils of the self-regulating market. The protection gained by the counter-movement impeded the efficiency of the self-regulating market, which in turn created more severe economic conditions and another round of demands for protection. The market system was unstable and its instability generated fear and action. Polanyi demonstrates, historically and comparatively, that market encroachment and political repression immediately inspire resistance and rebellion.

Therefore, for Polanyi, social demands against economic uncertainty and market malaise placed heavy pressure on the state to react with political intervention. The ensuing state action would have to, at least nominally, provide some relief and protection. The market society must be replaced by a society with democratic control of both political and economic institutions. These institutions can no longer control society, but should instead be controlled by society.

Many contemporary scholars have continued to explore a similar line of thought as Polanyi when they come to review how globalization affects a given society. For example, Dani Rodrik believes that globalization has created three sources of tension between the global market and domestic social stability.⁵ First, it has reduced the barriers to trade and investment and accentuated the asymmetry between groups that can cross international borders and those that cannot, thus fundamentally transforming the employment relationship. Second, globalization has engendered conflicts within and between nations over domestic norms and the social institutions that embody them. As the technology for manufactured goods becomes standardized and diffused internationally, nations with very different sets of values, norms, institutions, and collective preferences

⁵ Dani Rodrik, *Has Globalization Gone Too Far?* (Washington, D.C.: Institute for International Economics, 1997).

begin to compete head-on in markets for similar goods. Third, globalization has made it exceedingly difficult for governments to provide social insurance—one of their central functions and one that has helped maintain social cohesion and domestic political support for ongoing liberalization throughout the post-war period. All these tendencies might lead to a loss of authority for those who govern in the name of the nation-state. The state cannot protect its citizens in ways they have been used to expect, and the state can no longer count on the loyalty of its citizens.

The relevance of the arguments of both Olson and Polanyi to contemporary China is quite apparent. From Olson, one can see how China has overcome the rigidity of society and achieved rapid economic transformation, while from Polanyi, one can see how such a transformation has affected society. China's transformation from the planned economy to a market one was a state project. Similarly, solving the problems resulting from a market economy must also be a state project. Without effective state intervention, market malaise will undermine the very fabric of society. Compared to market forces, society is too vulnerable and weak to protect itself; it must be defended by the state. The Chinese state, however, is not neutral. There is a natural tendency for capital (market forces) to seek state protection and for the state to align with capital since both capital and the state can benefit tremendously from their cooperation. While society is also struggling for state protection, such protection will remain weak without effective mechanisms (e.g., democracy) through which it can exercise influence over the state. This is the dilemma that the Chinese state faces today. The state must make a decision to create a situation where market forces and society can play a win-win game. Such a situation is not impossible. Market forces are much needed to sustain economic development. But without effective state regulation, market forces have the tendency to self-destruct. Furthermore, without society exercising effective constraints, both state and market forces will destroy themselves.

3. Openness and market development

There is a fast-growing body of literature on how China's open-door policy has contributed to its economic growth, in particular to foreign direct investment (FDI), technological spill-over, China's access to the world market and so forth.⁶

⁶ For a survey of China's reform process and economic development at different stages, see Barry Naughton, *Growing Out of the Plan: Chinese Economic Reform 1978-1993* (New York: Cambridge University Press, 1996), and Naughton, *The Chinese Economy: Transitions and Growth* (Cambridge, MA: MIT Press, 2007).

This paper focuses on how openness was established as a state project to overcome what Olson called "narrow interests" and which promoted great changes and transformation. While Olson demonstrated how stable societies are often associated with economic stagflation, he did not pay enough attention to why societies become stable and how they could become "de-stabilized." In this regard, China offers a good example.

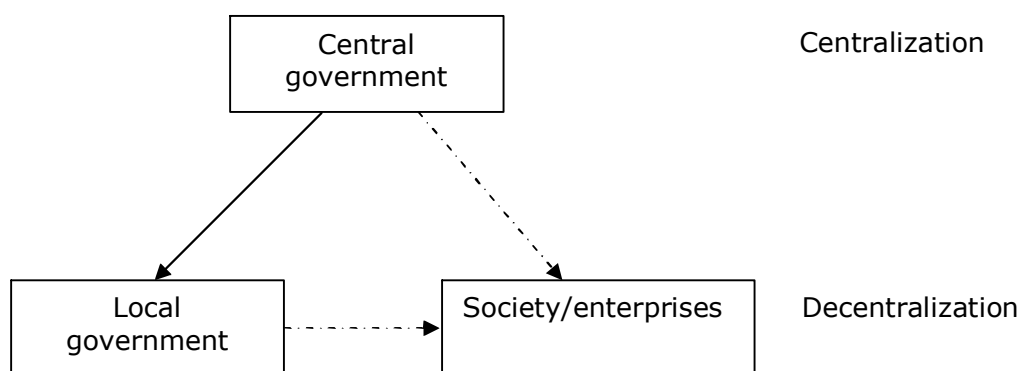
China's transformation was triggered by economic openness introduced in the late 1970s. How did economic openness take place? In the pre-reform era, China was a typical "rigid" (in Olson's term) economy and society. I do not need to go into detail on how individuals and firms behave in a planned economy. The system was characterized by inefficiency, egalitarianism and poverty. Except for what was called the "new class," which referred to the privileged ruling class of bureaucrats and Communist party functionaries,⁷ people were equally poor and without freedom in all fields. It was not an easy task to open such a society to the world since the existing ruling class was strongly resistant to the new policy initiative. To overcome resistance from the ruling class, China's leadership under Deng Xiaoping adopted a strategy of "external reform first, internal reform later," namely, of using external pressure to create dynamics for internal reforms. The rationale behind this strategy was that external reforms were easier to undertake than internal ones. To engage in internal reforms first, the leadership would have had to be able to overcome resistance from deeply entrenched vested interests which had consolidated their positions in the three decades of Maoist rule. The leadership did not take this route. Instead, it engaged in external reform first. The goal was to create new interests apart from those vested ones. Once new interests were created, they were expected to generate pressure for internal reform.

Engaging in external reform first did not mean that internal reform (internal openness) was rendered unnecessary. By contrast, if there had been no internal reform, external reform would not have been possible. The question was: What kind of internal reform? In the early stages of China's reform, China did not experience any radical movements such as privatization and democratization, both of which had taken place in the former Soviet Union and other Eastern European countries. Both privatization and democratization can be understood as processes of state-society decentralization. While privatization meant the decentralization of economic power from the state to firms, democratization implied the shift of political power from the state to social forces. China did not

⁷Milovan Đilas, *The New Class: An Analysis of the Communist System* (San Diego: Harcourt Brace Jovanovich, 1957, 1983).

follow this path of reform. One major reason was that the ruling class was afraid that state-society decentralization would give rise to social forces which could in turn challenge the state. Instead, China's reform was aimed at first introducing internal competition, in other words, competition within the ruling class. Internal competition was realized through inter-governmental decentralization (see Figure 1). Compared to state-society decentralization, internal governmental decentralization was more acceptable for the ruling class because the process was more controllable than state-society decentralization, as shown by several waves of intergovernmental decentralization under Mao during the Great Leap Forward and the Cultural Revolution.

Figure 1: Intergovernmental Decentralization



With inter-governmental economic decentralization, economic decision-making shifted to the local governments. With expanding power, local governments had been able to play an important role in implementing China's external reform. They started lobbying the central reformist leadership for open-door policies and other preferential treatments. In many ways, China's political system is characterized by de facto federalism in which local governments at different levels play a key role in governing the country.⁸

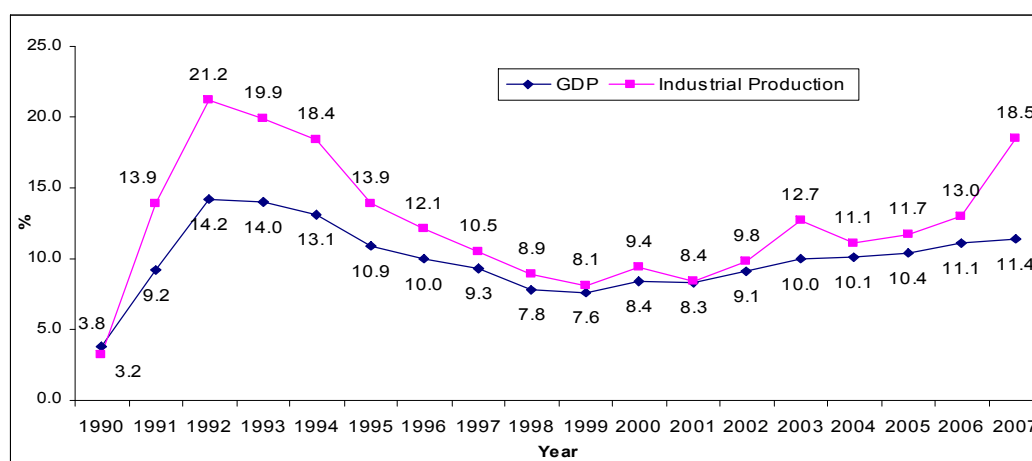
The ensuing economic openness can be regarded as a product of inter-governmental decentralization. As a state project, the opening of the country to the world had been carefully designed and implemented. It began with local trials. In the early 1980s, the reformist leadership approved the establishment of five Special Economic Zones (SEZs) in three coastal provinces--Guangdong, Fujian

⁸ Yongnian Zheng, *De Facto Federalism in China: Reforms and Dynamics of Central-Local Relations* (Singapore and London: World Scientific Publishing, 2007).

and Hainan. In these SEZs, local governments had considerable latitude to grant special privileges to exporting firms such as the right to import their intermediate inputs without duty. Similar rights to encourage trade and foreign investment were subsequently granted to another 14 coastal cities in eight other provinces. These special economic zones and coastal open areas acquired considerable autonomy, enjoyed favorable tax treatments, and received preferential resource allocations. Thanks to these preferential policies, coastal provinces have been able to experience rapid growth as a result of the liberalization of international trade and investment flows.

It is important to note that inter-governmental decentralization from the very beginning was accompanied and indeed facilitated by China's regionalization and globalization. These two developments resulted in greater interdependence between the Chinese provinces and the outside world. The integration of China into international markets in turn created an environment conducive to China's entry into the WTO at a later stage. Of course, regionalization and globalization also had an impact on the relationships among Chinese provinces. There was a surprising decrease in inter-provincial interdependence. For example, according to a study by the World Bank in the early 1990s, internal trade as a percentage of GDP among the Chinese provinces was 22 percent, which was lower than the 28 percent in former European Community and the 27 percent among the republics of the former Soviet Union.⁹

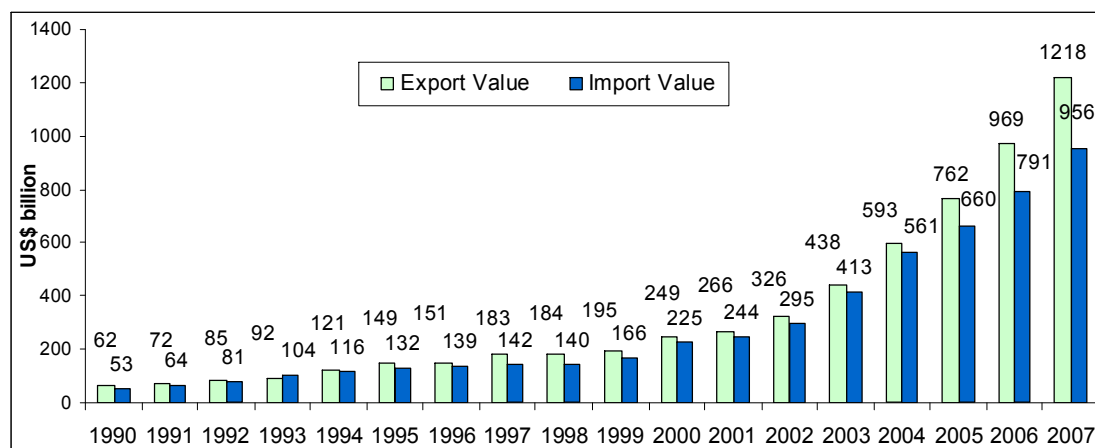
Figure 2: GDP and Industrial Production Growth Rates (%), 1990-2007



Sources: *China Statistical Yearbook*, various issues, National Bureau of Statistics. Data for industrial production growth in 2007 are from January to November.

⁹The World Bank, *China: Internal Market Development and Regulations* (Washington, DC, 1994). For a summary of the World Bank report, see Anjali Kumar, "China's Reform, Internal Trade and Marketing," *The Pacific Review* 7: 3 (1994), pp. 323-40.

Figure 3: China's Exports, Imports 1990-2007



Sources: *China Statistical Yearbook*, various issues, National Bureau of Statistics. Statistical data, Ministry of Commerce. China Customs.

A high degree of openness had facilitated China's globalization process. China experienced a sustained period of high economic growth over the three decades (see Figure 2), which could not have been possible without the country's opening-up policy. Through gearing (*jiegui*) itself up to integrate with the world economic system, China has, since the early 1990s, become one of the world's most favored destinations for FDI. Over 80% of the Fortune-500 companies and the world's top 100 information technology firms have set up businesses in China. Driven by these investments, China had fast become the world's foremost manufacturing base. Its exports had increased at an average rate of 16% in the past two decades. The country has become one of the most successful "export-oriented" economies in East Asia, emulating the "economic miracles" of the "four little dragons," namely Hong Kong, Taiwan, South Korea, and Singapore. It is now the world's third largest exporter after the USA and Japan (see Figure 3).

4. Unequal impact of openness

While openness has benefited China tremendously, it has also had a devastating impact on society. Openness produces distributive conflict among different social groups and regions. Some groups and regions have benefited more than others with some becoming winners and others losers. In other words, social groups and regions have benefited unevenly from the increasingly market-oriented economy and its openness (or globalization). While those who have been

able to participate in the process of openness have profited, those who have not have become disadvantaged.

Who are the losers? Table 1 reflects perceptions among Chinese government officials and urban residents on the winners and losers of China's reforms in recent years. One can see from the table that although government officials and urban residents generally disagreed with one another, they did agree that farmers and state-owned enterprise (SOE) workers were the biggest losers in this process.¹⁰ The question then arises: Why and how do they become losers?

Reforms dismantled the Maoist egalitarian policy and promoted China's economic growth which was accompanied by substantial gains in poverty reduction. Nevertheless, both the increase in welfare and reduction in poverty have been extremely uneven, such that reforms were not able to reduce income disparities among different social groups and regions. The World Bank estimated that, in 1981, China's Gini coefficient was 28.8, but by 1995, it was 38.8. It was still lower than in most Latin American, African, and East Asian countries, and similar to that in the United States, but higher than in most of the transitional economies in Eastern Europe and many high-income countries in Western Europe.¹¹ Various studies indicate that income disparities have worsened since the mid-1990s, as shown in Table 2. Three main categories of income disparities can be identified.

Urban disparities: According to a study by the World Bank (published in 1997), which is based on China's official data, the urban Gini coefficient increased from 17.6 in 1981 to 27.5 in 1995.¹² In 1996, among the bottom 20 percent of households, nearly two-thirds found that their income had reduced. Among the next 20 percent of households, almost half the families found their income had declined. In contrast, the top 20 percent of urban households had enjoyed an increase in their income.¹³ 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. The share of the richest 10 percent of households of total income increased from 23.6 percent in 1990 to 38.4 percent in 1998. On the other hand, the share of the bottom 20 percent of households of

¹⁰ This can also be illustrated by the increasing income inequality between rural residents and urban citizens and the rising disparity within the urban regions between the rich and the poor.

¹¹ The World Bank, *China 2020. Sharing Rising Incomes: Disparities in China* (Washington, D.C.: The World Bank, 1997), 7.

¹² *Ibid.*, 17.

¹³ State Statistical Bureau, *Annual Prices and Family Incomes and Expenditures in Chinese Cities, 1998* (Beijing: Zhongguo tongji chubanshe, 1998), 9.

total income declined from 9 percent to 5.5 percent during the same period.¹⁴ Urban residents used to be the safe “haves” who were cut off from the hundreds of millions of “have-nots” in the vast countryside. However, after more than two decades of economic reform, about 30 million urban residents were living in poverty, having incomes that were no more than one-third the national average.¹⁵ Today, urban poverty has become an increasing political challenge for the Chinese leadership.

Table 1: Social Groups That Benefited the Most and Least since the Reform and Opening-Up Policy

Social Groups That Benefited the Most			Social Groups That Benefited the Least		
Types of Social groups	Ranking	Choice as a %	Types of Social groups	Ranking	Choice as a %
Party and government cadres	1	59.2	Workers	1	88.2
Private enterprises bosses	2	55.4	Farmers	2	76.3
Acting personnel	3	43.0	Teachers	3	15.3
Urban and rural self employed	4	33.0	Professionals	4	14.2
State-owned enterprises managers	5	29.3	State-owned enterprises managers	5	8.8
Professionals	6	24.3	Urban and rural sole proprietors	6	7.7
Teachers	7	14.9	Party and government cadres	7	5.1
Farmers	8	3.4	Private entrepreneurs	8	4.7
Workers	9	1.5	Acting Personnel	9	2.5
Others	10	0.5	Others	10	2.7

Sources: Zhou Jiang, “2002 nian Zhongguo chengshi redian wenti diaocha” (Investigation of the “hot” issues in Chinese cities in 2002), in *Shehui lanpishu 2003 nian: Zhongguo shehui xingshi fenxi yu yuce*, ed. Ru Xin, Lu Xueyi, and Li Peilin (Blue book of the Chinese

¹⁴ Xu Xinxin and Li Peilin, “1998-1999 nian Zhongguo jiuye shouru he xinxi changye de fenxi he yuce” (Employment, income, and IT industry: analysis and forecasts, 1998-1999), in Ru Xin et al., eds., *Shehui lanpishu*, 1999, 34.

¹⁵ Shaoguang Wang, “The Social and Political Implications of China’s WTO Membership,” *Journal of Contemporary China* 9, no. 25 (2000): 385.

society in 2003: an analysis and forecast of Chinese social situation) (Beijing: Shehui kexue wenxian chubanshe, 2003), 159-60.

Urban-rural disparities: As shown in Figure 4, there is a widening of the urban-rural income gap. The urban-rural divide is not new; it can be traced back to the Mao era.¹⁶ For example, when China began its economic reform, the per capita urban income was 2.6 times higher than the rural counterpart.¹⁷ In the early years of reform, urban-rural disparities were reduced after reform was first implemented in the rural areas. However, since the urban reform in 1984, the gap has widened continuously. According to the World Bank, China's rural-urban gap is large by international standards. In other countries, urban income is rarely more than twice the rural income. In most countries, rural income is 66 percent or more of urban income. In China, rural income was only 40 percent of urban income in 1995, down from a peak of 59 percent in 1983.¹⁸ In 2003, per capita disposable income in rural areas was 2,622 *yuan* on average, compared with 8,742 *yuan* in urban areas.¹⁹ By 2006, the per capita income of the urban resident had reached 3.3 times that of the rural resident.²⁰

Table 2: Estimates of Gini Coefficients of Income in China, 1980-2004***

Year	World Bank	Zhao Renwei and Li Shi	Ministry of Finance	Chen Zongsheng	Liu Xiaodong & Lu Qing	Xiang Shujian	Other sources
1981	0.288			0.264		0.268	
1982				0.253		0.249	
1983				0.287	0.331	0.264	
1984	0.297			0.271	0.340	0.278	
1985				0.288	0.345	0.266	
1986				0.288	0.360	0.297	
1987				0.292	0.357	0.305	
1988		0.382		0.296	0.362	0.313	

¹⁶ Azizur Rahman Khan and Carl Riskin, *Inequality and Poverty in China in the Age of Globalization*. (Oxford: Oxford University Press, 2001).

¹⁷ Shaoguang Wang, "The Social and Political Implications of China's WTO Membership," *Journal of Contemporary China* 9, no. 25 (2000): 386.

¹⁸ The World Bank, *Sharing Rising Incomes*, 16.

¹⁹ *China Statistical Yearbook* (2004).

²⁰ Ru Xin, Lu Xueyi, and Li Peilin, eds., *Shehui lanpishu 2007 nian: Zhongguo shehui xingshi fenxi yu yuce* (Blue book of the Chinese society in 2007: an analysis and forecast of Chinese social situation) (Beijing: Shehui kexue wenxian chubanshe, 2007), p. 8.

1989	0.349					0.321	
1990	0.339					0.306	
1991			0.282			0.324	
1992	0.375					0.340	
1993						0.359	
1994						0.362	
1995	0.388	0.445				0.351	
1996							
1997							
1998	0.403		0.456				
1999			0.457				
2000			0.458				
2001							0.459*
2004							0.465**

Sources and Notes:

World Bank data during the 1981-95 period obtained from World Bank, *Sharing Rising Incomes: Disparities in China* (Washington, D.C.: World Bank, 1997), 2, 10. World Bank data for 1981-95 were based on a survey on labor income done by the State Statistical Bureau Survey Team. The data included estimated in-kind income such as housing, education, and health care benefits. Data for 1998 come from World Bank, *World Development Report: Attacking Poverty* (New York: Oxford University Press, 2001), 282. Estimates by Zhao Renwei and Li Shi come from Zhao, Renwei, Li, Shi, and Riskin, Carl, eds., *Zhongguo jumin shouru fenpei zaiyanjiu* (Income distribution of China's residents revisited) (Beijing: Zhongguo caizheng jingji chubanshe, 1999), 11. The data are based on surveys on wages, in-kind income, and income from property. According to A.R. Khan and Carl Riskin, international experts participating in the surveys, the survey results are more comprehensive and reliable than the above estimates by the World Bank.

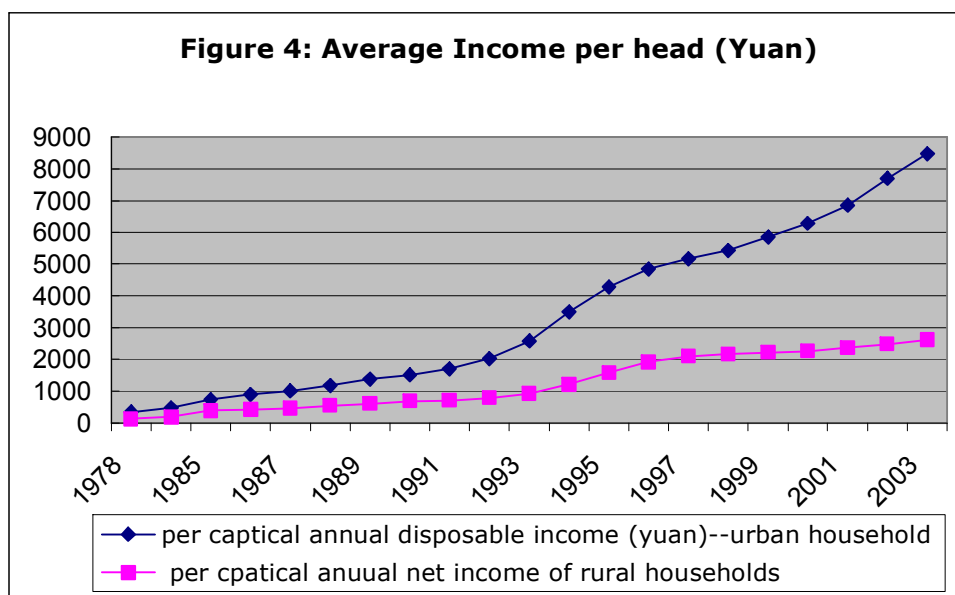
Estimates by the Ministry of Finance (MOF) were done by a research group for the MOF. They were cited in several news reports. See "Conditions of Income Distribution of Residents in Our Country and Fiscal Adjustment," *Jingji ribao* (Economic Daily), June 16, 2003, 6.

Series by Chen Zongsheng, Liu Xiaodong, and Lu Qing, Xiang Shujian, and Research and Development Council come from Zhao Manhua, Wang Shangyi, Hao Yunhong, and Wang Minghua, *Shouru chaju yu liangji fenhua wenti yanjiu* (A study of income gaps and polarization) (Beijing: Zhongguo jihua chubanshe, 2002), 152. No details about the methods of these series are provided.

* Yang Yiyong and Huang Yanfen, "New Situation in Income Distribution of China's Residents," in *2003 Nian: Zhongguo shehui xingshi fenxi yu yuce* (2003: Analyses and predictions of China's social situation), ed. Ru Xin, Lu Xueyi, and Shan Tianlun (Beijing: Shehui kexue wenxian chubanshe, 2003), 226-34. No details about the research method are disclosed.

**Study by Gu Yan and Yang Yiyong, cited in "Resident Income: A Beautiful Upward Curve," *Zhongguo xinxi bao* (China Information Newspaper), January 24, 2005.

***The data in this table is compiled by Hongyi Lai. See Lai, "Growth with Rising Income Inequality: China's Response to the Problem," *Background Brief*, no. 227 (East Asian Institute, National University of Singapore, February 16, 2005).

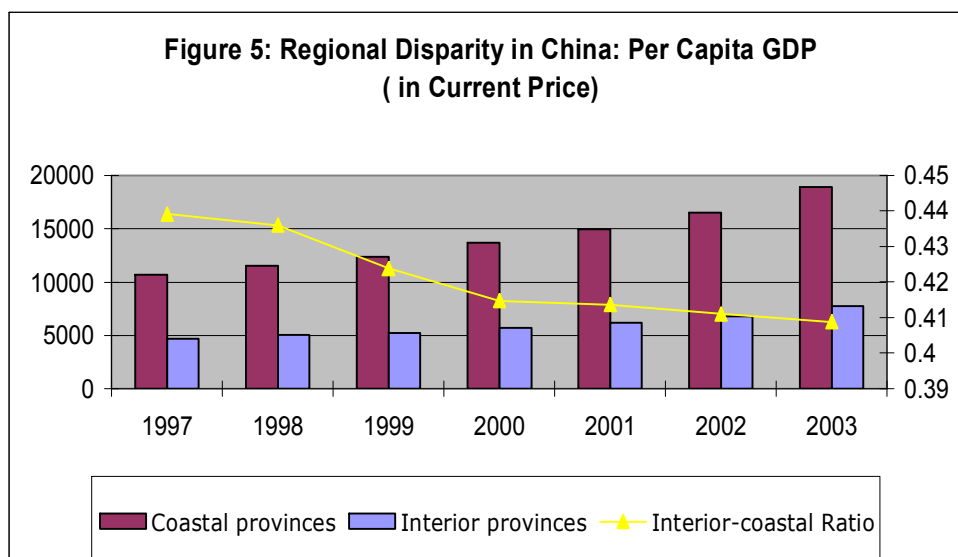


Source: *China Statistical Yearbook*, various issues.

Regional disparities: Figure 5 shows regional disparities in China. According to the World Bank, regional disparities were moderate compared to inequality within provincial borders. For example, in 1992, average income in coastal China was 50 percent higher than in interior provinces but in the same year, the rural-urban income gap was twice as large.²¹ In contrast, Wang Shaoguang and Hu Angang have given us a more pessimistic picture. In a detailed study on regional disparities, they reached three conclusions. First, inter-provincial inequality had been widening; second, regional gaps were unusually large; and third, regional inequality was a multi-dimensional phenomenon.²² Income disparity in per capita GDP between China's coastal and interior provinces has been on the rise since 1983 and has accelerated after 1990.

²¹ The World Bank, *Sharing Rising Incomes*, 22.

²² Shaoguang Wang and Hu Angang, *The Political Economy of Uneven Development: The Case of China* (Armonk, N.Y.: M.E Sharpe, 1999).



Source: *China Statistical Yearbook*, various issues.

As in many other countries,²³ widening inequalities across social groups and regions as a result of an ever deepening process of globalization are increasingly becoming a driving force for social conflict in China, especially when appropriate state policies are not in place. The Chinese government has made continual efforts at addressing the issues of income disparities. In 1998, the Zhu Rongji government launched the western development program (*xibu kaifa*).²⁴ In 2002, the central government set up a program to revive the economy of the north-eastern region (*zhenxing dongbei*). To bring the central Chinese regions under national regional programs, Wen Jiabao declared in 2004 that besides continuing to accelerate the growth of the eastern part of the country and continuing to support the development of the western and the north-eastern regions, the central government would speed up the development of central areas to achieve well-balanced regional development.²⁵

These regional development programs were launched primarily to ease the dissatisfaction of minority groups and narrow development disparities among ethnic groups. China is a diverse country in terms of ethnicity. About 86% of its ethnic minorities live in the western region with most of the rest in the north-

²³ Christopher Cramer, "Economic Inequalities and Civil Conflict", Centre for Development Policy & Research Discussion Paper 1501, School of Oriental and African Studies, University of London, 2001.

²⁴ Ding Lu and William A W Neilson, eds, *China's West Region Development: Domestic Strategies and Global Implications* (Singapore and London: World Scientific Publishing, 2004).

²⁵ Hongyi Lai, "Developing Central China: a new regional programme," *China: An International Journal*, 5:1 (2007), pp. 109-128.

eastern and central areas. Minority groups are concentrated, in most cases, in the least developed areas. Compared to the coastal provinces, the economies in these areas are extremely weak.²⁶ For example, as early as 1995, the industrial output of Jiangsu province accounted for 10.4% of the overall output of China, which was more than the sum of the other eight provinces and autonomous regions, including Gansu, Guangxi, Guizhou, Inner Mongolia, Ningxia, Qinghai, Tibet, and Yunnan. This excessive disparity will likely cause conflicts between the majority and minority groups and could hinder the creation of a "harmonious society." All the development programs to a large extent have been implemented to support the development of the minority regions and improve the living standards of minority groups. The programs have also made the extended China's development to disadvantaged regions, and thus different social and ethnic groups.

In recent years, the government has proactively initiated social policy reforms to improve the state's capacity as a social service provider. Improving social security, healthcare and medical services, implementing mandatory education, and building an "eco-friendly society" have been prominently featured in its policy package. Overall, the call is to build a "socialist harmonious society." The government has begun to establish effective means to implement these new policies. Economic indicators (e.g., GDP growth), while important, are no longer the *overriding* concerns when evaluating the performance of leading Party cadres and government officials. A more comprehensive appraisal system is in the making – one that includes (but is not limited to) social, environmental and human development indicators. This new appraisal system is being piloted by the Party's Organizational Department in selected provinces.²⁷

One particularly important policy in this new policy package is to "build a socialist new countryside." Underpinning the "socialist new countryside" initiative is an increase in the national budget allocation to address "*sannong*" issues (literally, "the three farming issues" – rural areas, agriculture and peasants) through improvements in rural infrastructure, such as roads, water supplies, and hospitals. In addition, from 2006, all agricultural taxes and fees were abolished.

The mounting problems and dissatisfaction resulting from China's market-oriented development over the past three decades show that China's policy shifts

²⁶ Colin Mackerras, *China's Minorities: Integration and Modernization in the Twentieth Century* (Hong Kong: Oxford University Press, 1994); and Robyn R. Iredale, Naran Bilik, and Fei Guo, *China's Minorities on the Move: Selected Case Studies* (New York: M.E. Sharpe, 2003).

²⁷ In the province of Zhejiang, for instance, environmental indicators have been integrated into the appraisal of officials in a trial conducted by the Party's Organizational Department. See "Organizational Department Uses Zhejiang as a Test bed to Include Environmental Protection into Officials' Appraisal," *People's Daily*, October 17, 2005.

are long overdue. But one should not read too much into the official rhetoric of a policy shift from growth to greater social service provision. On the one hand, China still depends on market-oriented development to deal with the socio-economic side-effects of growth. On the other hand, China's current governance system has a built-in bias toward market growth, particularly below the central state level. This market growth orientation discriminates against proposed goals, such as greater equality, improved quality of life, better environmental protection, and so on.²⁸

5. Political reform and interest representation

It was a state project which promoted the development of the market economy. It must also take a state project to cope with the consequences of the market economy. As Polanyi observed, the development of the market economy in China has resulted in many devastating consequences, including the rise of spontaneous social movements.

Dissatisfaction has provoked street protests and blockades, the storming of government buildings by protesters, filing of petitions, and an increase in court cases throughout rural China. In 2005, there were 87,000 "mass incidents," or incidents of public protest, up 6.6% from 2004.²⁹ Meanwhile, huge numbers of peasants have migrated to the cities for work, where they are not only often subject to ill-treatment and poor working conditions, they are also contributing to an increase in the crime rate. This has led to brooding tensions between the haves and have-nots, prompting social policy reforms on the part of the government.

The more important state project, however, is to open the political process up to newly-rising social classes brought about by the market economy. In this respect, the CCP is the key determinant. While the opening of the political process is so far the most important aspect of internal openness, it has also led to a situation whereby many social groups, especially weaker ones, continue to be marginalized. As I will discuss later, this implies that the society must be defended.

Traditionally, the CCP was supposed to represent the interests of only five major groups, namely, workers, peasants, intellectuals, members of the People's Liberation Army (PLA), and government officials and cadres. As in other communist states, the CCP under Maoist rule was hostile to capitalism and

²⁸ See John Wong, 'Explaining China's 2005 Growth and its Problems (II),' *EAI Background Brief No. 269* (6 January 2006).

²⁹ "China to 'Strike Hard' Against Rising Unrest," *Reuters*, 26 January 2006.

capitalists. The CCP's constitution stated that the goal of the party was to eliminate capitalism. Despite the de-emphasis of the role of ideology in the post-Mao era, the issue of whether capitalists or private entrepreneurs should be allowed into the party had been controversial for a long time. In the aftermath of the 1989 Tiananmen incident, the Central Committee of the CCP issued a regulation on August 28, 1989, entitled "A Notice on Strengthening Party Building" (Document No. 9, 1989). The regulation stated, "Our party is the vanguard of the working class. Since there is an exploitative relationship between private entrepreneurs and workers, private entrepreneurs cannot be recruited into the party."³⁰ Jiang Zemin, then Party Secretary of the CCP, was one of the major political forces behind this regulation.³¹

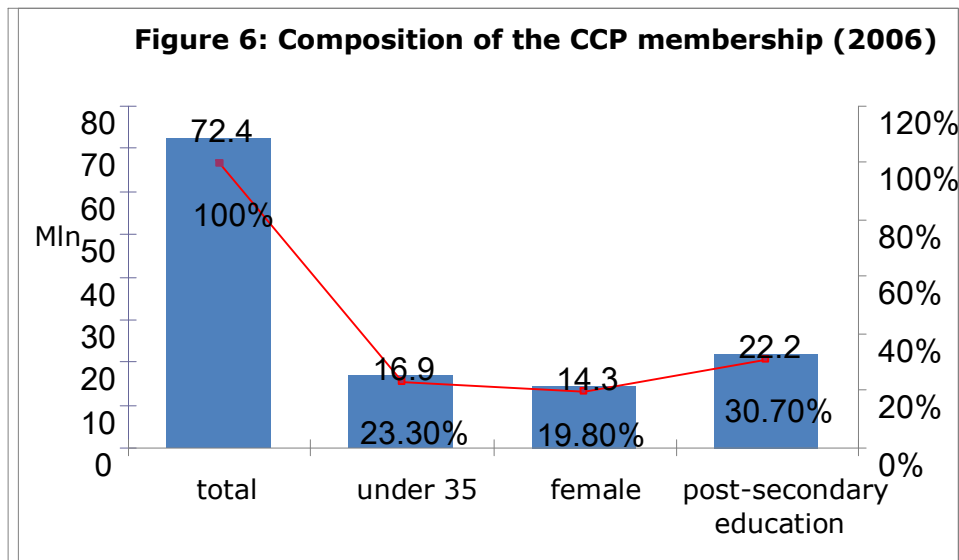
But the CCP leadership has been pragmatic about the development of the non-state sector. In February 2000, the party's leadership raised the new concept of *san ge dai biao* (literally meaning "three represents"). According to this concept, the CCP represents the "most advanced mode of the productive force, the most advanced culture, and the interests of the majority of the population."³² The "three represents" theory is the CCP's affirmation of the non-state sector in the economy. More importantly, it also shows that the CCP has begun to consider how the interests of the newly-rising classes and social groups can be represented.

During Mao Zedong's era, the CCP was a genuine revolutionary party made up overwhelmingly of workers and peasants. For example, in 1956, 83 percent of party members came from these two groups. The figure remained high in 1981, at 64 percent. When Deng Xiaoping came to power, he initiated the so-called technocratic movement, replacing workers and peasants in the party with technocrats. Overall, CCP members are now younger and better educated (see Figure 6).

³⁰ The Office of the Documentary Research of the Central Committee of the CCP, (ed.), *Xinshiqi dang de jianshe wenjian xuanbian* (Selected Documents of Party Building in the New Era) (Beijing: Renmin chubanshe, 1991), pp. 456.

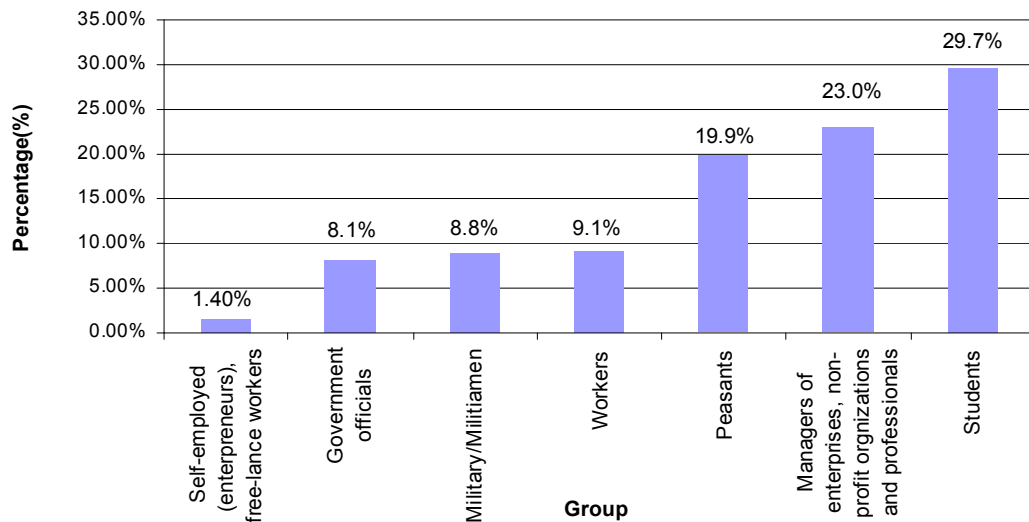
³¹ *Ibid.*, pp. 442.

³² Xinhua News Agency, "Jiang Zemin tongzhi zai quanguo dangxiao gongzuo huiyi shan de jianghua" (June 9, 2000) ("Comrade Jiang Zemin's Talk at the National Party Schools Working Conference"), *Renmin ribao*, July 17, 2000.



With the ideological justification of the market economy, the CCP has been undergoing a drastic transformation from being peasants- and workers-based to being a “catch-all” party. Party members now come from increasingly diverse social and economic backgrounds. In the past three decades, the percentage of workers, peasants, and soldiers in the CCP has dropped significantly. From 1978 to 2006, the proportion of workers declined from 18.7 percent to 11.1 percent. The proportion of peasants shrank from 46.9 percent to 31.7 percent while the share of soldiers declined from 6.9 percent to 2.2 percent. In the meantime, proportions of party members from other social backgrounds increased dramatically. White-collar party members (including management personnel and engineers) made up 21.4 percent, and party members of private business background accounted for 5.1 percent (see Figure 7).

Figure 7: Professional composition of CCP membership (2006)



The opening up of the political process to the newly rising social classes is also reflected on the legal front. The Second Session of the Ninth NPC in 1999 passed a constitutional amendment which for the first time since the establishment of the People's Republic provides constitutional protection for the private economy.³³ In 2008, the Eleventh NPC passed the Property Law to guarantee private property rights. The Property Law marked an important step in China's transition to a capitalist economy. The travails involved in securing passage of the new law underscored the difficulties the leaders of China face as they attempt to put in place a coherent legal and financial system for the country. It had taken 13 years and eight readings (only three were technically — and in most cases, practically — required) for the property bill to come into force. This law was originally scheduled to pass in 2006, but was dropped after Party conservatives started a signature campaign against it, protesting that it would undermine the country's socialist system. The Property Law elaborated on the creation, transfer, and ownership of property in China.

The decision of the Party to recruit private entrepreneurs implies that the CCP is adjusting itself to suit China's changing political reality. Market-oriented economic development has rapidly changed China's social structure. The role of the traditional ruling classes, such as workers and peasants, is slowly being taken

³³ K. Zou and Y. Zheng, "China's Third Constitutional Amendment: A Leap Forward Towards Rule of Law in China," in A. J. de Roo and R. W. Jagtenberg (eds), *Yearbook Law & Legal Practice in East Asia*, volume 4 (The Hague: Kluwer Law International, 2000), pp. 29-41.

over by the entrepreneur class. Embracing the newly emerging social classes will certainly enable the party to expand its social base. The accommodation of capitalism has also created dynamics for further changes. Being the only ruling party, the CCP has to represent as many social interests as possible. This also explains its policy shift in recent years under the leadership of Hu Jintao.

Since the 16th Party Congress in 2002, the Party's policy priority has gradually shifted to those less privileged social groups discussed earlier. The new leadership, however, has to continue to institutionalize the political influence of the newly rising social groups to sustain economic growth, demonstrated by the passing of the Property Rights Bill in March 2008 by the NPC despite great controversy. The 17th National Congress of the CCP in 2007 also added representatives of new function groups, or what China termed as "new economic organizations" and "new social organizations," which included a lawyers' association.³⁴ This means that the influence of the newly rising social classes is rapidly being institutionalized.

6. Social openness and uneven policy participation

In China, market-based economic development has given rise to a growing middle class, which has in turn encouraged political participation. When new social groups become proactive politically, reaction from traditional social groups is equally strong. Workers, peasants and other social groups, which the CCP represented in the past, feel that they are increasingly marginalized in party politics, and their interests undermined. Meanwhile, the leadership has also made efforts to open China's political processes wider to include organizations which represent the interests of the less privileged social groups. For example, the NPC (2008) has announced that migrant workers will be regarded as a new function group to be represented in the NPC in future. Nevertheless, there is no doubt that the political door to the newly rising social classes is opened wider than the political door to less privileged social groups.

Spontaneous social movements or protests have taken place, implying that such social groups still lack effective mechanisms for political participation. As Polanyi argued, while social movements are often spontaneous reactions to the rise of the market economy, such movements should lead to political changes

³⁴ Xinhua News Agency, "Zhongzubu jiu dang de shiqida daibiao xuanju gongzuo da xinhuashe jizhe wen" ("The Department of Organization [of the Chinese Communist Party]'s Press Conference with the Xinhua News Agency on the election of the representatives of the 17th party congress"), www.xinhuanet.com, accessed on 12 September 2007.

through which society gains state protection. Historically, the development of the market economy had been associated with a series of social movements which in turn facilitated the transformation of the market economy. In China, although the state has effectively integrated the newly rising social classes, it has been appealing to all kinds of mechanisms to bring spontaneous social movements under control, and remains hesitant to accommodating the weaker social groups in the political process.

This is reflected in the development of non-governmental organizations (NGOs) in China, which has been quite drastic.³⁵ This is especially true since the early 2000s after the leadership began to place an emphasis on social reforms. Reforms have led to not only a relaxation of state control over society, but also the active creation and sponsorship of NGOs by the state for the purpose of transferring certain functions to them which the state used to perform. Chinese NGOs have increased steadily in number over the years. Figures from the Ministry of Civil Affairs (MCA), which is in charge of NGO registration, shows that there were only about 100 national social organizations in China before 1978. By the end of 2003 this number had reached 1,736. Meanwhile the number of local-level social organizations grew from 6,000 to 142,121. The number of private non-enterprise organizations (PNEOs), which did not exist before the reforms, reached 124,491. By the end of 2005, there were 168,000 social organizations, 146,000 PNEOs, and 999 foundations. However, scholars found that many associations were unaccounted for. By adding different types of non-registered NGOs, Wang Shaoguang believed that the total number of civil organizations had reached 8.8 million by 2003.³⁶ Despite its rapid development, scholars have argued that NGOs in China are still underdeveloped. For example, the number of civil organizations per 10,000 people in China is 1.45, while that of France is 110.45, United States is 51.79, Brazil is 12.66, India is 10.21, and Egypt is 2.44.³⁷

In the West, NGOs are autonomous and independent of the government. In China, however, the autonomy of NGOs depends on their relationship with, and thus their political "distance" from, the government. Government regulations stipulate that a social organization must be approved and registered by the civil affairs departments at the county level or higher, while foundations (e.g., charity organizations) must be approved at the provincial or central government level. A civil organization which fails to register with the civil affairs department is

³⁵ Qiusha Ma, *Non-Governmental Organizations in Contemporary China: Paving the way to civil society?* (London and New York: Routledge, 2006).

³⁶ Cited in Zengke He, "Institutional Barriers to the Development of Civil Society in China," in Zheng Yongnian and Joseph Fewsmith (eds), *China's Opening Society: The non-state sector and governance* (London and New York: Routledge, 2008), p. 162.

³⁷ *Ibid.*, p. 163.

considered illegal. Government regulations require every social organization to find a “professional management unit” (*yewu zhuguan danwei*) to act as its sponsoring agency. Only after obtaining the approval of its sponsor can an NGO apply for registration with the civil affairs departments. The sponsor must be a state organ above the county level or an organization authorised by such an organ. It must also be “relevant” to the activities proposed by the NGO, i.e., it must have responsibilities in the same field as that of the NGO. Regulations also disallow NGOs with similar remits to coexist in the same geographic area.

As a result of such strict rules, many grassroots NGOs are unable to register, either because they fail to find government agencies willing to act as their professional management units, or because other NGOs with similar missions have already been registered in the geographical area where they intend to base their operations. In order to exist legally, some NGOs have registered with industry and commerce bureaus as businesses instead, even though they engage in public non-profit-making activities. There are also unregistered, hence illegal organizations which operate openly but have been left alone by the government instead of being banned according to the regulations.

Nevertheless, the registration requirement does not apply to the eight big national social organizations which are often referred to more specifically as “people’s organizations” (*renmin tuanti*) or “mass organizations” (*qunzhong tuanti*), such as the All-China Federation of Trade Unions, the All-China Women’s Federation, and the Communist Youth League. These social organizations were created by the Party/state to perform administrative functions on its behalf. Indeed, they are independent organizations, and do not come under the supervision of the civil affairs’ department. Top appointments of these organizations are made by the CCP’s top leadership. Exemptions to the registration requirement include “organizations formed within administrative agencies, social organizations, enterprises, or service units which are approved by these organizations and which only carry out activities internally.”³⁸ Some grassroots organizations, such as property owners’ committees (*yezhu weiyuanhui*) formed by owners of apartments in the same housing compound and urban community-based organizations, e.g., leisure activity groups formed by residents in the same neighbourhood, are not required to register with the civil affairs departments.

Moreover, the development of NGOs in different functionalities has been uneven. In the economic sphere, the government has attempted to reduce its

³⁸The State Council, “Shehui Tuanti Dengji Guanli Tiaoli” (Regulations on the Registration and Management of Social Organizations), Beijing: the State Council, 1998.

direct management role by establishing intermediary organizations such as trade associations and chambers of commerce to perform sectoral coordinating and regulating functions. In the social welfare sphere, the government wants to foster the NGOs to take over some of its burden of service provision. In the social development sphere, the government wants the NGOs to mobilize societal resources to supplement its own spending.³⁹ These NGOs will have to perform their role according to the party line – they will be “helping hands” rather than independent organizations.

The political influences of China’s NGOs also vary widely across different areas as well as between different NGOs. In some areas such as poverty reduction, charity and environmental issues, NGOs are encouraged to play a greater role. But in other areas such as religious issues, ethnicity, and human rights, the influence of NGOs is much weaker. Also, some NGOs are more powerful than others. Most commercial organizations are extremely powerful in influencing the government’s policy-making process. It is not difficult to find business people sitting in the People’s Congress and the Chinese People’s Political Consultative Conference at different levels of the government. Workers and farmers, on the other hand, are not allowed to organize themselves, and thus do not have any effective mechanisms to articulate and aggregate their interests. In fact, the decline of workers and peasants in the total party membership implies their weak influence in China’s political system.

When powerful social groups can organize themselves, they become even more powerful. There is no effective means for weak social groups such as workers and farmers to promote their own causes. This is so partly because China is at an early stage of economic development and development continues to be given a higher priority than political participation. Workers and farmers might be able to play a more important role with further economic progress. We can take trade unions as an example. The government’s attitude toward workers’ rights is changing. Today, even the stodgy, government-dominated All-China Federation of Trade Union (ACFTU) has recognized the need to take a more activist approach to workers’ rights. China is now facing a rising tide of labor disputes, which could destabilize Chinese society and thus undermine the political legitimacy of the CCP. Therefore, there is a need for employers to better understand and honour their obligations under China’s labor laws. In an apparent reflection of this new attitude, at the 2003 annual ACFTU congress, the federation made a direct appeal to

³⁹ Jude Howell, “NGO-State Relations in Post-Mao China,” in David Hulme and Michael Edwards, eds., *NGOs, States and Donors: Too Close for Comfort?* London: Macmillan Press Ltd, 1997, pp. 202-15; and Linda Wong, *Marginalization and Social Welfare in China*, London and New York: Routledge, 1998.

multinational retail corporation Wal-Mart Stores, Inc to allow its workers to establish trade unions. Following that event, more and more foreign firms have established trade unions. In some cases, they did it voluntarily; in others, they were asked to do so.

7. Why society must be defended

So, why must society be defended? In this paper, I have attempted to answer the question by examining how openness leads to the rapid development of the market economy and how the latter has had a devastating impact on weak elements of the society. Both economic and political transformations mean that “money” and “power” are now the two key players in China’s development. Both players occupy strategic positions within the country’s hierarchical system. That implies that while both play an important role in promoting development, they will continue to dominate the course of China’s development. Meanwhile, these two players can exchange their resources, be it money for power or power for money, for their own benefit. While quite drastic changes have also occurred in Chinese society, political participation by social groups remains very weak. This is especially true in the case of participation by weaker society groups such as workers, migrant workers and farmers. This partially explains why there has been a drastic increase in social protests in recent years. Social protests by weaker social groups can be interpreted as efforts to “voice” grievances on the part of these social groups. Without effective mechanisms for political participation by these social groups, social protests (similar to street democracy in the West) become inevitable.

As discussed in this paper, the CCP leadership is fully aware of the “voice” of the weaker social groups. Social reforms have been on the top agenda and social policy has been given the highest priority. Nevertheless, when it boils down to policy enforcement, the problem arises. Policy performance in different social areas such as social welfare, health care, medical reform, and education continues to be less than ideal despite great efforts on the part of the central government. With the extremely slow development of political participation, weaker social groups continue to be excluded from the formation of key social policies, and they continue to be marginalized.

Needless to say, social policy is gaining weight in the maintenance of social stability and in turn, the sustainability of socio-economic development of China. Effective social policy, both in its making and implementation, depends on the political participation of relevant social groups. The exclusion of the weaker

social groups from the political process will not lead to the improvement of their social well-being. Without an effective social policy, the openness of both economic and political process will lead to a development pattern that only benefits certain elements of society. Society must thus be defended, especially the weaker elements of society. Apparently, defending society is not only an economic task; more importantly, it is a political task.

In concluding, I would like to quote Premier Wen Jiabao in length. Wen was interviewed by CNN Fareed Zakaria on September 23, 2008. In answering Zakaria's question on market and socialism, Wen stated:

The complete formulation of our economic policy is to give full play to the basic role of market forces in allocating resources under the macroeconomic guidance and regulation of the government. We have one important piece of experience of the past 30 years: that is to ensure that both the visible hand and the invisible hand are given full play in regulating the market forces. If you are familiar with the classical works of Adam Smith, you will know that there are two famous works of his. One is *The Wealth of Nations*, the other is the book on morality and ethnics. *The Wealth of Nations* deals more with the invisible hand that are the market forces; the other book deals with social equity and justice. If most of the wealth is concentrated in the hands of the few in a country, then this country can hardly witness harmony and stability.

Wen Jiabao here touched on two actors, namely, the market and the government, or money and power. Society is not in this equation of money and power. In the same interview, Wen also mentioned that he was very much impressed by stoic philosopher Marcus Aurelius Antonio's *The Meditations*, and drew the conclusion: Where are those people that were great for a time? They are all gone, leaving only a story, or some even half a story. Only people are in the position to create history and write history.⁴⁰

Either regulate or die. This is the lesson one can draw from the current financial crisis in the United States. The issue is who regulates who. While the government can regulate the market, the two sides can also share mutual benefits. If this is the case, then there will be no morality and social justice. No one can regulate money, and on one can regulate power. If one refers to Wen's conclusion on *The Meditations*, one can reach the conclusion that only society can regulate both money and power, and only by bringing society into the equation can social justice be served.

⁴⁰ CNN, "Transcript of interview with Chinese Premier Wen Jiabao," available at <http://www.cnn.com/2008/WORLD/asiapcf/09/29/chinese.premier.transcript/index.html>, accessed on October 1, 2008.