



The Rising Urban Poverty and Political Resentment in a Transitional China: The Experience of Shanghai

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Abstract

Despite China's economic achievements in the last two decades, the market reforms have also brought about a widening income gap, reduction in social welfare, and rising unemployment. These factors are responsible for the emergence of a large number of urban poor, primarily composed of laid-off workers, unemployment persons, retired labours and urban migrants. As a marginal group, they suffer from economic inadequacy as well as violation of civil rights. Consequently, the urban poor raise a heightened anger with the negative result of the accelerated institutional transition and government's inability to respond to social problems. Thus conceived, this paper will attempt to (1) analyze the changing mechanisms for the new urban poverty stratum in China; (2) examine the effect of urban poverty on political protest and social upheavals; (3) examine the current policies and its deficits.

Keywords: Urban poverty, Social protest, Minimum living standard

1. The Emergence of Urban Poverty

Market reform over the last two decades has witnessed unprecedented economic growth in China. For instance, China's GDP has maintained double-digit growth for four consecutive years since 2002, including 10.7 percent growth in 2006, the fastest in a decade (National Bureau of Statistics China, 2006). Despite this achievement, the reforms have also brought about a widening income gap, reduction in social welfare, and rising unemployment (Hussain, 2003; Li & Piachaud, 2004; Yan, 2006). These factors are responsible for the emergence of a large number of urban poor.

Until the beginning of the 1990s, poverty in China was mainly regarded as a rural phenomenon, and the rural poor were the focus of anti-poverty policies. But in the 1990s, urban poverty emerged as a problem that potentially threatened a substantial percentage of the urban population as the transition towards a market economy moved along (Hussain, 2003). In the year 2001 working report of the State Council, the Chinese government officially acknowledged the existence of urban poverty by referring to "Marginal Groups" (Wu, 2004).

As the dragonhead of China's economy, Shanghai is well famous for its rapid development. Since 1996, Shanghai keeps a double-digit growth rate for 14 years in a row (Shanghai Statistical Bureau, 2006). With the expansion of the economy and industry, the annual per capita disposable income increased from 1075 yuan (US\$ 137) in 1985 to 18,645 yuan (US\$ 2375) in 2005 (Shanghai Statistical Bureau, 2006).

In terms of Hussain's (2003) classification of provincial poverty pattern, Shanghai is ranked towards the bottom of the table with a very low poverty rate compared with other provinces in China (see table 1). However, the increasing consumer price index and the unemployment problem have added to the burden of the poor, especially to those with low income.

Table 1. Provincial poverty pattern with poverty rate

Low 0-2%	Below average 2%-4%	Average 4%-6%	Above average 6%-8%	High to severe >8%
Beijing	Anhui	Guizhou	Gansu	Henan
Jiangsu	Fujian	Chongqing	Hainan	Shaanxi
Zhejiang	Guanxi	Hebei	Heilongjiang	Ningxia

Quangdong	Hunan	Hubei	Liaoning	Tibet
	Jiangxi	Qinghai	Jilin	
	Shanghai	Shangdong	Shanxi	
	Yunnan	Sichuan	Tianjing	
			Xinjiang	

Figure 1 presents a clear picture of the widening income gap between the rich and the poor. The lowest income group (bottom 10%) has a relatively slow income growth and almost 6.7 times slower than the highest income earners in 2003, an increase from 2.72 times in 1985. This depicts lagging life circumstances changing over time. Moreover, the unemployment rate of Shanghai is 4.4 per cent in 2005 (Shanghai Statistical Bureau, 2006), which is higher than the international level of 3.0 per cent (UNDP, 2004) and national level of 4.2 per cent (National Bureau of Statistics China, 2006) (see figure 2).

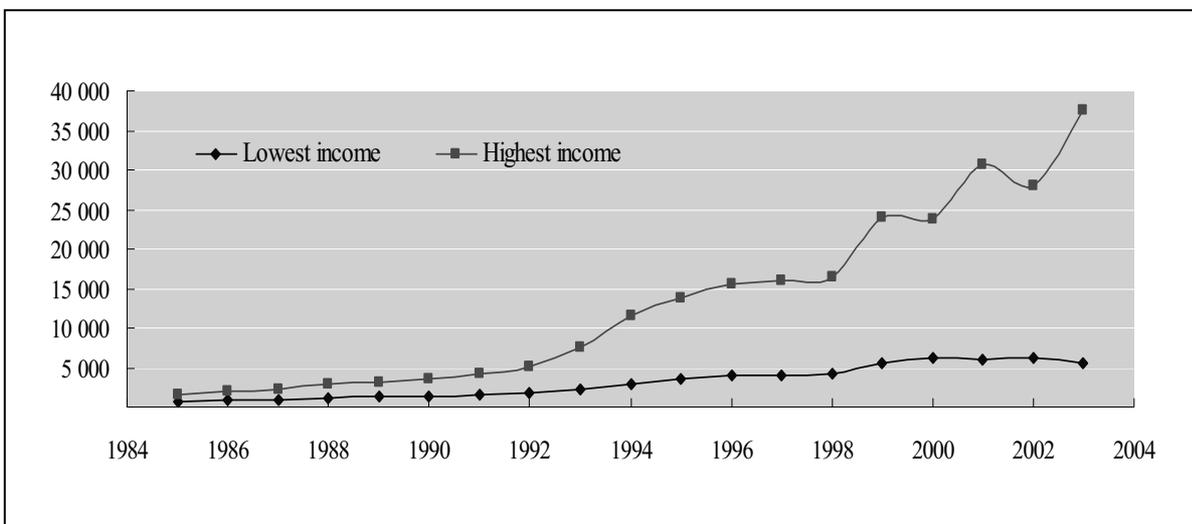


Figure 1. A widening income inequality in Shanghai (yuan)

(Source: Shanghai Statistical Bureau, 2006)

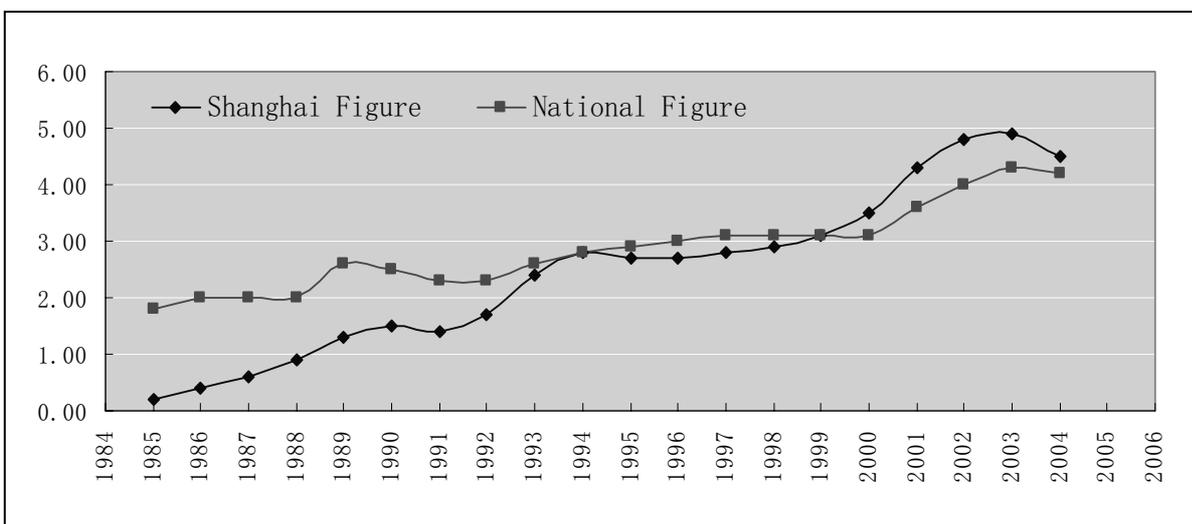


Figure 2. Officially unemployment rate between Shanghai and China

(Source: Shanghai Statistical Bureau, 2006; National Bureau of Statistics China, 2006)

2. Poverty and Poverty Line

The term “poverty” is a highly contested concept. It can be considered to have a cluster of different overlapping meanings depending on what subject area or discourse is being examined (Gordon & Spicker, 1998). For some, poverty is the inability to obtain the essentials of life; for others, a matter of low income; and for others again, a problem of social inequality (Spicker, 2002). As a result, both the measurement of poverty and the setting of a poverty line vary widely depending on the definition.

Approaches used to measure poverty include benefit receipt, income/expenditure levels and indicators of deprivation (e.g., see Baker & Schuler, 2004). One of the most common reasons for setting a poverty line is in order to calculate poverty rates (Baker & Schuler, 2004). These can then be used to monitor change over time. Generally speaking, different countries utilize different methods to set their poverty line. The UK government uses multiple indicators based on deprivation (Spicker, 2002), while the United States adopts a method called “Orshansky Poverty Thresholds (Note 1)”, which uses a set of monetary income thresholds that vary by family size and composition to determine who is in poverty (Proctor & Dalaker, 2003). For China, the poverty line is measured by “the cost-of-basic-needs” approach (Meng, Gregory & Wang, 2005), which is calculated by the weighted sum of food consumption expenditures and non-food consumption expenditures. Food consumption bases on a minimum energy intake requirement of 2,400 kcal per day (1984-1997) and 2,100 kcal per day (1998 to date) (Reddy & Minoiu, 2005). This expenditure is called the food poverty line. The non-food expenditure is estimated by a regression method proposed by Ravallion (Note 2) (1994).

The official poverty line in China is defined by the National Bureau of Statistics (NBS). In terms of the principle of “the minimum expense required to meet people’s basic living needs for necessary goods and services under the specific conditions of time, place and social development” (Tang, 1994), NBS calculated the 1984 poverty line as 200 yuan per person per year, 300 Yuan in 1990, and reached 637 Yuan in 2003 (Note 3) (Wang, 2004). A new poverty line which is meant “to reflect the steadily improving living standards of rural households” (National Bureau of Statistics China, 2006) was set up in 2000 based on a 60 per cent share of food in household consumption. This line is known as the “lower income line” and represented 882 Yuan in 2003 (Note 4) (Reddy & Minoiu, 2005). The poverty headcount rate (Note 5) based on this latter poverty line was 9.1 per cent in 2003, representing 85.2 million rural inhabitants.

However, this poverty threshold applies mainly to the rural poor population and the majority of related studies are concentrated on rural poverty, particularly on the past progress in China’s poverty reduction programs (e.g., see Chen & Wang, 2001; Yao, 2000; Reddy & Minoiu, 2005). Recently, there is an agreement that urban poverty has been on the rise in the 1990s (e.g., see Xue & Zhong, 2003; Khan & Riskin, 2001; Fang *et al* (Note 6), 2002), while the question of how many people have fallen within the criteria of urban poverty is most controversial.

For example, Hussain (2003) estimates that headcount index of national urban poverty is 37 million, or about 11.87 per cent of the urban population in 1998 in terms of an expenditure poverty line; if it is interpreted as an income poverty line, the poverty incidence is 14.8 million, or 4.73 per cent. All-China Federation of Trade Unions puts the urban poverty count at 18.28 million in April 2002, and in January 2003 the Civil Affairs Ministry reports an urban poverty headcount of 19.3 million, or about 6.2 per cent of the urban population (Riskin, 2006).

To date, there is no nationally unified urban poverty line in China due to the different pattern of consumption and average income per capita across localities (Riskin, 2006). Consequently, each city sets its own poverty line (Hussain, 2003). Generally, the higher the status of the city the higher the local poverty line. For instance, the national urban poverty lines currently fall in the range of 1,700 yuan to 2,400 yuan per year per head (Hussain, 2003) and Shanghai ranks far above this level. Based on the National Statistical Bureau Urban Household Income and Expenditure Survey (UHIES) for the whole country and for the period from 1986 to 2000, Meng *et al* (2005) draws three respective poverty lines for Shanghai (table 2). Currently, it is difficult to give the exact figure on how many people in Shanghai are living in poverty. Besides the use of different poverty measurements and lines, mass migration every year is a direct factor (Solomon *et al*, 2004).

In summary, there is no doubt that China has achieved impressive progress in reducing poverty, especially in rural areas, after rapid growth in the last two decades. But, when attention has been paid to rising urban poverty, we are still confronted with problems of imprecise poverty lines and until now, there is no specific research on urban poverty in the individual city. This leads to the justification for studying Shanghai as a case city.

Table 2. Poverty line for Shanghai, 1986-2000 (yuan)

	Food poverty line*	Upper bound of poverty line*	Lower bound of poverty line*
1986	365	536	472
1987	410	591	524

1988	535	708	640
1989	653	899	815
1990	735	1004	911
1991	585	1022	857
1992	968	1331	1190
1993	1250	1773	1570
1994	1778	2494	2211
1995	2101	2929	2614
1996	2280	3278	2876
1997	2369	3563	3079
1998	2339	3587	3058
1999	2294	3607	3033
2000	2414	3771	3142

(Source: Wang *et al.*, 2004)

* food poverty line is calculated by “the cost-of-basic-needs” approach; the lower poverty line is defined as the food poverty line plus the amount of food expenditure a household with total expenditure equal to the food poverty line is willing to forgo to buy non-food item; the upper bound of poverty line is defined as the total expenditure at which a household spends on food.

3. The Changing Mechanisms for Urban Poverty in Shanghai

Shanghai is an old industrial center of China, with a heavy concentration of old State-owned Enterprise (SOE). Since the central government confirmed the objective of developing a socialist market economy in the 1990s, Shanghai underwent a series of institutional transition to follow the new political-economic environment (Liu & Wu, 2006). To put it concretely, the restructuring of the state enterprise system together with the dismantling of “Iron Rice Bowl” policy of guaranteed lifetime employment has produced millions of laid-off workers (Qian & Weingast, 1996; Lin, Cai & Li, 2001), composing the predominant factor correlated with Shanghai’s emerged urban poor (Yan, 2006).

Before the restructuring, the features of the central planned economy were based on its socialist economic system and socialist egalitarian ideology (Guan, 2000; Yao, 2000). People living in Shanghai used to enjoy a high level of social welfare (Nickum & Schak, 1979). Specifically, urban workers in the SOEs enjoyed “welfare services from cradle to grave” (Cook & White, 1998; Hussain, 2003), including housing, medical services, pensions, child care, and jobs for children, while social relief was only needed to help those categorized as the “Three Nos” (no working ability, no income, and no family support) (Khan & Riskin, 2001;). The provision of welfare services at the enterprise level had the unintended consequence of serving as a deterrent against workers quitting and employers firing, even in the absence of official restrictions (Kanbur & Zhang, 2005). Almost all state employees, and many in the larger Collective-owned Enterprise (COE), have thus benefited from an “Iron Rice Bowl” policy and a relatively high wage in the enterprise. Consequently, urban poverty was almost non-existent at that time (Qian & Wong, 2000).

As the reform moved on, SOEs were regarded as highly inefficient because of their declining competitiveness and their increasing financial losses (Cook, 2000). This was exacerbated by the fact that SOEs lacked market incentives and had responsibility for all the social benefits of employees and their families. Recognizing that drastic restructuring was necessary, the planning quota for recruitment by state enterprises was abolished (Cook & White, 1998), and enterprises were allowed to choose their own employees (Guan, 2000). The state no longer took responsibility for matching the supply of and demand for labour (Knight & Song, 2003). Furthermore, the government decided to steer state enterprises into the market, holding them responsible for their losses even to the point of bankruptcy (Qian & Wong, 2000).

As a direct result, the number of SOEs experienced a sharp decline ever since 1992. With the increasing focus on economic efficiency, some unprofitable SOEs are closed and others are transformed into independent economic entities (Qian & Weingast, 1996; Cao, Qian & Weingast, 1999; Lin, Cai & Li, 2001). From table 3, we can tell that in 2003 the state sector in Shanghai only contributed to about 14.6 per cent of the Gross Industrial Output Value, down from 76.0 per cent in 1980.

Table 3. Declining importance of SOEs in Shanghai

	1980	1990	2000	2003
Urban working population (million)	105.25	170.41	231.51	256.39
Proportion of employees in SOE (%)	76.19	60.71	40.00	26.82
Proportion of industrial value of SOE (%)	76.00	54.60	26.10	14.60

(Source: Shanghai Statistical Yearbook, 2006)

In terms of employment, a large number of urban state sector employees were being laid off correspondently. In 2005, there were 0.21 million people working in the state enterprises, 89.8 per cent less than 1992 (Shanghai Statistical Bureau, 2006) (figure 3). In addition, housing subsidies were reduced to a very low level and the majority of households began to buy their own house rather than waiting for the allocation from the government (Gong & Li, 2003). Health coverage was changed from 100 per cent coverage by the government to a coverage range as low as 20 per cent for state sector employees and zero for other urban workers (Li & Piachaud, 2004). School tuition fees at all levels of education were increased significantly (Solomon, Yuan, Fei & Maher, 2004). More importantly, the government provided pension system was changed to an individual account system, which meant decreased pension coverage for a larger segment of the population (Cook & White, 1998; Gong & Li, 2003).

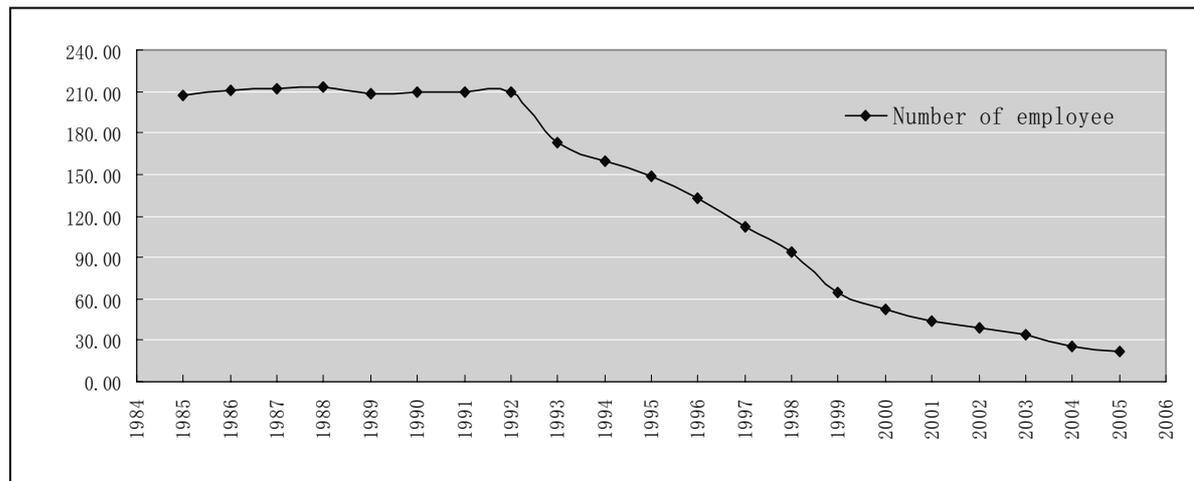


Figure 3. Employees in SOEs in Shanghai (10,000 persons)

(Source: Shanghai Statistical Bureau, 2006)

4. Urban Poverty and Political Resentment

The rising urban poverty might be transitional, but its duration may be persistently long for political tolerance. In Shanghai, unemployment and the rising income inequalities added to growing labour protests and have consequential impacts on its social-economic stability.

In Marshall's foundational book *Citizenship and Social Class*, he demonstrated that "citizenship is a status bestowed on those who are full members of a community. All who possess the status are equal with respect to the rights and duties with which the status is endowed" (Marshall, 1950). Unfortunately, the urban poor in Shanghai suffer from not only economic inadequacy, but also from serious violation of their political, civil and social rights (see table 4). Specifically, laid-off workers bear unfair and unjust treatment (Wang, 2004; Liu & Wu, 2006), unemployment persons receive no legal protection from the labor arbitration committee or the court (Lin, Cai & Li, 2001; Hong, 2005), urban migrants lack of rights to participate in any rule-making process (Guo, 2007), and all the poor people's political rights, such as that to vote and participate in the central organs of governments, is amount to nothing more than empty rhetoric (Hong, 2005). Moreover, the existing institutional structure does not allow any legal representation for unemployed workers (Hong, 2005). In other words, any organized effort outside of the control of the party-state to influence government policy-making is strictly prohibited (Tang, 2001; Guo, 2007).

Consequently, the urban poor raise a heightened anger with the negative result of the accelerated institutional transition and government's inability to respond to social problems. They even generate hostility toward the various power-capital groups and, in a larger sense, a growing power-capital economy (Tang, 2001; Hong, 2005). The conspicuous consumption and rampant corruption of the power-capital groups further ignite the feeling of animosity, which

contribute to unpredictable social upheavals (Hong, 2002). One study revealed that migrant children in Shanghai had no affinity with any power-capital groups and thus embraced a strong sense of resentment against mainstream society (Yan, 2005). When individual rights of those new urban poor are jeopardized, they will engage themselves in political protests to influence the action of government (Kuan & Lau, 2002; Guo, 2007). The increased anti-government activities organized by the disadvantaged groups recorded their crisis of confidence and challenges of the government's legitimacy (Hong, 2002; Hong, 2005) (table 5).

Table 5. Selected reports on protests organized by Shanghai's urban poor, 03-06

Date	Short Descriptions	Source
03/13/2003	The police detained 45 land protesters who were en route to Beijing from Shanghai to petition the central government.	HRIC 03/14/2003
05/01/2003	132 residents upset at being evicted from their homes protested in front of Shanghai municipal government buildings.	HRIC 05/1/2003
06/18/2003	200 protestors gathered outside the Shanghai municipal government to protest unfair treatment in the sale of their housing.	BBC VOA 6/15/2003
10/20/2004	Three plaintiffs alleged that their homes were illegally destroyed by property developer on August 8, 2003. At the October 20, 2004 hearing of the case, the plaintiffs were barred from attending the trial, and the case was subsequently adjourned.	HRIC 10/25/2004
09/27/2006	Pensioners who have received inadequate social security benefits protested in the heart of city.	SCMP 10/05/2006
09/28/2006	30 hemophiliacs and their families who claim they were infected with HIV from a tainted blood product sold by a research institute protested outside Shanghai municipal government buildings.	SCMP 10/05/2006
09/30/2006	Urban residents protested against corruption after the sacking of Shanghai's party secretary, Chen Liangyu, and other officials who have lost their job on charges of corruption.	SCMP 10/05/2006

Note: (1) This table is intended to give a brief description for the type and frequency of protests among urban poor and represents only a small sample reported in the press.

(2) Media Abbreviations: BBC- British Broadcasting Company (UK), HRIC - Human Rights in China (US-based NGO), SCMP - South China Morning Post (HK), VOA-Voice of America (US).

5. The Current Policies and Its Deficits

Since urban poverty is a relatively new problem in Shanghai, understanding of the urban poor is limited. Current policies place a strong emphasis on the economic management and marketization (Wang, 2004). Less effort is given to equal distribution, basic needs, education and health.

However, to minimize large-scale anti-government actions and maintain social stability, Shanghai has taken the lead in introducing three basic guarantees since the 1990s: Minimum Living Standard Scheme (MLSS) for urban residents, Basic Minimum Wage for workers and Basic Unemployment Compensation for laid-off employees, along with a guarantee of salaries being raised gradually in accordance with living standards.

Specifically, the MLSS plays a critical role in alleviating poverty in Shanghai (Guan, 2000). The government defined the basic needs of a person living in Shanghai in terms of the cost of diet, dressing, housing, medicine, education and other social services (Meng, Gregory & Wang, 2005). At the beginning of implementation in 1993, the poverty line was set at 120 yuan (US\$ 15) per capita per month and adjusted every year in response to the changing inflation rate and

price index. In 2006, the poverty line of Shanghai rose to 320 yuan (US\$ 41) (Shanghai Civil Affairs Bureau, 2006), which was ranked highest in China, and more than two times its initial level.

However, as the last defense line against urban poverty, the minimum living condition guarantee promised by the government has proved to be ineffective in fulfilling the designated role (Hussain, 2003; Knight & Song, 2003; Yan, 2006). A threshold of 320 yuan (US\$ 41) means that large numbers of households surviving on incomes near or above this line are not covered. With less than a quarter of the eligible urban poor actually receiving the assistance, the MLSS is too limited to be an effective social safety net (Liu & Wu, 2006). Moreover, the long-term migrants living in Shanghai for more than six months are completely excluded from this social protection schemes (Ravallion & Jalan, 1999), as it is based on the *hukou* system, or urban household registration (Solomon *et al.*, 2004; Wang, 2004).

6. Policy Directions for the Solution

Shanghai's rising urban poverty has been created under the transition from state socialism to market socialism and is mainly composed of laid-off workers, unemployment persons, retired labours and urban migrants. Suffering from economic disrespect and political discrimination, they will potentially raise their political opposition and rally toward government.

Therefore, to cope with these difficulties, Shanghai government should lift the level of welfare provision and further take responsibility to ease social turbulences caused by the urban poor.

First and foremost, it is imperative to guarantee equal rights of citizens and ensure social justice. The government should set citizen rights of its people as the highest principle. Specifically, the scheme of minimum living standards should serve as a catch-all to describe what it is that the citizen can expect (Hussain, 2003). A strategy for social inclusion rather than anti-poverty or anti-exclusion should also be built up. One important advantage of this approach is that the result is a social inclusion strategy for everyone, rather than just a means for dealing with citizens who possess the urban *hukou*.

Second, it is imperative to loosen restrictions on free political expression and bottom-up public participation in the political process. The heavy-handed control mixed with negative reactions to labour protests would only lead into more serious political challenges to the current regime (Kuan & Lau, 2002). In this manner, the current village election might be a useful example of trading political rights for social stability (Hong, 2005). Prior to implementing the village self-election system, the government had to cope with seething rural discontent with a hard effort. Having compromised by giving the rights of political self-determination and democratic participation to villagers, the government now has little difficulty regulating and governing its countryside.

Last but not least, it is imperative to require the inclusion of urban residents in the process of decision-making. In deprived areas, people should be consulted, involved and listened to in defining and meeting their needs.

Overall, The purpose of the government should not be to target policies more carefully on the poor, but to ensure that there is a general framework of resources and services which are adequate for people's needs, and can be used by everyone.

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Table 4. Social benefits and rights distribution in Shanghai, pre-reform and post reform

Occupational Class	Civil Rights				Political Rights				Social Benefits and Rights										
	Speech & Religion		Equal Justice in Law		Participation in Voting		Being Elected		Free Education		Sickness Benefit		Job Security		State Pension		Minimum Wages		
	Pre-	Post-	Pre-	Post-	Pre-	Post-	Pre-	Post-	Pre-	Post-	Pre-	Post-	Pre-	Post-	Pre-	Post-	Pre-	Post-	
Cadres	-	-	++	++	++	++	++	++	++	++	++	++	++	++	++	++	++	++	++
	-	-	++	++	++	++	++	++	++	++	++	++	++	++	++	++	++	++	++
	+	+	+	+	++	++	+	+	++	++	++	++	+	+	++	++	++	++	++
Workers	+	+	+	+	+	+	-	-	++	++	++	++	++	++	++	++	++	++	+
	+	+	+	+	+	+	-	-	++	++	++	++	++	++	++	++	++	++	-
Other residents	+	+	+	+	-	-	-	-	+	+	-	-	-	-	-	-	-	-	-
	+	+	+	+	-	-	-	-	+	+	-	-	-	-	-	-	-	-	-

Key: ++ full rights; + some or partial rights; - minimum or no rights;

Pre-, pre-reform period, 1949-1978; Post, post-reform period, 1978-present;

SOE, state-owned enterprise; COE, Collective-owned Enterprise

Note: The enjoyment of the rights was judged subjectively and a value of full rights, some rights or no rights was assigned to each group. The assignment is only an indication of the relative situation because most of the benefits or rights are difficult to quantify. They were also taken as an average situation across the group.