1. China's new urban poverty: an introduction

In this introductory chapter we depict the urban poverty problem in China. We aim to highlight that urban poverty is an emerging and complex phenomenon, which is driven by three broad processes: decline of the state-owned economy; changing welfare provision; and urbanization and rural-to-urban migration. We emphasize that urban poverty is intertwined with institutional legacies. That is, the urban poor do not comprise a homogenous social group. Their places of living also show great diversity.

Rapid economic growth in China has been accompanied by rising social inequality. China has changed from one of the most egalitarian countries to one with income inequality greater than most other developing countries in East Asia (UNCHS, 2001; Khan and Riskin, 2001). In the 1980s, the issue of poverty was mainly regarded as a problem affecting the backward western region, remote or ecologically fragile areas, and rural areas (Gustafsson and Zhong, 2000). Full employment under the socialist policy of an 'iron rice bowl' in the cities has meant that poverty was confined to rural areas. Only recently has poverty been recognized as an urban problem (UNDP, 2000: 7).

As a country with a socialist history, China is used to minimum social stratification, in particular in the cities, where full employment formed the basic right of social security (Khan and Riskin, 2001). The massive scale of urban poverty since the mid-1990s is quite different from the kinds of living hardships experienced in the former regime, which were caused mainly by physical disabilities. China is therefore facing what can be referred to as a new urban poverty.

Advanced market economies have experienced their own form of 'new' urban poverty; a by-product of economic restructuring, the transition to post-Fordist production; and the reconfiguration of the industrial structure, the labour market and social welfare (Mingione, 1996; UNCHS, 2001). The backdrop of this kind of new urban poverty is the widespread influence of globalization and subsequent re-orientation of the public policy towards market competitiveness (Mingione, 1996; Hamnett, 2001). China's new urban poverty shares some similar causes – economic

restructuring and labour redundancy (Guan, 2001). The big difference is that this is occurring in the middle of industrialization through export-oriented manufacturing. China's economic restructuring and the associated differentiation of urban incomes, wages and fortunes involves not only de-industrialization but also a fundamental transformation of ownership from state to private sector.

The accelerating number of laid-off workers since 1995 began to reveal the problem of unemployment and poverty in the cities. The official unemployment rate was 3.1 per cent in 2001, but taking into account laid-off workers, the urban poor population could have been as high as 14 million, accounting for 3.6 per cent of the urban population (MoSS and SSB, 2001). The actual unemployment rate estimated by some scholars is much higher than the official one. In 1997 this may have been as high as 7.5 per cent (Hu, 1999: 35), while in 1998 it was estimated at 10.4 per cent (Li, 2002: 267). Solinger (2001) argued that because of the various forms of unemployment, it is difficult to reach a meaningful figure. In addition, there are millions of rural migrants who are not counted as official residents and are thus excluded from regular employment and services, and do not appear in official unemployment statistics. According to the *China Urban Development Report* (Liu and Pan, 2007), in 1995, the estimated unemployment rate was 4 per cent (including the estimated unregistered unemployment), and the registered unemployment rate was 2.9 per cent. By 2005 these figures had changed, respectively, to 5.8 per cent and 4.2 per cent, and by 2007, to 4.2 per cent and 4.0 per cent.

The new urban poverty is now officially recognized by the Chinese government. In a 2001 working report of the State Council, former Premier Zhu Rongji acknowledged the existence of urban poverty and 'marginal groups'. This marked the official recognition of a major new challenge for social policy in the country.

THE SIZE OF THE PROBLEM

Urban China had a very low absolute poverty rate. The World Bank suggests that the absolute rate of urban poverty has been continuing to decline since the 1980s (Table 1.1). Despite different benchmarks (see the note attached to the table), the rate of absolute poverty is rising. There is now a sizeable population of absolute poor in the cities, even without considering migrants. The numbers of absolute poor reached 20.6 million in 2002. The figure is measured according to the system of Minimum Living Standard Support (MLSS), known as *dibao*, literally, 'minimum security'. In 2008 there were, in total, 22.67 million MLSS recipients within 10.76

Table 1.1 China's urban poverty line, the size of poor population and the absolute rate of poverty, 1981–2007

Year	Poverty line (Yuan, per capita per year)	Size of poor population (million)	Number of laid- off workers in SOEs (million)	Absolute rate of poverty (%)
1981	171	3.9		1.9
1982	169	2.0		0.9
1983	178	1.4		0.6
1984	190	0.8		0.3
1985	215	0.9		0.4
1986	226	0.5		0.2
1987	247	0.6		0.2
1988	289	0.7		0.2
1989	304	0.9		0.3
1990	321	1.3		0.4
1995	2107	19.1		5.4
1998	2310	14.8	5.9	3.9
1999	2382	13.4	6.5	3.5
2000	1875	10.5	6.6	2.3
2001	2232	11.7	5.2	2.6
2002	2232	20.6	4.1	4.1
2003		22.5	2.6	4.3
2004	1824	22.1	1.5	4.1
2005	1872	22.3	0.6	4.0
2006	2040	22.4		3.9
2007	2184	22.7		3.8

Note: The absolute poverty rate is not comparable across different periods. The data from 1981 to 1990 is from World Bank (1993). The World Bank defines the international poverty line as expenditure of no more than US\$1 per capita per day. The poverty line is defined through combining the expenditure on food, which satisfies the 2150 calories requirement for just enough nutrition for a normal person, and the expenditure on necessary services. The data from 1995 to 1999 was calculated in the same way by the National Statistical Bureau. The data for 2000 is from the calculation of Wang (2002), who works for the National Statistical Bureau. The data for 2001–2007 is the total number of the recipients of Minimum Living Standard Support.

Source: World Bank (1993); Wu and Huang (2007); Hong (2003: 133); Ministry of Civil Affairs (various years).

million households. In total, from January to June 2008, the expenditure on MLSS was 17.3 billion Yuan with an average value of 208 Yuan per capita per month (information obtained from the Department of MLSS, in 2008).

The poverty problem started to emerge after 1995. Before that, the poverty rate was low because the government had effective control over resource allocation, and could guarantee the basic living conditions for urban residents in the planned economy. First and foremost, there was an extensive system of rationing of the basic means of livelihood in the cities, which ensured that all urban residents had equal access to basic subsistence resources. Second, within the city, a full employment system was in place; the government was responsible for arranging jobs for all urban residents, making it impossible, in principle, for urban households to become jobless. Third, the income distribution was highly egalitarian (Riskin, 1987), effectively reducing the possibility of relative and absolute poverty induced by income inequalities. Fourth, inside the city there was a comprehensive social security and welfare system. The social welfare system, integrated with the workplace system, provided a wide range of social benefits, including medical care, education, housing and services. Households that were affiliated to state work units (so-called workplace people) were in an advantageous position in comparison with rural farmers, who had no institutionalized welfare provision at all. Fifth, the separation of urban and rural areas through the household registration system effectively constrained the inflow of rural–urban migrants. Because of this invisible wall, urban workers were shielded from competition from rural migrants (Knight and Song, 1999).

Because of these social and economic policies, Chinese cities effectively controlled urban poverty rates, despite having a low living standard similar to that of other developing countries. The few urban residents who were poor in the pre-reform period mainly consisted of a residual population such as self-employed small shop keepers and workers in street enterprises. They lived outside the formal state system. Within the state system, the system of ‘low income and comprehensive welfare’ was established in accordance with the socialist ideology. This ideology emphasizes social equality and justice through state control of the means of production. It assumed that government had the responsibility to provide comprehensive welfare and to protect the state’s employees from slipping into deprivation. An entitlement to work was viewed as the basic right of all urban citizens – and this became established within the notion of a ‘cradle to grave’ welfare policy (Guan, 2001). As a result, although urban residents lived in material hardship consistent with the backward stage of the Chinese economy, they were not deprived of welfare entitlements. The state-owned sector provided medical care and recuperation, pensions, housing, children’s education and adult job training. In this regime, the poor were those who had no stable income, working capacity, relatives or supporters; they lived in poor households of redundant, sick, disabled or elderly workers. These poor

households were known as the 'Three Nos' (*sanwu*). Supported by the government, their relief was the responsibility of the Ministry of Civil Affairs, charged with allocating disaster support and designating five kinds of entitled households ('five guaranteed households', *wubaohu*, for example, veteran households). The ministry operated social welfare factories, social security residences and homes for the elderly.

Since the mid-1990s, the reform of the economic system has led to the widespread accumulation of wealth but also to increasing income and opportunity differences. In the cities, a sizeable social group of poor households has formed. In the last few years, the government has recognized this using various specific terms, including *di shouru qunti* (low-income groups), *ruoshi qunti* (weak social and economic groups) and *chengshi pinkun jumin* (urban poor residents).

The term 'urban poverty' did not feature in official documents until very recently. Besides the traditional urban poor ('Three Nos'), there are five new categories of urban poor population (see Table 1.2) and in 2007, the Ministry of Civil Affairs changed its categories of urban poor to reflect the diversity of the phenomenon (see Table 1.3). The first group in Table 1.2 is the so-called 'Three Nos' (*sanwu*) who have been in receipt of Ministry of Civil Affairs support before and after the reform. The second group are the poor unemployed, that is, households whose family members claim unemployment benefits and whose per capita household income is lower than the local poverty line. The third are the poor employees: laid-off workers and pensioners who, after receiving wages, basic living expenses subsidy, pensions or insurance, still have a per capita household income below the local poverty line. Early retirees belong to this group – former workers who retired in the early stage of the reforms and did not benefit from the various opportunities that arose in later stages of reform. The fourth group consists of residents in economic hardship because of illness and other reasons. Fifth are poor students of universities and colleges who are not able to pay tuition fees and living costs. Under the *hukou* system, enrolling in a university or a college gives rural students a chance to register as urban residents after graduation and they are therefore viewed as belonging to the urban poor. It was estimated that about 3 million poor students could not afford to pay their fees and living costs in 2002, and the proportion of poor students ranged from 20 to 50 per cent in different universities in China (Xinhua News Agency, 2002). Among these poverty groups, the first is equivalent to the traditional urban poor, while the second, third, fourth and fifth are the new urban poor.

In contrast to these categories are those used by Y.P. Wang (2004: 56–66), who classifies the urban poor into the traditional poor, unemployed and laid-off workers, pensioners, poor students, landless suburban

Table 1.2 The composition of the urban poor with official urban household registration (hukou) in 2002–2006

	2002		2003		2004		2005		2006	
	Total (million persons)	Propor- tion (%)	Total (million persons)	Propor- tion (%)	Total (million persons)	Propor- tion (%)	Total (million persons)	Propor- tion (%)	Total (million persons)	Propor- tion (%)
<i>Sanwu ren yuan</i> (Three Nos)	0.92	4.45	1.00	4.45	0.95	4.31	0.96	4.30	0.93	4.15
<i>Shiye ren yuan</i> (the unemployed)	3.58	17.35	4.09	18.20	4.23	19.18	4.10	18.35	4.21	18.79
<i>Xiagang zhigong</i> (laid-off workers)	5.55	26.86	5.18	23.05	4.69	21.27	4.3	19.25	3.50	15.63
<i>Tuixiu ren yuan</i> (retirees)	0.90	4.36	0.91	4.05	0.73	3.31	0.61	2.73	0.53	2.37
<i>Zaizhi zhigong</i> (on-post workers*)	1.87	9.05	1.79	7.97	1.41	6.39	1.14	5.10	0.98	4.38
The family members of the laid-off, unemployed, retired, and on-post workers	7.83	37.93	9.49	42.23	10.03	45.49	11.22	50.22	12.25	54.69
Total	20.65	100.00	22.47	100.00	22.05	100.00	22.34	100.00	22.40	100.00

Note: * On-post workers are the working poor; that is, they are still physically working.

Source: Ministry of Civil Affairs (various years).

Table 1.3 The composition of the urban poor with official household registration (hukou) in 2007

	Total (million persons)	Proportion (%)
<i>Dengji shiye ren yuan</i> (the registered unemployed)	6.27	27.6
<i>Weidengji shiye ren yuan</i> (the unregistered unemployed)	3.64	16
<i>Laonianren</i> (the elderly)	2.98	13.1
<i>Zaizhi zhigong</i> (on-post workers)	0.94	4.1
<i>Linghuo jiuye ren yuan</i> (temporary employers)	3.44	15.1
Poor students	3.64	14.2
<i>Wei chengnianren</i> (Under-age persons)	2.23	9.8
Total	22.72	100.00

Source: Ministry of Civil Affairs (various years).

farmers and rural migrants. This is a more inclusive designation that views as ‘urban’ all those residents who live in an urban area. In the analysis presented in this book, we take this more inclusive and realistic view, and in so doing paint a picture of urban poverty that is less optimistic than the official one.

The estimated size of the urban poor in China varies widely according to the definition chosen. Poverty is normally measured with reference to either expenditure or income required for meeting basic needs. It makes a significant difference whether the urban poverty line is applied as a measure of per capita income or expenditure (Hussain, 2003; Asian Development Bank, 2004). The Urban Household Survey Team of the State Statistical Bureau estimates that the lower bound of the urban poor population was between 10 and 15 million in 2002 (Wang, 2002). The All China Workers’ Union conducted a survey of workers, including retired workers and workers with a living standard lower than the local average, and showed that the urban poor population was 15 million. If we include those who are supported by MLSS, the total population of urban poor might have been as high as 21.827 million in June 2003. On 12 November 2001, the State Council issued the ‘Notice on strengthening MLSS in urban areas’, which defines the urban poor as those who receive MLSS support. However, because the living standard of the MLSS is still very low, it has been argued that the real population of urban poor is larger

than the number of MLSS recipients. Zhu argued that MLSS underestimates the numbers of urban poor, and gave an adjusted estimate which was as high as 30.56 million (Zhu, 2002). The Asian Development Bank (2004: 90) agreed that since not all those entitled to assistance will have been recruited into the MLSS system, the actual numbers of urban poor may well exceed the official urban poverty figure of 21 million. In fact, the number of MLSS recipients has been growing considerably since 2001 but has stabilized more recently.

Clearly, the definition of poverty and the measurement of poverty rates is problematic; Cai (2003) estimated that the poverty rate in 2002 should have been 7.7 per cent rather than the official 4.1 per cent. What can be said, however, by way of summarizing the controversy, is that the urban poor population in China is in the range of between 15 and 31 million, and is approximately 4 to 8 per cent of the total urban population; this figure only includes people with urban household registration (*hukou*).

In the remainder of this chapter we discuss three structural forces that shape the landscape of China's new urban poverty (Wu and Huang, 2007). The first structural force is the decline of the state-owned sector. Together with economic restructuring, the decline of the state sector transformed the labour market, which generated millions of redundant and laid-off industrial workers. The second structural force is the transformation of welfare provision, which reduced the welfare coverage and had the effect of commoditizing social services. The changing mechanisms of welfare provision have created a gap that has helped create the new poor – including poor migrant workers. The third structural force is urbanization and migration, which has moved rural poverty into the city. Similar to the 'urbanization of poverty' documented in other developing countries (UN-Habitat, 2003), rural-to-urban migration has created millions of working urban poor. With the relaxation of internal migration control, surplus labour in agriculture flowed into the cities.

At the same time, the modernization and redevelopment of urban areas reduced the reciprocal and informal ties that had developed over many years within urban communities. Old areas have been systematically razed to the ground and their communities dispersed, and in places, pockets of old communities remain as underdeveloped and marginalized neighbourhoods that form the homes of the economically weakest. Although segregation and isolation are still low in Chinese cities, new forms of socio-spatial patterns have started to emerge, and market-led spatial reorganization has begun to impose a challenge for socio-spatial cohesion.

Before economic reform, the urban governance of the Chinese state was organized through the framework of state socialism, which emphasizes redistribution. Social surplus was concentrated in the state apparatus and

then redistributed to the urban population. Although the ‘redistributive state’, a concept originally proposed by Szelenyi (1983) in Eastern Europe, was organized according to a hierarchy of the cadre and working classes, the state upheld an egalitarian ideology which led to a nominally equal income distribution in urban society. The urban poverty rate was very low, and there was no underclass. Such a low poverty rate was achieved in the context of a low overall living standard.

Since the reform, this ideology has changed. Deng Xiaoping explicitly proposed to ‘let a few people become rich first’ and to explore different models of income distribution. His pragmatism was captured by the slogan ‘wading the river by groping stones’. After an initial equalizing effect, which tended to favour direct market producers rather than the privileged cadre class who had benefited in the socialist redistributive state (Nee, 1989), the differentiating process of wealth accumulation began in cities. This started to happen roughly from 1995. The mechanism of resource allocation was transformed by the creation of markets, which immediately started to have far-reaching implications for social stratification (Walder, 1996; Bian and Logan, 1996; Khan and Riskin, 2001).

DECLINE OF THE STATE-OWNED SECTOR AND ECONOMIC RESTRUCTURING

The ending of the administrative allocation of labour and planned industrial structure led to a large number of surplus workers being laid off by state-owned enterprises (SOEs) (Steinfeld, 1998; Blecher, 2002). In the process of enterprise reform, the SOEs began to abandon egalitarian wage distribution and the administratively based assignment of jobs. In particular, since the mid-1990s, the deepening of reform policies at the enterprise level revealed the endemic problem of hidden un- and under-employment and led to massive lay-offs (starting in 1995). The performance of SOEs had declined significantly, with the proportion of loss-making state-owned industrial enterprises (SOIEs) growing to 41.4 per cent by 1999. The share of SOEs’ contribution to the total industrial output has also been decreasing. From 1995 to 2004, SOEs have cut jobs at an annual rate of 3.68 million, according to the *China Labour Statistical Yearbook 2005* (State Statistics Bureau, 2006: 188). From 1998 to 2005, a total of 33.18 million SOE employees were laid off. These job losses, together with an annual increase in the new labour force of 10 million, have exerted a downward pressure on urban wages and have fuelled the rate of unemployment. But according to Solinger (2002), these figures could be seriously understated.

Even for those who have kept their jobs, their income has not generally seen a comparable increase with the rising cost of living expenses. The problems and mismanagement of SOEs have led them into a difficult situation. Low profit rates, and even deficits, have reduced not only the direct income of workers but also their welfare benefits, which were usually allocated by the workplace. Many residents have experienced actual and real income reductions. For some workers, their per capita household income even dropped below the local poverty line, making them the working poor. On the other hand, SOEs have to undertake many welfare functions and support their retired workers and staff. The ratio of retirees to on-post workers in SOEs is excessively high. In this sense, individual enterprises faced what many welfare states are now facing – an over-burdensome welfare liability caused by an imbalance of retired state dependents and active workers. In the decades before the economic reforms began, China adopted a unified financial system in which the government collected all revenues from enterprises and re-allocated the expenditures to SOEs. Pensions were managed and distributed by the government, while the SOEs did not maintain pension funds. However, the reform of the economic system transferred the pensions to the SOEs. That is, the SOEs had to provide pensions to their workers. Therefore, for the SOEs that have many retired workers, the pension cost is high. This is different from the situation before economic reform when pension costs were simply borne by the government.

As non-working staff demand security and welfare support, the high rate of retirees in SOEs has become a burden for these enterprises, increasing the cost of employment. Compared with newly formed enterprises that recruit staff according to their actual need for labour rather than administrative commands, SOEs have to spend 46 per cent more on wages (Sun, 2002: 18). This has had a significant effect on their competitiveness and performance.

Welfare benefits from workplaces used to occupy a significant proportion of the income composition of Chinese urban residents. They were a direct source of living expenditure. According to a survey of 1000 laid-off workers in 2000 in Beijing, redundancy led to a 61.2 per cent decrease in income (Sun, 2002: 18). In recent years, the commodification of housing, education and medical care has increased household expenditure, because these costs were previously borne by employers. The restructuring of the welfare system moved many households into a position of income vulnerability, not only exacerbating poverty and poverty vulnerability levels but also further reducing human capital development of these families. For the first time in decades, poverty in China risks being differentially transmitted between generations. Wang (2000) showed that the policy of requiring

sitting tenants to purchase their housing had the effect of straining the budgets of poor families, redirecting scarce liquidity from education and other pressing needs into the improvement of housing.

One effect of this was to reduce the purchasing power of urban residents. From the late 1990s to 2003, China entered a stage of continuous deflation. The lack of effective demand had a negative impact on job creation. Along with the commodification of the labour force, more lay-offs were generated, causing a deepening and extension of urban poverty. Economic deflation, job shrinkage and decreasing purchasing power lead to a vicious circle of poverty generation.

The fundamental reform of industrial structure drove many SOEs into bankruptcy. The industrial sectors that had lost their comparative advantage in the face of international competition were forced to downsize. This produced large numbers of redundant workers in a short period of time. The urban poor population tended to be concentrated in industrial sectors such as textiles, coal mining, timber, traditional light industries and machinery, and military industries. These sectors were the labour-intensive industries developed in the planned economy with little market competition. Some of them were heavy consumers of natural resources, or in the small and low-tech commercial, service and handicraft industries. Since the 1990s, new technology has favoured capital-intensive and knowledge-intensive industries, leaving income levels in traditional industries, labour-intensive industries and industrial sectors with higher levels of competition to decline. Compared with 1992, in 2006, finance and insurance, scientific research and technological services have seen the largest increases in income levels, respectively reaching 1361 and 1222 per cent. Compared to these, farming, forestry, agricultural husbandry and fishery industries and construction industries were ranked bottom, respectively with a 523 and 532 per cent increase (State Statistics Bureau, 2007). Ranked according to income level, in 1992, the two top sectors were production and supply of electricity, gas and water, and real estate, but in 2006 the top two had changed to scientific research and technological services, and finance and insurance. Manufacturing and construction industries have become the sectors with an inferior income. In 2006, in Beijing, the average wage for construction workers was as low as 30 per cent of that of finance and insurance sector workers. By 2007, in Shanghai, the average wage in manufacturing industries was 52 per cent of those in the finance and insurance sectors. In Chongqing, the average wage of construction workers only amounted to 45 per cent of that in the finance and insurance sectors (State Statistics Bureau, 2007).

The analysis of industrial restructuring gives a gloomy prospect

for poverty alleviation based on job generation, currently the dominant policy agenda. There are several reasons for this. First, employment opportunities have been reduced in the initial stages of WTO entrance, although WTO membership may contribute to long-term job creation. This is because structural unemployment is being created by industrial restructuring. The state-protected capital-intensive and technology-intensive sectors, such as automobile, machinery, metallurgy and petrochemical industries, and the iron and steel industry, are faced with new and intense pressure from international competition. In order to survive, large-scale adjustment becomes inevitable, including mergers, reduction of workforces and bankruptcy. By comparison, access to the WTO has given more opportunities to China's traditional labour-intensive sectors, such as clothing, textiles, building and food processing, because of the reduction of trade barriers and export quotas. However, the increase in employment might not benefit the current urban poor population, because it takes time to form a sizeable production capacity, and enterprises are unable to increase exports immediately. Moreover, after two or three years, the age disadvantage of laid-off workers becomes more apparent. Compared with the younger workforce and cheaper rural migrants, the employability of the current urban poverty population is becoming lower. Workers laid off from SOEs are therefore a residual poverty group resulting from China's economic transition, and one that appears to have a bleak future.

Second, and related, the demographic attributes of the current urban poor population tend not to allow them to return to mainstream industries. The advance in technological development is eliminating job positions in traditional industries (Solinger, 2002). For example, the labour-intensive manufacturing industries and the textile industries, which absorbed a large number of workers, have begun to resort to new technologies to increase efficiency. Low-skilled workers are no longer able to find stable jobs in the new labour market. Jobs in the new industrial sectors are not for them because they are more than 35 years old (most new industries require applicants less than 35 years old) and have middle or low education levels with low transferable job skills. Their skills have become outdated, while the new jobs are in the sector of scientific and technological services, computers, finance, trade and insurance, biotechnologies and so on, which require employees to have higher education and special skills. So, the new industries do not offer employment opportunities to the currently laid-off workers. The result means that the new urban poor (in particular those laid off and the unemployed) are excluded by economic restructuring. Most of them have little hope of returning to the mainstream industrial sectors and finding a stable source of income there. Sun (2002: 24) uses the

term ‘broken social structure’ to describe the exclusive nature of the job market. In such a circumstance, the new urban poor are in desperate need of social security. Unfortunately, the social welfare system itself is under transformation. The marginal social groups fall into a gap between the old and the new systems.

TRANSFORMATION OF WELFARE PROVISION

Before economic reform, state employees received comprehensive social welfare benefits. The social security system was basically guaranteed with employment, rights to welfare transfer payments being bundled into employment rights. Workers enjoyed social security without paying an insurance fee, and this was regarded as one indication of socialism’s superiority to capitalism. But since the mid-1990s, with accelerating economic reforms, the model of ‘occupational welfare plus social relief’ was no longer able to cope with the increasing numbers of poor outside the work-unit system. A new population without workplace affiliation forced the state to reform the social security system. The development of a societal-based system was justified on efficiency grounds. It would be more cost-effective because the work-unit-based delivery system often saw unconstrained allocation of benefits. There was inadequate financial discipline within the system and an incentive to allocate an inordinate proportion of enterprise revenue to welfare expenditures (particularly housing), before returning the residual to higher levels of government.

Looking generally at the post-reform city, the following systematic transformations have had a profound effect on the position of poverty in urban life. First, the state no longer distributes subsidized living materials to urban workers. In the past a low-price rationing system ensured cross subsidy between rural and urban sectors in favour of the latter. Food and all commodities are now only available at market prices. Second, the state no longer assigns jobs. Instead, residents have to seek job opportunities in the labour market. Third, instead of prescribing a high level of social security, the state sets a low minimum standard with relatively wide coverage. Fourth, the state has transformed workplace-based welfare provision into a ‘social provision model’. Workplaces no longer provide medical care, housing, education and other social services. The new system emphasizes joint contributions from the state, enterprises and individuals, and makes individuals partially responsible for ensuring their security. All of these institutional shifts reduce the burden of the state in welfare provision.

In principle the new regime is MLSS. Shanghai was the first city to

Table 1.4 Minimum Living Standard Support in cities and provincial capitals

	Date of establishment	Standard before 1999 (Yuan)	Standard in 2007 (Yuan)
Beijing	Jul. 1996	200	328
Tianjin	Jan. 1998	185	330
Shijiazhuang	Jan. 1996	140	173
Taiyuan	Jul. 1997	120	216
Huhehaote	Jan. 1997	110	189
Shenyang	Mar. 1995	150	245
Changchun	Jul. 1996	130	225
Harbin	Apr. 1997	140	233
Shanghai	Jun. 1993	215	350
Nanjing	Aug. 1996	140	281
Hangzhou	Jan. 1997	165	287
Hefei	Jul. 1996	150	234
Fuzhou	Jan. 1995	170	201
Nanchang	Jan. 1997	100	197
Jinan	Jul. 1996	140	249
Zhengzhou	Aug. 1996	120	234
Wuhan	Mar. 1996	150	219
Changsha	Jul. 1997	130	198
Guangzhou	Jul. 1995	240	321
Nanning	Sep. 1995	150	190
Haikou	Jan. 1995	170	293
Chengdu	Jul. 1997	120	214
Chongqing	Jul. 1996	130	178
Guiyang	Jan. 1998	120	188
Kunming	Jul. 1996	140	201
Lasa	Jan. 1997	130	230
Xi'an	Jan. 1998	105	188
Lanzhou	Jan. 1998	120	211
Xining	Aug. 1997	120	178
Yinchuan	Jan. 1998	100	200
Wulumuqi	Jan. 1998	120	156

Source: Originally from the Ministry of Civil Affairs, cited in Cai (2003: 63); Ministry of Civil Affairs (various years).

establish a MLSS, and by the end of 1998, 581 cities had followed its example (Table 1.4). In September 1999, the State Council issued 'The regulation of MLSS to urban residents', which designates who is qualified for assistance. This specifies that non-agricultural registered households

Table 1.5 The quantity of the recipients of Minimum Living Standard Support from 1998 to 2007

	Total number of recipients (million)	Growth rate of the recipients (%)	Total amount of financial support (billion Yuan)
1998	1.84	109.4	0.70
1999	2.66	44.4	1.55
2000	4.03	51.4	2.72
2001	11.71	190.8	4.20
2002	20.65	76.4	11.26
2003	22.47	8.8	15.10
2004	22.05	-1.9	17.27
2005	22.34	1.3	19.19
2006	22.40	0.3	22.42
2007	22.72	1.4	27.74

Source: Ministry of Civil Affairs (various years).

that have a per capita household income lower than a locally set poverty line can receive a subsidy to make up the difference. Those who are classified as belonging to the ‘Three-Nos’ are eligible for the full living allowance set by the local minimum living standard. By 1999, all 668 cities and 1638 counties had established a MLSS system. The minimum living standard is regularly reviewed to take account of local variation in real living costs indicated by a representative basket of goods. From 1 October 1999, minimum living standards have been raised by 30 per cent on average across cities and counties.

According to the Ministry of Civil Affairs, in 2006 about 38.8 per cent of MLSS recipients were actually poor employees of state-owned enterprises or collectively owned enterprises. Only 4.2 per cent were made up by the traditional poor (the ‘Three-Nos’). This starkly illustrates the changing nature of urban poverty (Table 1.2). By 2007, the number of MLSS recipients had increased to 22.72 million (Table 1.5).

There are a number of problems associated with the implementation of these policies. Hussain (2003: 25–8) noted the problems with MLSS: limited coverage, loopholes in the diagnosis of urban poverty, insufficient benefits, difficulty in balancing poverty alleviation and maintaining the incentive to work, the lack of financing, and inadequate administrative structure. These are elaborated below.

First, although the number of MLSS recipients has increased significantly since 2000, its coverage is still too limited, and some poor families

are not receiving adequate support. MLSS formed 4.8 per cent of all urban residents in 2001. Recognizing the problem, in 2002 the principle of '*yingbao jinbao*' ('all qualified should be guaranteed') was put forward to expand coverage. The number of MLSS recipients increased to 20.65 million. The amount disbursed escalated to 10.5 billion Yuan, of which central government contributed 4.6 billion, accounting for 44 per cent, and local governments contributed 5.9 billion, accounting for 56 per cent (Tang, 2003). However, its coverage is still too limited, accounting for only 3.8 per cent of all urban residents by the end of 2007 (Table 1.5).

Many households are unable to enter the scheme because of the strict control of the benefit line. For example, some cities stipulate that those who are of working age (for males, aged 16–60 and for females, 16–55) are excluded, regardless of their actual employment status. Other cities exclude those who are still attached to workplaces, regardless of whether or not they receive wages. Those who still have a contractual relationship with their workplace even without wages are regarded as ineligible because the unpaid wages are treated as the debt of the workplace. Some cities specify that those who possess electrical household appliances such as a TV and refrigerator are not eligible for MLSS. Some neighbourhood committees exclude those who frequently eat meat. Some local governments exclude staff and workers of enterprises that belong to central government. Residents living outside the designated towns of the county (which is the lowest level of urban settlement according to China's administrative hierarchy) are not considered eligible because they are not urban residents. Local governments have adopted various exclusionary practices known as the '12 excluded categories' and the '16 types of disqualification' (Tang, 2003). Although these practices are not formally permitted, they reflect a mentality that treats MLSS as a last resort welfare safety net. The MLSS is clearly a measure to address absolute poverty. This sets it apart from the kind of universal social welfare systems in developed economies, in which minimum living standards tend to be set to prevent relative poverty. In China, the concern is to prevent people from becoming truly destitute and starving.

Second, and developing the last point, MLSS adopts a *low standard* that only covers limited items. The 'Regulation of urban MLSS' promulgated in 1999 specifies that 'the line of urban minimum living is determined with reference to a basket of basic expenditure on clothing, food, accommodation, water, electricity, gas or coal, as well as the cost of children's compulsory education'. However, the standard excludes medical care, middle and higher education, legal and other costs. For poor households in China, illness is a major cause of financial difficulty. When unexpected disastrous life events occur, a poor household or one vulnerable to poverty is often driven into hardship which cannot be dealt with without outside help.

Poor and vulnerable residents, as members of society (as opposed to being subsistence dwellers), have needs other than basic physical survival. They are in need of employment, children's education, housing and medical care. MLSS covers the very basic needs and excludes the need for development. It does not help poor families afford increasing education costs, and this has the effect of reducing human capital investment.

In addition to its design faults, the MLSS as operated in a specific city is sometimes less than adequate because it is not fully implemented. Because of the lack of a concrete operating scheme, the principles proposed in MLSS are often not fully realized. While some implementation regulations call for service fee exemptions or discounts for example, in reality the reduction of charges is not fully carried out because the commodification of service provision often strengthens the interest of service providers, who are unwilling to give financial concessions. In Beijing, only 3.4 per cent of poor households received tuition fee discounts; 9 per cent had rent reductions; and 10.8 per cent had a discount on sanitary charges (Yin, 2002: 47–51). These figures suggest that fee exemptions are selectively implemented. For small items such as the sanitary charge, the rate of exemption is higher, while for the large items such as tuition fees, the exemption rate is relatively low. This pattern clearly suggests that service providers have an incentive not to make the legally required concessions.

For these reasons, as well as the low level of the poverty line, the per capita financial support from MLSS is very limited (Table 1.6). Exacerbating this is the way that the subsidy provided by MLSS is determined – set according to the difference between the legally set minimum living standard and 'actual' household income. Very often, 'actual' income is not measured, but is estimated by the officials in charge of evaluating the qualifications of potential recipients. It may be presumed that incomes tend to be overestimated if officials have capacity constraints to follow in their allocations. The low levels of transfer payments that result under the MLSS scheme very often do not give residents sufficient support in overcoming their poverty situation. They may be spared starvation and homelessness but the financial package does not guarantee a return to mainstream society.

Third, MLSS as a key part of China's new social security package provides help of *last resort* for the poor. At present, the system of social security consists of three major security lines: the minimum living allowance for laid-off workers (including pension); unemployment and old age pension; and the minimum living standard scheme. The first two lines have major loopholes. For example, in Beijing more than 60 per cent of poor households did not have any medical insurance or insurance against serious illness in 2001. About 86.1 per cent of eligible households did not

Table 1.6 Average per capita monthly subsidies of MLSS in the cities directly under the jurisdiction of the central government and selected provinces, 2007

Cities/provinces	Average subsidies per capita monthly (Yuan)	Total recipients (million persons)	Finance subsidies (million Yuan)
National	102	22.72	27472.05
Beijing	267	0.15	476.88
Shanghai	205	0.34	844.25
Zhejiang	184	0.09	194.47
Jiangsu	118	0.45	621.28
Chongqing	104	0.83	1042.36
Hebei	90	0.89	936.24
Henan	84	1.41	1383.03
Heilongjiang	96	1.46	1660.11
Inner Mongolia	129	0.80	1162.43
Hunan	93	1.39	1503.93

Source: Ministry of Civil Affairs (various years) (<http://www.mca.gov.cn>), accessed 4 November 2008.

receive unemployment insurance; 72.1 per cent did not receive elderly pension insurance; 74.6 per cent did not receive minimum wages; and 9.9 per cent did not receive minimum living support (Yin, 2002: 48). This is because, in the transition period, the social security system mainly consists of social insurances, secured by the payment of a premium. There are three major types of insurance that are currently implemented: elderly pension insurance, unemployment insurance and medical insurance. However, these types of insurance require premiums from individuals and emphasize the individuals' responsibility in social security. Poor households who struggle to survive cannot afford the insurance premium and as a consequence, social insurance has become meaningless to them.

Finally, despite progress with MLSS, there is a *negative side-effect* that should be mentioned. Because the MLSS is intentionally configured at the minimum survival level, a side-effect is that it keeps a pool of low-income households surviving at the 'edge of poverty'. The rationale of maintaining a low standard is justified in several ways. First, in the overall environment of market reorientation, the redistributive policy is often not compatible with local governments' ambition to maintain economic competitiveness. This aligns with concerns about the pitfalls of Western welfare state models, which encourage welfare dependency. Second, the

low level of support given is justified pragmatically: the urban poor have accumulated in cities and regions with poor economic performance and a history of heavy industrialization, and local governments cannot afford to set the MLSS bar any higher. Third, because of the country's size, there is inevitably a large number of urban households living near the poverty line, and raising the line even a little will generate large increases in the number of official urban poor and in the financial liability of supporting them (Hussain, 2003: 30).

The approach to social policy reform in China has been to commodify the provision of welfare. There have been various experiments in using social insurance to provide social security. The design of social welfare policy is based on the assumption of continuing economic growth and expansion of the labour market. Thus, social insurance is used to prevent urban poverty. The new social security system is designed for those who are currently working rather than those who have been laid off and excluded from job participation. The emergence of large numbers of laid-off workers driven by economic restructuring has challenged this basic assumption. Although the new MLSS system has been set up to cope with the poorest population, the overall transformation of welfare provision is similar to welfare retrenchment under the post-Keynesian workfare state in the West (Musterd and Ostendorf, 1998). Welfare retrenchment in advanced market economies refers to the reduction of welfare expenditure and conversion from welfare to workfare (Peck, 2001). Similarly in China, the entitlement based on work-unit affiliation has now been transformed to a service supplied on the basis of the ability to contribute to employment insurance. A significant number of poor households have lost their entitlement but have not qualified for MLSS because of the extremely stringent screening process. Welfare retrenchment is a result of a disjuncture between old service and new provision, as the reduction of coverage of welfare is not made up by the expansion of new social security coverage.

URBANIZATION, MIGRATION AND URBAN REDEVELOPMENT

Since the 1980s Chinese cities have grown steadily due to the influx of rural-to-urban migrants. In 1989, the number of rural migrants was 30 million. In 1993, the number increased to 62 million. Then by the end of 2005, rural migrants rapidly increased to around 200 million (The Investigating Group of Chinese Migrant Workers' Problems, 2006).

For rural migrants, access to urban services is hindered by the household

registration system (*hukou*). The *hukou* system was introduced as an 'invisible wall' dividing China institutionally into urban and rural sectors (Chan, 1994; Chan and Zhang, 1999). The initial purpose of this institutional arrangement was to prevent workers from migrating from rural areas and to guarantee scarce non-agricultural employment and related welfare to urban residents. This was essentially directed at supporting the heavy industry-oriented strategy under the planned economy (Cai et al., 2002). Until the early 1980s, the adoption of the household responsibility system in rural areas and the liberalization of agricultural production resulted in surplus labourers in rural areas and an increase in their mobility. Later, the relaxation of the *hukou* system, the abolition of state-controlled food rationing, and the introduction of contract workers further loosened the restrictions over labour mobility between regions and sectors. With the attraction of more development opportunities and better living conditions, a huge number of rural workers migrated to urban areas to seek employment and make a living.

Although the Chinese government has relaxed its control over population mobility, the *hukou* system in urban areas remains essentially unchanged (Y.P. Wang, 2004). There are still many obstacles for migrants created by the *hukou* system. For example, even if rural workers can find jobs within the industrial sectors that they are allowed to enter, they are still at risk of being dispelled by security officers in the name of maintaining social order. Their employment rights are by no means unambiguously defined and protected. Furthermore, because of their rural *hukou*, rural migrants face considerable hardship in the cities as they are denied access to good jobs and to urban entitlements (Ma, 2002; Solinger, 1999). A dual labour market has been created by the present *hukou* system and the urban-rural pattern of divided management. To alleviate employment pressure, quotas have been set by most cities to limit the employment of workers who do not possess urban *hukou* (Lee, 2001). Rural migrants are excluded from some formal and steady occupations. In Beijing, for example, rural migrants were not allowed to take up jobs in some high-profile areas such as finance and insurance in 2001. Without access to these jobs, rural migrants tend to take the hard, dangerous and dirty physical and labour-intensive jobs (Y.P. Wang, 2004). While the central government has strengthened the legal benefits of migrants in cities recently, the situation is not optimistic. Against this background, it is very difficult to develop a uniform and open labour market. Consequently, the employment of rural migrants is typically informal, low-quality and unstable, which has directly resulted in their low income and poor living standards. Rural migrants mainly work in highly labour-intensive, temporary, insecure and low-income jobs, such as building, portering, waste

collecting, hawking, peddling and domestic service. As a result of occupational exclusion and restriction, rural migrants tend to receive lower incomes.

In addition, under the present *hukou* system, the urban and rural populations are clearly divided, and it is extremely difficult to transfer one's rural registration to an urban one (Y.P. Wang, 2004). Although rural migrants effectively work and live in urban areas, they are still treated as outsiders. The movement of rural workers into urban areas follows economic rationales, yet they have not obtained reasonable institutional rights to live in urban areas and are denied access to crucial urban entitlements due to their rural *hukou* status.

Clearly marginalized by the *hukou* system, rural migrants in the cities face several kinds of hardship. First, though peasant workers have entered urban areas, their homes are still in rural areas. For those who commute daily or periodically, they face high commuting costs, as well as suffering inconvenience to themselves and their families. Second, if their families move to the urban area with them, they face significant extra costs for housing and education. Rural migrant households often find themselves isolated because of limited access to urban social services and lack of social ties. All of these negative factors have turned many rural migrants into a marginal group characterized by unstable employment and living conditions. This is a group that earns the simplest of livings through the hardest of work, and a group that suffers discrimination everywhere just because of its status.

The institutional and economic marginalization of rural migrants and the other groups of urban poor is graphically framed and exacerbated by the physical manifestations of modernization and transition: urban redevelopment. Urban redevelopment is spatially selective, leaving out those poor areas with high population density. In these left-over places, population invasion and succession by migrants has occurred. Some inner urban areas are 'downgraded' to places in which rural migrants concentrate. Most important of these are the 'villages within the city' (*chengzhongcun*); these areas are created through informal housing development in former rural villages that have been encroached and surrounded by city development.

Figure 1.1 shows the different route of marginalization. For the workers in SOEs and COEs, they are marginalized by the introduction of a labour market after all inclusive welfare was dismantled. For farmers, rapid urbanization has driven them into the cities. They become rural migrants and face institutional and social exclusion. The evolving urban poverty issue is thus more than a simple outcome of market development. It is a complex interaction between the institution and market mechanism.

Source: Liu et al. (2008).

Figure 1.1 Different routes of poverty experience of China's new urban poor

FRAGMENTED POVERTY GROUPS

The new urban poverty population is not a homogenous social group (Wu and Huang, 2007). Rather, poverty groups are produced by different institutional processes and are affected in different ways by the institutional changes according to their position within the state system (known as *tizhi*, or institution, the most important factor determining the level of welfare provision in the planned economy system). The system represented the state's organization of the labour reproduction process. The foundation of the institution is based on numerous work units (*danwei*), including government organizations, SOEs, collectively owned enterprises (COEs), hospitals and public organizations. People working in the state system received a wider range of welfare benefits than did those outside the system, including free housing, free medical care and education. The system was part of the state machinery that not only facilitated accumulation of resources but also provided public goods to its members. Housing, education, health services and so on were a cost of production within the *danwei*, ensuring the unit's ability to sustain itself over time. It was perfectly reasonable therefore to exclude outsiders from accessing these 'club-good' welfare benefits. A fundamental reason why the new urban poor are not homogenous is because they had different relations with the state system. Some were 'within the state system' (*ti zhi nei*), while others were 'outside the state system' (*ti zhi wai*) before economic reform. Economic restructuring and the transformation of welfare provision have exerted different impacts on these social groups.

The 'Insiders of the System'

The new urban poor who were inside the system include laid-off workers, unemployed workers, the low-skill working poor and retirees. They contributed to the SOEs, through which they had received lifelong social security from the government. While their wages were low in the planned economy, they were promised comprehensive welfare benefits in the event of retirement, illness or other disastrous life events. However, along with the restructuring of the economy and reform of SOEs, the performance of their workplaces declined, and so did their welfare benefits. The reform of housing, education and medical care has required individuals to make a greater financial contribution, which has changed the structure of their living expenses and increased uncertainty in consumption. Meanwhile, the re-employment programme has been confronted with the incapacity of administrative departments, lack of funds and the disadvantaged position of laid-off workers in the labour market (Solinger,

2002; Lee and Warner, 2004), and is unlikely to immediately improve the condition of the poverty group. At the end of 2002, only 55.6 per cent of the registered unemployed had received unemployment benefits. In addition the average annual income per capita of unemployed households was only 2774 Yuan, which is equivalent to only 22.3 per cent of the urban average of 12422 Yuan (State Statistics Bureau, 2004: 33, 135–6, 345). The income of re-employed workers is generally lower than their previous wages.

Social security reform has sometimes exacerbated the situation of poor households. In the old system, the government did not require them to pay various insurance premiums but promised lifelong security as a right. Now working households must pay premiums for insurance against emergency needs.

In 1998, China abolished in-kind housing benefit. However, for poor households, no rental subsidies have been offered, while the stock of social rental housing has decreased. Recently, the Ministry of Construction has promoted social rental housing (*lian zu fang*). But the amount of social rental housing for the poor is limited. In 1998, the central government anticipated that 15 per cent of low-income families would rent social housing from the municipal government. But by 2003, the practice of social housing was still at an experimental stage. By the end of 2002, the municipal authority of Beijing paid rent allowances to only 998 households (Y.P. Wang, 2004: 138).

The reform of education includes reduction of government subsidies, which has significantly increased the households' actual expenses for education. In Beijing, the tuition fee for a high school student is about 4000 Yuan per year, while in 2002 the average annual income for non-working staff was only 2774 Yuan. Poor households cannot afford the cost of education, which forces them to consider reducing their children's years of schooling.

Medical care reform is another example of a significant cost increase (Duckett, 2004: 155–73). Up to 2002, 94 million residents had joined the medical insurance programme, accounting for 63.9 per cent of total staff and workers (State Statistics Bureau, 2004: 543–4). Among them, 24.74 million retirees had joined medical insurance, accounting for 58.6 per cent of total retirees. However, even those who have joined medical care insurance schemes sometimes do not receive full reimbursement of medical costs because their enterprises have gone bankrupt and cannot pay their contribution to the insurance premium. As a result, reimbursement is delayed. Meanwhile, the cost of medical care has increased significantly over the years (Duckett, 2004). In 2000, a visit to the local surgery cost, on average, 86 Yuan, a six-fold increase from 1990. In contrast, the real

income of poor households has decreased. In this circumstance, illness has become a major factor in driving poor households into deep poverty and tipping vulnerable households into poverty.

The ‘Outsiders of the System’

Outsiders include those who are self-employed and those who have never been inside the state system, even in the socialist era. A large number of self-employed individual workers have appeared after economic reform. They do not have work-unit affiliation and thus are outside the state system. In the 1980s, they were engaged in small and informal sectors, forming a social stratum that benefited from the emergence of markets. However, since the 1990s, many cities have begun to demolish simple stores and kiosk shops and to ban the use of the pedestrian pavement for trade. Petty traders and hawkers lost their trading places and were forced to abandon their businesses. The regulation of small businesses has become more stringent, with various fees and fines imposed on them, which effectively reduced the profitability of self-employed businesses. On the other hand, market competition has become intense, and some private businesses have accumulated enough capital to transform their small shops or workshops into small retail enterprises and firms. But it has become more and more difficult for the individual self-employed to initiate new businesses and to survive market competition. Most of the self-employed belong to the informal sector. Because of a lack of skills and necessary capacity, they cannot find a job in the formal labour market. The informal sector has never been covered by social security, even in the socialist era. The individual workers are vulnerable because declining health, illness or a sudden change in life course can knock them into poverty.

Besides self-employed individuals, a large number of employees who work in the private sector, township and village enterprises, joint ventures, and various non-governmental organizations are in the formal labour market but without work-unit affiliation. Although they are working in these enterprises or organizations, there is no dependent relationship between the workplace and employees. Their working contract could be terminated at any time. The wage level of these private sector employees may not be low, and indeed may even be relatively high compared with state workers; however, they have no workplace benefits in the form of housing allocation or state pension. Because China is now experiencing peak labour supply, with an annual increase in the working population of over 10 million, supply exceeds demand in many sectors of the labour market. The private sector, especially at the low end of the labour market, thus cuts wages and offers no fringe benefits. Employers do not even

contribute their share to the social security programme and their workers therefore remain outside any social security system.

The outsiders of the state system are already in a marginal position because of their low educational attainment. Such a marginal position has become even more peripheral, with the new social security being designed mainly for the working population (and to some extent for newly laid-off workers while they are in a programme of re-employment). The programme of re-employment, which is now ended, pushed those laid-off workers into unemployment. Some began to work in the informal sector. For those who were outside the system, although they benefited from the expansion of the informal labour market initially, economic restructuring has released more workers into the informal labour market and some of this initial advantage has been lost.

To sum up, economic restructuring forced a significant number of workers to leave the state system and at the same time squeezed the informal labour market. The transformation of welfare provision by commodifying housing, education and health care adds new burdens to the poor who have not been deemed eligible for the MLSS. The poverty groups are thus fragmented by their previous status and the advantage or otherwise that this gives them in the new system.

SUMMARY

Market-oriented reforms in China over the past 30 years have simultaneously led to the accumulation of wealth and the deprivation of livelihood. In particular, since the 1990s, a large population of urban poor has emerged in Chinese cities. This chapter described some of the institutional processes that have led to poverty generation. We attempt to explain why in a country with a history of relatively low wealth inequalities and income differentiation, massive urban poverty has been generated during a period of rapid economic growth.

In the planned economy, urban hardship was limited to the 'Three Nos'. Unemployment and poverty were regarded as the social problems of capitalism. The full-employment policy and integrated social security within the workplace ensured a low incidence of poverty. Since economic reforms, the egalitarian ideology has been replaced by 'allowing the few to get rich first'. In particular, since the 1990s, social stratification has increased across various dimensions (Tang and Parish, 2000). The institutional reforms and industrial policies have aimed at promoting economic growth and the 'optimal' allocation of resources, for example, closing down 'sunset industries', laying off redundant workers, increasing

economic incentives, differentiating income, and allowing the owners of capital to derive private profit from investment. All these policies are 'double-edged', because they stimulate economic efficiency but at the expense of social equity losses. Those who are marginalized by the market-oriented reforms, have for various reasons, and not surprisingly, fallen behind in wealth accumulation. Many have fallen into poverty.

By tracing the institutional process of urban poverty generation, we can see that the 'new' urban poverty is not entirely new. In fact, the creation of new urban poverty is tied up with the social differentiation existing in the pre-reform regime and exacerbated by the new market transition. Unlike the traditional urban poor, caused by individual incapacity, the new poverty is generated by the disjunctive social entitlement in the process of economic restructuring and welfare retrenchment. De-industrialization and the demise of SOEs have generated a significant number of laid-off workers, forming the core of the new urban poor. The majority of the new urban poor population have little hope of returning to mainstream of society. Their demographic attributes, such as low education levels, already constrained them to the periphery of the state system in the socialist era and further led to their marginalization in the market transition. They have borne the cost of economic restructuring without receiving adequate support under the new social security policy. For those who were 'outsiders' of the state system in the socialist era, the market reform has generated new negative externalities, making their survival more difficult. They were subject to the disadvantaged condition under state-centred industrialization and are now further marginalized by market-oriented transformation.

For the 'insiders' of the state system, the lifelong security and privileged welfare provision, in comparison with deprived rural farmers who produced the social surplus for industrialization, have been eroded by economic restructuring, the decline in the state-owned sector and welfare provision gaps. While the state has established a countermeasure, namely MLSS, to large-scale redundancy, the limitations of MLSS are significant.

The new social security aims to 'rationalize' the cost structure by emphasizing the role of 'social insurance' and personal contributions to insurance premiums. While it might be effective for the working population, for those who survive at the margin of poverty, such a reform of social policy is becoming increasingly irrelevant. Their modest income is barely enough for physical survival, let alone for coping with the rising cost associated with the privatization of housing, medical care and education. The increasing gap between rich and poor, and the emergence of impoverished and deprived neighbourhoods should give cause for concern

for the social sustainability of Chinese cities. The unemployed and laid-off workers, together with other marginal groups, are in desperate need of social security, but are confronted with gaps in a changing pattern of welfare provision through which they can so easily plunge. The transition of social welfare is either a direct cause of their poverty or exacerbates their underprivileged condition. They have lost the right to lifelong social security, conferred as an unwritten contract between the worker and the state in the old system, without gaining replacement entitlements to welfare provision. Therefore, for at least a significant proportion of the newly impoverished, without the hope of returning to the mainstream labour market, redistributive policies associated with citizenship are imperative. The implication is that, while generating more employment opportunities is still important, it must be realized that the pressure of employment will not be eased (Chen, 2000: 170; Lee and Warner, 2004), at least in the short term. Economic restructuring led to the disappearance of jobs. However, it is only part of the broad dynamics of social marginalization, which is generating an impoverished urban population. The other important factor is the legacy institution from the pre-reform era, namely the *hukou* system. We will elaborate this institution-based discrimination in the chapters that follow.

Various institutional reconfigurations, to form a regulatory regime that is more market-compatible, seem to be working against the marginal population. Social marginalization works in a similar way to that in advanced capitalist economies, which have been described as in transition from a 'welfare' to 'workfare' regime. However in China at the present time, the welfare safety net that the government can put in place is pitifully minimalistic and is aimed only at preventing absolute poverty. The lack of capacity (or willingness) to develop a universal social security system that guards against relative poverty and that gives sufficient support to keep impoverished households functioning within the urban system means that poverty has grown along with income differentiation. Local governments are more willing to use vast earnings from land in infrastructure investment. Income differentiation in itself is an inevitable and necessary condition of economic growth. Preventing the households at the lowest end of that distribution from becoming destitute and from the position of not being able to invest in the future of their children is avoidable.

Paradoxically the social policy reforms have often exacerbated poverty, and the new social security system must therefore be extended to go beyond allowing the poor to survive on the margins of poverty. While there has been a significant expansion in social security coverage, the overall rationale follows a welfare retrenchment in that the state work-units-based full welfare entitlement has been abandoned along with

workers' job contracts, and this has been replaced by a new uniform safety net set at a destitution-avoiding minimal standard. The current minimum living standard programme keeps the poor on the edge of survival without adequately protecting their capacity to invest and develop their human capital. China's new urban poverty is emerging in the context of rapid economic growth and overall enhancement of living standards.

The structure of this book is as follows. After this introductory chapter, Chapter 2 analyses poverty incidences and the determinants of poverty rates among different social groups and neighbourhoods. We pay particular attention to the concentration of poverty, in both social and spatial terms. Chapter 3 further describes a detailed poverty experience of different social groups. We draw the material from our interviews in low-income neighbourhoods to paint a picture of their livelihood and trajectory of poverty experience. Chapter 4 focuses on impoverished neighbourhoods and tries to understand how poverty is generated in specific areas and how the poverty experience is contingent upon the neighbourhoods' position in urban development. We provide detailed documentation of our surveyed neighbourhoods and their transition. Then, in Chapter 5 we explore poverty dynamics, especially with reference to property rights changes. We quantify the implication of entitlement failure in education, health care and housing. In particular, we examine landless farmers and the mechanism that marginalizes them into the new urban poor. In conclusion we aim to give a broad picture of poverty incidence and distribution in low-income neighbourhoods in Chinese cities but also focus on specific poverty experiences and trace their root cause.