



Civil-Military Relations in Today's China Swimming in a New Sea

David M. Finkelstein and Kristen Gunness, EDITORS

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EDITORS



An East Gate Book



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An East Gate Book

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Introduction

David M. Finkelstein

Since the mid-1990s the Chinese People's Liberation Army (PLA) has been undergoing an ambitious reform and modernization program. Acting upon its own assessments of the rapidly changing nature of modern warfare in the wake of the first Gulf War—and changing perceptions about China's security situation—Beijing's military leadership concluded that the armed forces of China were ill-suited to cope with its future defense-related challenges. In response, the leadership of the PLA embarked on a path of reform aimed at building a more professional force in a corporate and institutional sense, and a more capable force in an operational sense.

In recognition of the transformative changes under way in the PLA, the small but prolific cohort of international scholars who comprise the subfield of “PLA studies” have produced an impressive array of articles, monographs, studies, and volumes aimed at capturing the totality of change in the world's largest defense establishment. The field is now firmly in a data-rich age relative to the past, as a result of the accessibility of Chinese-language materials, many of them published by the PLA itself. The exploration of issues is increasingly expansive—the development of new operational concepts and war-fighting doctrines; the modernization of weapons; and a host of organizational, institutional, and procedural changes, to name just a few—and it is now possible to bore into narrowly focused professional issues with a good deal of supporting data.¹

Where the field has yet to go in a sustained and focused manner, however, is to place PLA modernization and reform within the broader domestic context of a changing China. The PLA does not exist in a vacuum. The ability of the Chinese military establishment to achieve many of its near- and long-term objectives will be as much a function of what a rapidly changing Chinese society can or cannot support, as a function of the plans and aspirations of the PLA.

This volume identifies some of the major trends emerging in Chinese society that have implications for the PLA—topics that require further study by both specialists of the PLA and scholars immersed in the larger issues of social, economic, and political change in China. It seeks to highlight the emerging dynamic between civil society in China and the PLA as an institution. As such, this book speaks to civil-military relations writ large. Traditional approaches to civil-

military relations in China, such as “Party–army relations” and relations among the national-level civil and military elite are addressed. However, the chapters in this volume cast a wider net. The civil-military nexus is explored from various vantage points: at “the center” and in the provinces; between civilian leaders and military leaders; from a strictly military perspective and from a civilian perspective; and from the angle of emerging domestic issues and trends that cut across all sectors of the polity. Additionally, this volume looks inside the Chinese military establishment itself. It explores how social, economic, and political change—forces operating beyond the institutional boundaries of the PLA—are affecting norms and structures within the military and are serving as catalyzing forces for adaptive change within the PLA.²

The chapters herein were originally presented at a conference sponsored by The CNA Corporation in Alexandria, Virginia, in May 2004. For two days, an impressive group of scholars from the United States and beyond held forth before an exceptionally well-informed audience to challenge past assumptions, provide new insights, seek out continuity, and highlight change in civil-military relations in today’s China. The questions around which the conference was originally organized, and the questions addressed in this volume, represent large-order issues. They include:

- What are the most significant domestic issues emerging within greater Chinese society that might serve to propel or impede the modernization and reform agenda of the PLA?
- How will the new generation of civilian and military elite interact at the national level as they ply their respective institutional agendas?
- What is the nature of the relationship between the local civil governments and local military authorities? Where do they cooperate? Where are the tensions?
- Will the PLA be able to attract, train, educate, and retain the “high-tech soldiers” it needs to man and maintain its much-hoped-for high-tech force?
- What impact will China’s changing economic environment have upon the ability of the PLA to equip itself, sustain itself, or mobilize national assets in support of military contingencies?

Individually, the chapters that follow provide a remarkable amount of granular insight into the particular topics they address, and identify many specific issues worthy of future research. Collectively, the chapters in this volume present a complex mosaic of emerging interrelationships and dynamics between civil society and the Chinese military establishment. If nothing else, the scholarship in this book underscores the fact that there is much we do not fully understand, and there is more research to be done.

The remainder of this introduction will highlight some of the larger-order issues the editors believe provide the reader with a glimpse of the complexities of the emerging civil-military dynamic in today’s China.

A double-edged sword for the PLA: The changing dynamics in Chinese society attendant to over two decades of “reform and opening up.”

In some cases, the advances of the so-called “rising China” augur well for the aspirations of China’s leaders to modernize the military. For example, China’s booming economy adds to the increasing levels of funding that the PLA needs to modernize the force (new equipment and technologies) and pay for operations, maintenance, and especially personnel. Moreover, growing pockets of capacity in key sectors of China’s “new economy” are assisting the PLA in the research and development of the high-end technologies its new war-fighting paradigms demand. In Chapter 11, James Mulvenon identifies the information technology (IT) sector as an example of this. One could also point to the emergence of a private sector economy as creating opportunities, heretofore unimaginable, to rationalize the inefficiencies in the massive logistics system of the PLA by providing the option to “outsource” for common use goods and services it previously had to provide for itself—the “socialization [*shehuihua*] of logistics,” in the parlance of the PLA.

In other cases, socioeconomic change engenders challenges to the institutional agenda of the PLA. The same economy that is supporting PLA modernization—especially the private sector—now provides stiff competition to the PLA in attracting the best and brightest of China’s youth to the officer corps and offers challenges to the retention of the military’s most talented officers. On the enlisted side of the house, the highly educated urban high school youth the PLA needs to man the force as conscripts are oft-times loath to heed the bugle’s call and find ways to evade locally mandated conscription quotas, whereas the rural poor still see PLA service as a means of personal advancement. While the ranks are being filled, they are not necessarily being manned with those the PLA desires.

Emerging demographic trends affect the PLA as much as they do the rest of Chinese society.

Rising life expectancies, the growing gender imbalance, and the “one-child policy” have each affected the PLA. Increased life expectancy is one of the many benefits of a modernizing China. Yet the “graying of China” comes with its own set of pressures on the government. For the PLA in particular, this means increasing burdens on the military benefits and retirement system as the ranks of retirees grow. It also means problems for retention as those officers who have the requisite skill sets to successfully move into the private sector do so in order to financially support the emerging “4-2-1” family structure (4 grandparents, 2 parents, 1 child). In some cases, “PLA couples” (e.g., husbands and wives who are both commissioned officers), have had to make a conscious decision that one spouse should leave the PLA and find employment in the more lucrative private sector economy in order to more adequately

support the new Chinese nuclear family, and to hedge against the declining financial advantages of serving in the military relative to opportunities elsewhere.

The growing male–female gender gap and population growth in China ensure that the PLA will continue to have an ample pool of males available for conscription. However, the gender gap also hurts retention in that conscripts fear becoming one of the legions of China’s “unmarriageable males” if they stay in the PLA past their required term of service before returning to their home of record.

Moreover, China’s “one-child policy” brings its own set of challenges to the PLA. As Xiaobing Li writes in Chapter 2, as of 2006, “only-child soldiers” will account for 52.4 percent of the force. This trend comes with dual implications. A survey conducted by the political officers in one particular group army (cited by Li) is instructive: on the one hand, the survey found that “only sons” tend to outperform soldiers with siblings in verbal tests, communication skills, and aptitude for computer use. On the other hand, “only-child soldiers” tend to exhibit normative behaviors that are worrisome from the perspective of unit cohesion and effectiveness. These behaviors include reluctance to engage in high-risk training, problems in cooperating with peers, and a sick call rate twice that of soldiers with siblings. While the data sample on this issue is admittedly small, it is highly suggestive that, if nothing else, the PLA itself is concerned with understanding the implications of the new demographics of Chinese youth.

Working in conjunction with the realities of market forces, the greatest impact China’s one-child policy has had on the PLA is the revision in 1998 of the national conscription policies. Prior to 1998, conscripts sent to the ground forces (the army) served for three years, while conscripts sent to the navy and air force served for four years. In 1998 new laws reduced service to two years for all services and branches in the PLA. A key driving force for the reduction in service time was rising pressures from below over the hardships and opportunity costs associated with the absence of only sons for so long a period. In the countryside, the issue revolved around the economic hardships rural families faced with their only sons’ labor unavailable for working the family farm in the absence of a rural social safety net. In the cities, parents of well-educated “only sons” were becoming deft in finding ways for their only-child males to evade military service so as not to miss opportunities for college or higher-paying private sector employment. Needless to say, the new policy has had an immediate impact on the PLA. The amount of time conscripts on active duty now have to train to standard is seriously curtailed, with uncertain, but potentially serious, implications for unit readiness.

The most complex adjustments in civil-military relations in today’s China are those occurring at the local level.

It is in the provinces, counties, and municipalities where the national defense responsibilities of civilian authorities, the institutional requirements of the PLA, and

changing socioeconomic circumstances on the ground are intersecting to create new tensions and challenges.

Since the founding of the People's Republic of China (PRC), civil-military relations at the local level have exhibited a duality of cooperation and competition. In times of great duress, cooperation and mutual support between civil and military authorities, and soldiers and civilians at the local levels, have usually been the rule, not the exception. Whether combating floods or fires, providing disaster relief in the wake of earthquakes, or even during the recent "campaign" against severe acute respiratory syndrome (SARS), local governments and local PLA garrisons have worked in concert for the greater good. This is the story the Party-state would prefer to tell.

At the same time, throughout the history of the PRC, frictions in civil-military relations have always been manifest at the local level, albeit for different reasons. Of course, in the founding days of the PRC, local government *was* military government, and the intervention of the PLA in local governance during the Cultural Revolution (1966–1976) is well known. These represent civil-military relations *in extremis*. More recently, in the 1980s, a prominent cause of tension in civil-military relations was the increase in incidents of theft from PLA facilities, a situation that grew so bad that the National People's Congress had to pass stringent laws criminalizing such acts. A major source of civil-military friction and acrimony at the local level that began to peak during the decade of the 1990s was the unfair business advantages the PLA enjoyed relative to local entrepreneurs (not to mention the corruption that went hand in hand with "PLA Inc."). As a result, in 1998 the civilian leadership ordered the PLA to divest its commercial operations.

Various chapters in this volume underscore the fact that civil-military tensions at the local level in today's China are increasingly a function of the pressures under which civilian and military officials labor to meet their respective national defense responsibilities in the face of new socioeconomic challenges at the "grass-roots level." These pressures stand in bold relief when considering the challenges posed by conscription, demobilization, and the mustering of civilian assets for national defense mobilization.

As mentioned earlier, the widening gender gap and continued population growth in China ensures, in theory, that there is no dearth of males available for conscription—and it is the responsibility of local civilian officials to produce them every year for the PLA. But meeting the quotas for *qualified candidates* is often problematic. For example, in rural China, the breakdown of the traditional household registration system (the *hukou* system), the dissolution of the large agricultural communes of yore, and especially the exodus of country youth to the cities and coastal regions in search of work and higher wages is making it increasingly difficult for local officials to produce their quota of males who possess the requisite educational levels, clean criminal records, and medical qualifications for military service. The pressures on local officials are compounded by the compressed conscription cycle in the wake of the new military service policies. As a result, as

Sijin Cheng points out in Chapter 12, the PLA is not always getting the raw material it needs. The unqualified, with the connivance of pressured civilian officials, can buy their way into the PLA (RMB 10,000 for males and RMB 20,000 for females, according to Cheng's anecdotal evidence). At the same time, the qualified, especially in the cities, can buy their way *out* of military service by purchasing false statements of medical disqualification. Another phenomenon associated with the challenges to conscription is that wealthier villages and townships are now known to collect gifts of monetary remuneration to compensate families who help local officials meet their quotas by sending their qualified sons off to military service. The rural poor do not have that option. As a result of these practices, local PLA officers, especially those from the People's Armed Forces Departments, are being forced to carefully screen the records of conscripts, make physical visits to families to inspect circumstances, and keep local officials "honest" in meeting their obligations—and laws have now been passed to hold local officials accountable if they are found to be complicit in conscription fraud.

A potentially larger-order challenge at the local level—and one that has national-level implications for social stability—is the issue of demobilization. Unknown numbers of two-year conscripts, possibly numbering in the six figures, are released from mandatory military service each year and sent back to their homes of record. "Unknown numbers" is the operative phrase because there are no official or publicly available figures from the PRC on the number of persons annually conscripted or released back to civilian life. These former soldiers must be reabsorbed into their communities. In theory, these returning "draftees" are supposed to be guaranteed job placement, given preferential treatment for various social services, and in some cases provided a living allowance (*shenghuo buzhuifei*) until they begin civilian employment.

It is the responsibility of local civil governments to provide these service-connected benefits for demobilized conscripts. Depending upon the economic conditions of the locality, and the numbers of conscripts returning home, these requirements can pose tremendous burdens that not all localities can meet. These obligations were being so unevenly fulfilled at the local level that in 2002 Beijing had to step in and issue the *Circular on Conscientiously Implementing the "Conscription Order" and the "Demobilization Order" of the State Council and the Central Military Commission and Further Strengthening and Standardizing the Work of Preferential Resettlement* under the authority of the State Council's Ministry of Civil Affairs. In effect, the circular was meant to force local officials to meet their obligations to demobilized conscripts. And the "center" has a large stake in ensuring that they do. In May 2003, Professor Yu Jinrong of the Chinese Academy of Social Sciences published research which found that a good number of the peasant uprisings in one county in Hunan Province that he studied were led by males with prior service experience in the PLA.

Equal, if not greater, than the socioeconomic burdens posed by returning conscripts is the challenge of absorbing the hundreds of thousands of career officers who have been, and continue to be, released from service in the course of the massive

reductions in force that have taken place in the last few years.³ The difficulties associated with the reintegration of former officers into larger Chinese society, the complex options and accompanying regulations devised at the national level to accommodate officers released from active duty, and especially the burdens under which local governments are laboring to absorb these numbers, are not well understood. In this regard, the chapter written by Maryanne Kivlehan-Wise is most illuminating. For example, the unknown tens of thousands of officers who have chosen to take lateral transfers to state sector jobs (*zhuan ye*, one of several options) are finding local officials hard-pressed to place them in civil bureaucracies that are under their own pressures to downsize, or in state-owned factories that are already struggling due to an inefficient employment structure. Placing these demobilized officers in jobs is all the more difficult when local officials have to deal with skill sets incongruous with local needs. Moreover, since the civil service and the military personnel systems have evolved along dissimilar paths over the past decade, finding positions in which the demobilized officer receives a comparable level of salary and benefits is a complex endeavor.

A final issue in local civil-military relations that presents new challenges to both civilian and military officials is the impact of the rise of a private sector economy on the national defense mobilization system. Of course, local governments are still bearing the costs of raising and training their people's militia units and providing logistical support to the PLA when large exercises are held in their locales. That has not changed. The new twist for civil and military officials is the uncertain legal basis for enlisting the assets of private enterprises to support civil defense activities and national defense mobilization exercises. For private entrepreneurs, "time is money" and resources sent to support mobilization activities are resources not applied to achieving the "bottom line." Who, if anyone, will compensate local private entrepreneurs for the use of their resources? On what legal basis do local civil-military authorities request the support of private assets? What happens if local entrepreneurs do not provide the materiel or people they are asked for, as was the case, according to Xiaobing Li, in Hainan Province in 2002 when only 50 percent of the civilian vehicles requested for a mobilization exercise actually showed up? For years now, PLA mobilization officials, from the General Staff Department down to the county-level offices of the People's Armed Forces Departments, have been voicing a dire need for the National People's Congress to pass a National Defense Mobilization Law to grapple with these and other unresolved questions. The fact that as of this writing such a law has yet to be passed is an indication that the complex interactions of politics and economics on this issue have yet to be resolved.

The PLA is exhibiting adaptive capacity both in adjusting to China's new realities as well as taking advantages of new socioeconomic conditions to achieve its own ends.

China's new socioeconomic environment clearly presents many challenges to some of the PLA's modernization and reform requirements. The PLA, however, is re-

sponding in kind. Where socioeconomic realities beyond its institutional boundaries present impediments, the PLA is adjusting the intra-institutional policies and practices that it can control. Where the new socioeconomic realities provide opportunities, the PLA is demonstrating initiative in taking advantage of them. Both of these institutional behaviors are manifest in considering the issues of changed conscription laws and in reforms of the PLA educational system.

Nearly simultaneously with the promulgation of the new national conscription policies that reduced mandatory service for conscripts to only two years (1998), the PLA in 1999 issued a revision to its Regulations on Military Service of Active-Duty Soldiers. The new Regulations laid the foundation for the creation, for the first time, of a professional corps of noncommissioned officers (NCOs). By January 2001, the four general departments of the PLA issued the PLA Regulations for Managing Noncommissioned Officers. These first-ever regulations provided detailed policies and procedures for the recruitment, professional development, and career management of a cadre of professional senior enlisted personnel. The new NCO Corps program, still in its infancy, will replace the previous haphazard and nonstandardized practice of granting voluntary extensions to conscripts who previously served as surrogates for a professional NCO Corps, compensate for the turmoil resulting from shorter two-year conscription periods, and nurture a professional and full-career enlisted force to meet the demands of modern warfare. The new conscription policies did not necessarily serve as the sole driving force behind the creation of the new NCO Corps program; the PLA had identified this shortfall quite a few years earlier and had been studying foreign models since the mid-1990s. It is quite likely, however, that the new conscription policies served as the forcing function for the PLA to move forward with the program and for the timing of the decision to implement the program.

A clear example of the PLA taking advantage of new economic realities and putting them to work for its own agenda was the creation in 1998 of the National Defense Scholarship program, discussed in Chapter 8 by Thomas Bickford. The economic reality the PLA was able to take advantage of was the rising costs of a civilian college education in China—costs increasingly out of reach for talented but financially challenged high school students. The agenda item for the PLA was the need to matriculate officers with undergraduate educations—especially in science and technology—that its own military academies were not capable of producing. The solution: providing partial scholarships to worthy high school students to attend civilian universities in return for a commitment to be commissioned in the PLA upon graduation.

Another example of the PLA exhibiting adaptive behavior also comes from the realm of educational reform. In Chapter 9, Kristen Gunness discusses how the PLA is taking advantage of advances in China's civilian higher education system beyond providing scholarships to undergraduates bound for commissioning in the military. The PLA is now "partnering" with top-notch civilian universities in a variety of ways for various purposes: enrolling officers *already* serving on active

duty in advanced degree programs at the nation's best civilian institutions; pulling its own military academies up to a higher level of academic standards through curriculum reforms based on civilian university models; and enhancing the quality of instruction at PLA academies by accepting renowned civilian professors as visiting faculty. In addition, the PLA is looking to China's civilian academic institutions to raise the level of the work done in its own academic and technical research institutes by partnering with civilian universities in joint research projects. Where once leaders of the Chinese Communist Party (CCP) enjoined the people of China to "learn from the PLA," it is now clear that the PLA is quite prepared to learn from other sectors of society.

Other chapters in this volume present a host of emerging issues in China's civil-military relations. In his scene-setting chapter on social trends in China, Tony Saich addresses many of the major challenges Chinese society is facing today and speculates about their implications for the PLA. Of interest, he raises the prospect that the internal stability mission of the PLA—still important today—could become more important in the future given the potential challenges to social stability on the horizon. Both Cheng Li and Yu Bin underscore that in today's China, the top civilian and military leaders at the national level are men and women who have risen to national prominence within the relatively narrow confines of their respective institutions as Party-state bureaucrats or military technocrats. The absence of crossover leaders—meaning leaders with experience and networks in both the Party-state and military sectors—raises questions about how civilian and military leaders will wield their respective agendas. This issue engenders potentially serious implications, especially if the civilian and military leadership competes in the future for finite resources—an issue raised by Joseph Fewsmith in his chapter on the defense budget.

Looking at civil-military relations at the local level, Zhiyue Bo also identifies a lack of crossover leaders "beyond the ring roads" as a challenge to managing civil-military relations. Bo points to a relatively high rate of turnover by local-level civilian and military leaders as an additional challenge—a trend, he argues, that is driving increasing institutionalization of civil-military interaction in the absence of long-lasting personal networks.

To a certain degree, the increasing rates of rotation of military officers, especially at the local level, is a function of the phenomenon of rising professionalism in the PLA, a topic Lyman Miller discusses with an eye toward exploring its implications for the PLA as a "party army" and the critical role the PLA plays in regime maintenance. This is a theme You Ji also picks up on in his chapter on the changing role of PLA political commissars. You Ji highlights the important role of the political commissar in supporting the operational activities of the force, not serving merely as the representatives of the CCP in the military—a widely held misconception in the West, he asserts.

Finally, while the *traditional* concepts associated with “People’s War” are no longer germane to the PLA’s new war-fighting doctrines, Dennis Blasko argues that the *idea* of “People’s War” is by no means dead. To the contrary, Blasko says, “People’s War” is undergoing its own paradigm shift. Where this development intersects with the larger topic of civil-military relations is in regard to the new roles and missions being assigned to the people’s militia and the reserve forces as the PLA thinks through how it will prosecute what it calls “Local Wars Under Modern Informationalized Conditions.” Zhiyue Bo brings this back to the issue of civil-military relations at the local level by reminding us that the militia (*min bing*) is under the dual leadership of the local civilian government and the local military commands.

In his 1937 treatise “On Guerrilla Warfare,” Mao Zedong likened the Red Army to fish that must swim among the sea of the people in order to survive. The “sea” that is China and its people is undergoing dramatic change. Likewise, as the chapters herein suggest, the relationship between the PLA and Chinese society is undergoing its own set of changes. It is our hope that this volume will serve as an encouragement to others to continue research on these issues and deepen our understanding of the changing civil-military dynamic in today’s China.

Notes

The editors gratefully acknowledge the contributions of Larry Ferguson of The CNA Corporation in helping to prepare this volume for publication. So too do we recognize, with appreciation, Patty Loo of M.E. Sharpe for her continued enthusiasm for our projects.

1. For an example of how the data can now take the field of PLA studies deeply into a particular aspect of defense modernization and reform, see *China’s Revolution in Doctrinal Affairs: Emerging Trends in the Operational Art of the Chinese People’s Liberation Army*, ed. David M. Finkelstein and James Mulvenon (Washington, DC: Beaver Press, 2005). Available online at www.cna.org.

2. For a discussion of adaptive change in response to extra-institutional stimuli, see Guy L. Siebold, “Core Issues and Theory in Military Sociology,” *Journal of Political and Military Sociology* (Summer 2001).

3. Most students of Chinese military affairs are well aware that in its search for a leaner and more capable military, the PLA has undergone two major reductions in force since the million-man demobilization of 1985: a reduction by 500,000 that began in 1997, and another 200,000-person cut that commenced in 2003.

Civil-Military Relations in Today's China

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1

Social Trends in China

Implications for the People's Liberation Army

Tony Saich

In the past we spent rather a long time mechanically copying the experience during the years of war. . . . Things are different now. . . . Even the army is different today. In the past the army was a matter of millet plus rifles and you could go into battle if you knew how to fire your gun, use the bayonet and throw a grenade. . . . The area of knowledge [now] is much broader. Today's army cannot get by using its past experiences, which is precisely the problem we must strive to resolve.

—Deng Xiaoping, *People's Daily*, March 5, 1980

Under the reforms of the last twenty-five years, the Chinese People's Liberation Army (PLA) has undergone significant changes to try to meet Deng Xiaoping's objective of building a new approach to warfare and modernizing the role of the army in society. Modernization and professionalization have accompanied the reduction in manpower. As James Mulvenon has noted in his report, *Professionalization of the Senior Chinese Officer Corps: Trends and Implications*, there has been a shift from the revolutionary generation to a new post-1949 cohort that is more experienced in modern warfare and consequently more inclined to modernization and doctrinal evolution. It is certainly better educated than before and enjoys increasing functional specialization.¹

The success of furthering this transition and enhancing the advanced capabilities of the PLA will depend not only on the internal training and strategic decisions of the PLA, but also on the outcome of debates and resultant policy priorities that will emerge from dealing with certain key social trends in China. Over the next fifteen to twenty years, China's leaders will have to grapple with a number of social trends that will have profound consequences for government policy and will have an impact on the social environment within which the PLA operates. Some,

such as rising inequality and the problems of employment generation, if not handled well, may lead to social instability and thus indirectly affect the PLA. Others, such as the potential spread of HIV/AIDS, will have a more direct impact on the functioning of the PLA. This chapter looks at four main social trends. First, it examines salient demographic trends, including the aging of Chinese society, the changing gender balance, and rising urbanization. Second, it looks at employment trends, data that derive from these shifting demographics, and whether sufficient employment can be generated to prevent large numbers of unemployed males from inhabiting new and old urban areas. Third, it looks at the rising inequalities that have been part and parcel of the reforms, a trend that will be amplified over the short term by the policy to increase urbanization. Last but not least, it examines the spread of HIV/AIDS, a potential threat that, if not confronted effectively, could lead to 10 million or more infections over the next decade.

These are the major social trends that will challenge China's stability for the foreseeable future. At first glance, some of these issues might seem remote from the development of the PLA, but we shall try to draw out implications, some indirect and some more direct. For example, will increasing unemployment and inequality cause social instability such that the PLA will be required to intervene to support the regime as it did in 1989? In terms of employment, will there be increased competition for highly skilled personnel and will the PLA be able to find the necessary skilled recruits to meet its modernization demands? Will the PLA have the budget to compete for pay and benefits with private and other sector employment? Will the military offer an interesting employment opportunity for China's educated elite, or will it attract primarily less qualified personnel? If the latter is the case, how will these personnel interact with government and new business elites? HIV/AIDS has ravaged a number of militaries in Africa, and China now stands at the edge of a potential HIV/AIDS epidemic. HIV/AIDS and the care of an aging population will increase the social costs of China's next phase of development. As these costs become clearer, China's leaders will have to make hard decisions about the allocation of scarce revenues. China will have the familiar "guns versus butter" budget debates as leaders decide how much money to allocate to fund pension obligations and defray other social costs in order to ensure social stability. Will this compete with current and new military spending?²

Demographic Trends

With China's rate of population growth declining significantly, the population is aging rapidly. This presents severe problems in terms of care for the elderly and rising pension and medical obligations. In some rural areas there are serious imbalances between males and females, in part due to the high rate of abortion of female fetuses and female infanticide, that will lead to a large number of unmarried males in the future. The future population will be increasingly urbanized as surplus labor is moved off the land and the question arises as to whether employ-

ment can be generated quickly enough to prevent unrest, an issue that is elaborated on in the following section.

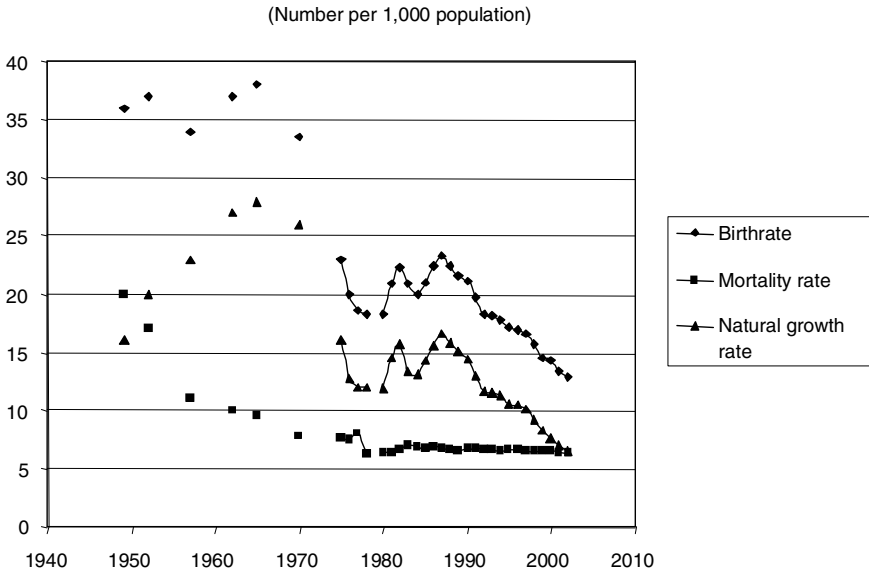
As is well known, in the early 1970s the Chinese leadership began to question the wisdom of Mao's policy against birth control, promoted to encourage rapid population growth. Especially as reforms began, there was fear that a population explosion would undermine any gains in economic growth. A number of doomsday scenarios were produced within China to show how different projections would affect China's progress, with the worst-case scenarios predicting economic collapse under the weight of excess population growth. The more relaxed policy of the 1970s was tightened in 1979 with the introduction of the one-child family policy.³ The objective of this policy is to hold China's population to 1.6 billion by 2050 from the current 1.28 billion. It is difficult to say how reliable the official population figures are because of evasion and underreporting by some families in the countryside combined with official connivance. There are clearly many more people than official statistics reveal, and in some counties the reported discrepancy between female and male children is alarmingly large.

China's birthrate dropped dramatically from 33.43 per 1,000 population in 1970 to 12.86 in 2002, with a corresponding drop in the natural growth rate from 25.83 per 1,000 to 6.45 per 1,000 in 2002.⁴ Mortality rates have also been dropping and now stand at 6.41 per 1,000 (see Figure 1.1). Obviously, these fertility rates will affect the population size and overall societal structure in significant ways.

First, the population will age considerably, with effects on the economy. Research has shown that, for example, there are links between aging populations and savings rates. Overall, the average age of China's population will increase by 13.8 years during the first half of this century, as opposed to the average age of the U.S. population increasing by 3.6 years in the same time period.⁵ Heller and Symansky have shown that the aging populations in the "Asian Tiger" economies will cause an overall decline in the world's savings rates.⁶ Cheng has concluded that China's lower fertility rate will in fact decrease the domestic savings rate. However, a lower fertility rate will also cause a higher return to labor because of its relative scarcity and a lower return to capital.⁷

Second, China's population will grow old while the country continues to industrialize and urbanize. Consequently, there will be an even greater need to maintain rapid and sustainable economic growth in the future. The aging population will create serious issues for the state in terms of meeting dependency ratios and pension obligations. Estimates of the percentage of the population over sixty-five years of age suggest a rise from 6.3 percent of the population in 2000, to 10.9 percent in 2020,⁸ to as much as 17.4 percent in 2024,⁹ and 22.7 percent in 2050.¹⁰ The number of the oldest old (those over eighty years of age) will also increase, according to the United Nations, from 11.5 million in the year 2000, to 27 million in 2020, and 99 million by 2050.¹¹ This group, which comprised 13 percent of the elderly population (age sixty-five and older) in 2000, will comprise 30 percent of the elderly population in 2050, and will grow faster than any other cohort.¹² This will

Figure 1.1 **Birthrate, Mortality Rate, and Natural Growth Rate**



Source: Data prior to 1978 come from *China Statistical Yearbook*, 1985. Data after 1978 come from *China Statistical Yearbook*, 2003.

also lead to a significant increase in medical costs: in reviewing the situation in the United States, Torrey estimates the cost of long-term care for those over 80 years of age at 14.4 times higher than the cost for those aged 65 to 74.¹³ Medicare costs are 77 percent higher for people over 80 than for those aged between 65 and 69, for example. As Jackson and Howe note, China may well become the first major country to grow old before it gets rich.¹⁴

The situation is particularly severe in the city of Shanghai. Shanghai was one of the youngest cities in the world at the time of Chinese Communist Party (CCP) victory in 1949, and is now one of the oldest in the twenty-first century. The proportion of people living in Shanghai over age sixty was 18 percent in 1999; this is up from 3.6 percent in the early 1950s, from 9 percent when reforms began in the 1970s, and is set to peak at 32 percent in 2030.¹⁵ Those over age eighty totaled 11.3 percent of the elderly population in 1999 and will peak at 16.3 percent of the total population of Shanghai.¹⁶ By 2030, in Shanghai Municipality, the elderly will be 1.67 times more numerous than those under age sixteen. Shanghai has thus achieved, in thirty years of reform, a demographic transition that took France 140 years and Sweden 80 years. The impact on the city is clear: many inner-city schools have closed down or become boarding schools for non-Shanghai residents, and many elderly residents are worried about who will look after them in their old age.

In Shanghai, some policy advisors have somewhat facetiously raised the suggestion that there should be a financial incentive to increase family size!¹⁷

These demographics will have major consequences for dependency ratios and pension obligations. As previously noted, the demographics are not good. In 1990, there were 13.74 elderly for each 100 people at work. In 2000, this number increased to 15.60, and is predicted to rise to 29.46 in 2025 and 48.49 in 2050.¹⁸ The ratio of the working to nonworking population is also dropping fast: in 1991 it was 6:1; it is anticipated to be 2:1 by 2020.¹⁹ Thus, whereas contribution rates for workers were only 3 percent of the payroll when China began to use this system in 1951, they had risen to 20 percent by the mid-1990s.²⁰ Unless something is done, by 2033 Chinese estimates suggest payroll rates will be around 40 percent.

Hussein has perceptively pointed out that an exclusive focus on the dependency ratio of the elderly is misleading. It ignores the large economic plus that comes from the declining dependency ratio of children (30.7 percent) that will bring benefits before the aging costs begin to heavily impact Chinese society. By 2020, it is calculated that children (0 to 14 years of age) will have dropped to 19.3 percent of the population. This is a significant decrease from 40.4 percent in 1964 and 23.9 percent in 1998.²¹

The 2002 total dependency ratio varies from a low of 28.56 percent in Beijing to a high of 51.29 in Guizhou. The highest child dependency ratio is in Guizhou at 40.9 percent, while the lowest is in Shanghai at 14.13 percent. Conversely, Shanghai has the highest elderly dependency ratio at 17.72 percent, and Heilongjiang has the lowest at 8.3 percent.²² It is important to note that the nature of support for these two groups differs. For children, much of the financial cost and care falls on the household, with the state picking up a large part of the external education costs, for example. Despite this, family costs for education are rising. A Horizon 2003 national survey showed that educational expenditures accounted for 24.6 percent of family income in major municipalities, and 17.4 percent in rural areas. For the elderly, especially in rural areas, the household carries the main financial burden. In urban areas, the picture is somewhat different, with the workplace and the local government carrying the pension burden for many. About 71 percent of retirees are from the state-owned enterprise (SOE) sector.²³

From 1997 onward, the Chinese government tried to implement a new pension scheme to address the problems associated with an aging population.²⁴ The most important question regarding this pension scheme is the following: How and when will the government deal with the funding of individual accounts as part of the new pension plan, and how will it manage the associated implicit pension debt? We know that pension nonpayment has been a key cause of urban protest; the image that Hu Jintao and Wen Jiabao have sought to project of the new leadership as a "caring" government will be severely damaged if it does not look after the nation's pensioners.²⁵

In addition to potential unrest, another consequence for the PLA is what priority the government will give to making up the shortfall in the pension system. This money will have to come from somewhere. New funds are unlikely as the central government

has a relatively weak capacity to raise revenues. There are varying estimates of how much the implicit debt is. The World Bank has calculated a range between 46 and 69 percent of the gross domestic product (GDP), while Wang et al. have estimated it to be 71 percent in 2000, and Dorfman and Sin have suggested a figure of 94 percent.²⁶ This is actually low in comparative terms since the pension coverage is limited to a relatively small percentage of China's total labor force. For example, in the United States, the implicit debt stands at 113 percent of GDP. In fact, if the Chinese government acts soon and adopts adequate measures, the fiscal costs should be manageable.²⁷

Currently in China, budget expenditures have been increased as a short-term measure to cover the shortfall in the pension system. At the March 2003 meeting of the National People's Congress, the finance minister announced a 38.6 percent increase in the social security budget to help those in difficult circumstances and to head off social unrest. However, strong competing budgetary demands make such increases difficult to maintain over the long term. Current thinking is to introduce a specific social security tax (now operating in sixteen provinces), but a better long-term strategy would be to open the pension funds to a market-driven approach, and to move away from centralizing pension pool administration while trying to reduce evasion and noncompliance by administrative means.²⁸ This may be the best route to avoid major budgetary clashes over resource allocations that will have consequences for the PLA.

In addition to an aging population, another adverse consequence of the one-child policy has been a distortion of male–female ratios. Essentially, there are three ways to meet the strong demand for male offspring: have more births, engage in female infanticide and generally discriminate against female children, or carry out forced abortion following prenatal sex identification. In some counties, the reported discrepancy between female and male children is alarmingly large. However, it is not at all clear how accurate these figures are. For example, one study shows that underreporting of births accounts for between 50 and 70 percent of the differential sex ratio.²⁹ The same study also claims that female infanticide accounts for 5 percent of this differential.³⁰ This discrepancy may be partly, but not completely, accounted for by underreporting. The current census shows the sex ratio of males to females at 106.74:100, resulting in 41.27 million more men than women. However, at birth, the ratio is 119.92:100 and by age four it is 120.17:100. The Jiangxi and Guangdong provinces have ratios of 138:01:100 and 137.76:100 respectively, with rural Guangdong at a rate of 143.7:100.³¹

This clearly indicates a strong trend of further imbalance in the ratio over the next ten to fifteen years and beyond. The implications of these ratios are that at least 1 million men per year will not be able to find a marriage partner, while more recent figures suggest even higher numbers.³² One assessment calculates that there could be as many as 100 million Chinese bachelors by the year 2020.³³ This will certainly drive up the bride price in rural areas, and will result in increased illegal trade of women and increased prostitution. One report suggests that the average price for a wife in Yunnan Province has risen in recent years from 3,000 yuan

(about US\$365) to around 15,000 yuan (about US\$1,829); a considerable jump when average rural incomes per capita were only RMB 2,622 (about US\$320) at the end of 2003.³⁴ Large numbers of males who cannot find a bride and are drifting into cities looking for work represent a potential source of unrest. The increase in clientele for commercial sex workers will also increase the potential for the spread of HIV/AIDS.

Over the next two decades, China will become increasingly urbanized. The hope is to move between 300 and 500 million people from the rural areas to towns and cities by 2020, creating an urban population of around 800 million.³⁵ In fact, urbanization is seen as the best way to provide a long-term solution to the problems of inequality that stem primarily from urban-rural differences. The main debate has been over how to manage this process, with proponents divided over whether to focus on developing major megalopolises along the coast, with these cities as the destination of migrants, or to focus on a more controlled development based on small-town expansion in the countryside. The latter would be more in line with the traditional ideas of sociologist Fei Xiaotong.

The 2000 census calculated an urban population for China of 455.94 million (36.09 percent of the total population).³⁶ This was calculated as a 9.86 percent increase over 1990, the year of the previous census. In world terms, China is "underurbanized" as a result of the controlled urbanization and the household registration system that was associated with it. Transitional societies have higher rates of urbanization, such as Hungary (64 percent) and Russia (73 percent), as do the remaining socialist countries (Cuba's rate of urbanization is 75 percent and North Korea's is 59 percent).³⁷ Zhou and Ma, using a constant basis for calculating the urbanization rate rather than the varying basis of the Chinese census, come to a figure of 36.25 percent urban population for year-end 2000, which is roughly the same as in the 2000 census.³⁸ Over the next ten years, this figure should increase to 40 percent at the current rates of growth. However, with current policy favoring urbanization, this figure is liable to be higher, perhaps reaching the 55 to 60 percent range.³⁹ Meeting this goal will present major challenges for the government in terms of investment in urban infrastructure and planning. It will also present significant challenges for job creation. In part, the programs for infrastructure will provide employment opportunities, but whether the service industry can be expanded sufficiently to deal with increased urbanization and accommodate the estimated 150 to 200 million surplus laborers in rural China remains to be seen.

Employment

The future employment trends for China will be to boost the underdeveloped service sector of the economy as a part of the urbanization process. Whether China can create jobs quickly enough to carry out this process smoothly remains an open question. In one sense, high levels of unemployment combined with underemployment and relative poverty in the countryside bodes well for a continued pool of recruits for

the military. However, these “lumpen elements” will not provide the better-educated recruits that the PLA increasingly wants to attract.

During the reform period, the PLA reduced its personnel from around 4 million to a little under 2.5 million. A further reduction of 200,000 men is under way. This reduction in personnel, it is hoped, will enable the PLA to provide better salaries, housing, and other benefits for its troops, who will form a better-educated force and officer corps. Despite the drop in numbers, however, personnel costs have still absorbed a proportionately large percentage of Chinese defense expenditures (approximately 33 percent in 2000).⁴⁰ Better pay and working conditions will be necessary, as the PLA will face considerable competition for college graduates from the expanding non-state business sector. As the impact of the World Trade Organization (WTO) agreement progresses, there will be more opportunities for graduates in senior management of both domestic and foreign companies. There may be tensions between a PLA leadership that is not as well educated as the civilian and business elites, and this could affect the army’s response to social crises.

The official figure for registered unemployment at the end of 1996 was 3 percent (6 million people); this had only risen to 4.3 percent by late 2003, despite employment in the SOE sector dropping from 113 million in 1995 to 65 million in 2002.⁴¹ The unemployment figures exclude those who have not registered as unemployed, including the large number of workers laid off (*xiagang*) by still-functioning SOEs. Thus, Zhang Guo and his colleagues estimated China’s real unemployment rate at 9.36 percent for 1997, Cook and Jolly estimated a rate of over 8 percent for 1998, and Athar Hussein and his colleagues calculated the rate at 12.3 percent during the late 1990s.⁴² Economist Feng Lanrui suggested that as many as 20 to 25 percent of the total workforce (urban and rural) may be unemployed by the turn of the century. This latter figure is in line with the latest calculation from scholars at the Rand Corporation, who estimate a disguised unemployment rate of around 23 percent, or 170 million people.⁴³

Not surprisingly, unemployment is worse in the Northeast and in Chongqing, which are home to a great deal of heavy and manufacturing industry. It is clear that the state sector will never again be the main engine for urban employment, neither for those laid off nor for the estimated 10 to 11 million Chinese who enter the job market annually. Recently, employment generation has not been keeping pace with the rate of economic growth of the working-age population, and growth has varied with increases in GDP. Hu Angang noted that, with GDP falling in 1998, only 3.57 million new jobs had been created—the smallest percentage increase in employment (0.5 percent) since 1949.⁴⁴ With the economy picking up again, job creation is improving, but official statistics calculated that with a 7 percent growth rate, China would have a job creation potential of only 10 million new jobs. This barely keeps pace with the job creation necessary, and is totally inadequate if one takes into account China’s surplus of rural laborers and migrants.⁴⁵ Wolf and his colleagues show a general lowering of employment generation growth.⁴⁶ Over the next decade, they calculate employment growth at 1.4 percent per annum: a slight increase from the

1.1 percent in the decade prior to 2000, but well below the annual employment growth of 4.2 percent in the previous decade.

This is producing a clear need to develop other avenues for employment growth. Hu Angang calculates that 55 million workers were laid off from 1995 to mid-2002.⁴⁷ Official statistics show that employment in SOEs and collectively owned enterprises had fallen by 31 million and 19 million jobs respectively from 1996 to the end of 2002.⁴⁸ This drop in urban employment has been paralleled by a slowing of employment growth in rural industry, which had provided a great boost to employment in the 1980s and the early 1990s. Employment fell from 135 million in 1996 to a low of 125 million in 1998, before rising again to almost 133 million in 2002.⁴⁹ Hu Angang has calculated layoffs from rural firms at 80.5 percent in Liaoning, 70 percent in Jilin, and 59 percent in Heilongjiang; areas already badly hit by SOE dismissals.⁵⁰ For example, Hu calculates that in 1999, while urban layoffs were 18.3 percent nationally, they were 37.3 percent in Liaoning, 31.9 percent in Jilin, and 31.3 percent in Heilongjiang.⁵¹

It is likely that employment generation will remain a major headache for the leadership over the next decade. Official accounts claim that until 2006, the SOEs will continue to shed 3 million jobs a year, while Lu Zhongyuan from the Development Research Center of the State Council calculates that in 2004 China will need to create 24 million jobs to absorb the new labor force, including migrants and college graduates. He does not believe that the pressure to generate employment will be alleviated for the next twenty to thirty years.⁵² Yet, while the former major sectors of the economy have been shedding jobs, the more vibrant sectors of the economy are prevented from sufficiently rapid expansion because of the lingering state bias against the non-state sector of the economy. How destabilizing these trends will be depends in part on the continued growth of the economy, the ability of the non-state sector to generate sufficient employment, and the capacity of the authorities to keep unrest in check. Certainly the workers themselves are not optimistic. A 1997 official trade union survey showed that one-third of the respondents thought it "likely" or "extremely likely" that they would be unemployed soon.⁵³ Given the situation, local authorities have been very successful at restraining unrest, and the inability of workers to ensure independent representation has also moderated strikes.⁵⁴ Wary of potential unrest, subsidies and "policy loans" are often reinstated to try to reverse the losses in key industries, such as textiles.

It is difficult to say whether the situation will lead over time to increased social unrest. Some may estimate that the worst is already behind China's leaders. However, employment generation still ranks high in the minds of China's citizens. In a national survey conducted in September 2003, employment generation and unemployment insurance ranked among the top five areas of dissatisfaction for urban and rural dwellers alike.⁵⁵

One route for job creation is the service sector, which in China employs a low percentage of personnel in comparison with other countries at a similar level of

development. Hu Angang has estimated that allowing foreign investment into this sector could generate a boom of 40 to 50 million jobs. The other main option for job creation is enhanced development of the private sector. At the end of 2001, the number of private enterprises was 2.03 million, up 34 percent from two years earlier, and the number of employees in the private sector was 27.14 million (up from 20.21 million in 1999).⁵⁶ Rural and urban private sector employment was estimated at 34 million at the end of 2002.⁵⁷ Geographically, however, these enterprises are heavily concentrated in the coastal areas, with Jiangsu, Guangdong, Zhejiang, Shanghai, and Beijing home to 54 percent of private industry, while the western provinces only have 14 percent.⁵⁸ It is clear that those provinces with a higher growth rate and standard of living are also those with a higher percentage of private enterprises. For example, in Wenzhou and Taizhou, where the private economy is dominant, there is little unemployment. In contrast are towns like Mudanjiang in the Northeast, which are dominated by old SOEs.

Inequality

Such employment trends have inevitably fed into the increasing inequality in China and to the creation of new pockets of poverty. China's development strategy post-Mao has consciously eschewed social equality and sought to use inequality as a stimulant for economic activity and growth. This is perhaps understandable given the attempts at enforced egalitarianism that were a hallmark of the Cultural Revolution. However, the strategy raises questions about the meaning of citizenship in China and who is entitled to expect what from the state. There is a clear urban bias to development as well as a coastal bias, and a conscious exclusion of rural migrants from integration into many urban services. The provision of public goods and services to some of the population while they are denied to others raises fundamental questions about what citizenship means in contemporary China. The key question is whether those left behind initially will be afforded the opportunity to catch up, or to at least not fall further behind.

The main factor explaining inequality in China is the growing urban-rural gap.⁵⁹ The urban-rural income gap was 2.6:1 at the start of reforms, and with the initial benefits to the rural population, this declined to 1.82:1 by the end of 1983. However, by the end of the 1990s, the gap had risen again to 2.8:1 because of increased opportunities in the urban areas and depressed rural incomes. According to the International Labor Organization, this gap is the highest in the world: few countries exceed 1.6:1. In a 2004 study, researchers at the Chinese Academy of Social Sciences confirmed these figures and suggested that if one factored in education, health, and unemployment benefits, the gap could be four to six times as great.⁶⁰

Perhaps of most concern is not the inequality itself, but the fact that it has been rising despite the reforms. At the start of the reforms, China's Gini coefficient was 0.33. A study on income distribution by the Economics Institute of Nankai University estimates that the Gini coefficient rose from 0.35 to 0.4 in the years from 1988 to

1997. If unpaid taxes and other illegal income were included, the coefficient would be between 0.42 and 0.49. This puts China on par with Latin America, places it far worse than high-income countries (with a coefficient of 0.338), and worse than the Asian-Pacific region as a whole (with a coefficient of 0.381).⁶¹ Even China's official newspaper, the *People's Daily*, reported a figure of 0.457 for 1999 and 0.458 for 2000.⁶² Not surprisingly, while the wealthiest 20 percent of the population had 36 percent of total income at the start of reforms, they had 51.4 percent by the late 1990s. By contrast, the poorest 20 percent had 8 percent at the start of the reforms and 4.06 percent by the late 1990s.⁶³ The latest Chinese Academy of Social Sciences survey shows the wealthiest 1 percent enjoying 6 percent of total income and the wealthiest 5 percent with 20 percent.⁶⁴ For a country that still describes itself as socialist, these trends are difficult to justify and could provide an easy rallying point for any opposition.

Combined with rising income inequality, the unequal distribution of resources across local authorities and the incentives for spending priorities account for the huge variation in the provision of public goods and services during the transition. Access to health and education services was still widely available in the 1980s, but became more dependent on incomes in the 1990s. For example, in 1998, 22.2 percent of those in high-income areas were covered by cooperative medical facilities, but only 1 to 3 percent of those in poorer areas were covered.⁶⁵ In particular, as the World Bank concluded in its 1996 report on China, "the downturn in China's health performance relative to its income level coincided with agricultural reform that reduced the ability of the village to tax the peasants."⁶⁶

The urban bias of central policy has clearly exacerbated the differential access to public goods and social welfare, and individuals are increasingly left to find the best support available with their own resources. This has been particularly noticeable with healthcare provision. Government health spending is inadequate and heavily biased toward the urban areas. In fact, the state's financial commitment to rural health services has been declining as a percentage of total medical and health expenditures from 21.5 percent in 1978 to around 10 percent in the 1990s. With health costs rising, it is not surprising that illness is one of the most cited reasons for poverty among the poor, something exacerbated by the collapse of the pre-paid collective medical system, resulting from the disbanding of communes in the early 1980s. Thus, some 90 percent of rural households have to pay directly for almost all of the health services they use. It is not surprisingly that illness has a close correlation with poverty.

A recent national survey revealed that in 2003, medical expenses were equal to 10.3 percent of household income for those in major municipalities and 9.6 percent for those from rural China.⁶⁷ This might not sound like a large amount, but many families are going without the medical help they need. The national survey also showed that in 2003, of the 3,967 interviewed, 25.1 percent of those who should have sought medical help did not because of cost, and 17.2 percent who should have stayed in the hospital after surgery or an illness did not do so. Other surveys have revealed an even more problematic situation. The Ministry of Public

Health has calculated that 37 percent of farmers who should have seen a doctor did not do so, while 65 percent of patients who should have been hospitalized were not treated because of their inability to pay.⁶⁸

Given such problems, it is not surprising that the real levels of poverty in China are well above the official figure of 28 million at the end of 2002. Indeed, the Asian Development Bank, using the norm of \$1 per day in purchasing power parity and using the preferred consumption norm, suggests that China should have about 230 million poor residents, some 18.5 percent of the total Chinese population.⁶⁹ If one applies a norm of \$2 per day, 53.7 percent of the total population is poor. This puts China roughly on par with Indonesia (15.2 percent and 66.1 percent, respectively) and considerably better off than India (44.2 percent and 86.2 percent respectively).⁷⁰ These figures might be high, but other evidence also suggests higher poverty levels.

Official Chinese statistics do not cover urban China, and until very recently no systematic study had been carried out. The Asian Development Bank calculated a total for the urban poor of around 14.8 million in 2001, about half the official total for rural poverty. This had risen to 19.63 million by September 2002. The number of urban residents who received minimum subsistence support was 21.4 million in March 2003.⁷¹ Such figures clearly underestimate urban poverty and do not include the migrant population. A 1999 survey by the National Statistics Bureau revealed a 15.2 percent poverty rate for migrants, some 50 percent higher than the poverty rate in the local communities they came from.

What such figures reveal is that despite tremendous progress, China still confronts a number of policy challenges. First, there is a significant group of rural poor who have not responded to policy measures, market openings, and the benefits of "trickle down." Second, there is a very large group that is vulnerable to economic downturn and tends toward recidivism. Third, there is a smaller but rising number of urban poor who are the product, rather than beneficiary, of reform. This argues for a better public policy to deal with resolving poverty based on a better understanding of who the poor are and why they are poor. However, a shift to a pro-poor growth strategy would have budgetary consequences for the wealthier coastal areas and potentially for the PLA.

China's investment patterns and preferential fiscal policies have favored the coastal regions at the expense of the interior; formal credit access is highly biased to capital-intensive SOEs, and rural net taxes are highly regressive. To change this situation would require a major reallocation of resources that, in turn, would require a significant shift in political sentiment. Despite the Chinese leadership's goal of building a comfortable (*xiaokang*) society since the Sixteenth Party Congress (November 2002) and Hu Jintao's and Wen Jiabao's populist disposition, a major reorientation of resources is unlikely given the structure of political power. The new Politburo, like its predecessor, has a strong provincial representation but essentially represents the richer, coastal areas of China. On election, it looked as if there was a limited attempt to appoint some leaders from the inland areas, but subsequent personnel shifts have taken away that illusion. Sichuan, the most im-

portant province in western China, still enjoys no representation at the highest levels—despite the campaign to develop the West. The party secretary of Xinjiang does have a seat on the Politburo, but this has more to do with the center's intent on maintaining its territorial integrity and resisting any moves for autonomy rather than concerns about poverty and inequality. This means that, for all intents and purposes, the new Politburo resembles the old, with major municipalities (Beijing, Tianjin, and Shanghai) and the wealthy coastal province of Guangdong enjoying representation, while the inland and poorer areas of China are excluded. Given this, one can presume that policy will continue to be biased in favor of the “haves” while lip service will continue to be paid to the needs of the “have-nots.”

The Potential of the HIV/AIDS Epidemic

The outbreak of severe acute respiratory syndrome (SARS) in the winter/spring of 2002–03 alerted the Chinese government not only to the relative weakness of its rural medical system but also to the dangers of infectious diseases that could undermine economic growth.⁷² Subsequently, it is clear that more serious policy attention is being paid to the threat posed by HIV/AIDS.⁷³ At first glance the figures for HIV/AIDS infections in China do not look alarming, certainly not in comparison to sub-Saharan Africa. Estimates of HIV-infected people from the Chinese government and international organizations range from 800,000 to 1.5 million, a low prevalence of 0.2 percent of the population. The number of AIDS-related deaths is officially calculated at only 800. Thus the infection, while widespread, has a low prevalence in the general population, and is concentrated in certain provinces.⁷⁴ Given the many pressing policy challenges that China's leaders face, this has caused HIV/AIDS policy to be placed on a back burner.

However, cases have now been reported in all provinces and the trends are beginning to show that China stands on the edge of a spread from specific regions and communities to the population at large.⁷⁵ HIV/AIDS is a long-wave disease with deaths only occurring some ten or more years after the initial infection. This means that the impact of the disease, such as AIDS orphans, loss of breadwinners in the household, and the enormous strain on the health system, will not be felt on a significant scale for another decade or so. In South Africa, the prevalence rate has risen from around 1 percent in 1990 to over 20 percent in 2003. Other southern African countries wrestle with rates up to Botswana's staggering 38.8 percent.⁷⁶ These figures argue for an early, aggressive public policy response. The Chinese leadership seems to have recognized this, and an institutional framework for dealing with HIV/AIDS is being established as well as a number of policy initiatives being promoted. However, as with many other areas, it remains to be seen whether there are sufficient incentives for local governments to act responsibly.

Problematically, China has a number of features that are conducive to the spread of HIV/AIDS. As we have seen, it has a surplus of males, a population that is increasingly mobile and one that will become more urbanized over the next de-

cade. Also, China has low levels of awareness about the disease and how it is spread, plus a growing commercial sex worker community that will contribute to the spread of sexually transmitted diseases (STDs).⁷⁷ China's official figures for HIV/AIDS are generally viewed as underestimating the scope of the disease, in part because of poor surveillance mechanisms and also because of low levels of knowledge about the disease within the healthcare community. U.S. intelligence estimates put the total for 2002 at between 1 and 2 million, while one UN official told the *New York Times* that China might have a total of 6 million. Some have claimed that Henan Province alone might have over 1 million carriers.⁷⁸

Whatever the truth of the figures, the infection rate is increasing sharply and the profile of the disease is beginning to look similar to other parts of the world. The Chinese Ministry of Health calculated that from January to June 2003, the reported HIV-positive increase was 20.3 percent over the previous period, while AIDS cases increased by 140.1 percent.⁷⁹ Currently in China, the largest group of infections is among intravenous drug users (IDUs), who account for over 60 percent of infections. Transmissions from heterosexual or homosexual activity account for 8.4 percent, and tainted blood transfusions account for 9.4 percent.⁸⁰ This still leaves 18 percent of cases in which the cause of infection is not known. Zhang Konglai, analyzing the figures from March 1985 to 2000, has a similarly large number of unknowns (20 percent), but finds that 72.6 percent were IDUs, with 6.8 percent from heterosexual or homosexual contact and only 0.5 percent from blood and blood products.⁸¹ This reveals the shift of the disease into the sexually active population. Importantly, in China, more males are infected than females—the reverse of the situation in other countries; but this is also beginning to change. While Zhang found a ratio of 5:1, Han reports a ratio of 3.99:1, which is dropping rapidly.⁸²

In all at-risk groups, the infection rates are rapidly increasing, with a strong potential for spreading into the general population. In February 2004, Shen Jie, deputy director of the China Disease Prevention and Control Center, noted that over the next few years, heterosexual contact would become the major transmission channel for HIV/AIDS.⁸³ In fact, the proportion of sexually transmitted HIV infections increased from 5.5 percent in 1997 to 10.9 percent by the end of 2002.⁸⁴ Evidence from China suggests that it is the more educated and more affluent who are more likely to visit a commercial sex worker. According to Pan Suiming, the wealthiest 5 percent of men are thirty-three times more likely to visit commercial sex workers than the poorest 40 percent.⁸⁵ Also, managers, factory owners, and businessmen are ten times more likely to visit commercial sex workers than are urban manual workers, and twenty-two times more likely than male laborers in rural areas.

HIV infections in IDUs increased five hundred fold from 1995 to 2000, rising from a prevalence rate of 0.02 to a peak of 12.1 in 1999 before dropping to 10.0 in 2000. Not surprisingly, the exact number of IDUs is unknown. Public security figures mention a population of 1 million, but others suggest a population of 5 to 6 million. Injection of drugs will remain the dominant mode of transmission in