



## **Inclusive Development, Chinese Style**

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**Abstract:** This study develops an analytical framework based on political economy from the intercalations of economic growth, social tensions and policy settings towards inclusive development. We came out with a four dimension indicators to make international comparisons on inclusive development among 5 most populous countries. In the context of economic growth and social transformation, the ideology of Chinese Communist Party (CCP) aims to build the socialist with Chinese characteristics generates the strong political will to mitigate the social tensions generated from the dramatic social changes along with rapid economic growth and the dissolution of traditional welfare institution in the planned economy through the inclusive development outlook. This study reviews the policy settings for inclusive development from multi dimensions, including poverty reduction, social programs, and coordination development policies. We also investigate some institutional factors that affect the effectiveness of inclusive development policies from the political capacity and the policy implementation. This study concludes with the regime support for China’s inclusive development and how to make more sustainable in the future.

**Key words:** Inclusive Development, policy settings, state capacity, development planning, regime support.

### **Introduction**

Since the economic reforms and opening launched in 1978, China has achieved a high economic growth for nearly four decades as the largest developing and transition economy in the world, from a low-income country to an upper-middle income country. Against the rapid economic growth, China’s development inequality is widely recognized. For example, income inequality extensively exists between the rural and urban areas and between the coastal and inland regions. The Gini coefficient, as one conventional measure of income inequality, is higher than 0.45, which is

regarded as an alarming level. In addition, along with the high-income inequality, the significant development disparity in various social programs, such as the provision of education and health care. Despite that the high development disparity in China exist for a long time, China has made great progress in poverty reduction, and the development disparity also declined substantially in the past decade, such as income inequality and social programs, i.e., inclusive development. Traditionally, the international community on China studies mainly concern with China rapid economic growth and tremendous social changes, the inclusive development with Chinese characteristics received less academic concern comparatively. This study aims to present explanations of China’s inclusive development and three questions are addressed, including the incentives that China adopts an inclusive development strategy, what the main policy regimes are for the inclusive development and how these policies towards inclusive development are implemented.

China today is quite different both from the command economy of 40 years ago, and from the “Wild West Capitalism” of 20 years ago. The government in China has much more influence over the economy than in virtually any other middle-income or developed economy. Government five-year plans command attention, both domestically and internationally. The Communist Party remains in power. What, then, how is China going on with inclusive development? What is the role of China’s government in the process of inclusive development? And, thus, how China is adopting an inclusive development strategy?

This paper concentrates on Chinese government’s role in inclusive development. Firstly, we make a brief literature review on what has been done in the previous research on China’s inclusive development and come out with an analytical framework. Secondly, we use four dimensions’ indicators to evaluate five most populous developing countries on inclusive development performance. Thirdly, we analyze how much financial resources did Chinese government spend on inclusive development. Fourthly, we investigate if the government adopted inclusive strategy self-Consciously. Fifthly, we argue that if there is a regime support for inclusive development in China.

## **What we know and What don't we know?**

Previous research develops the conceptual and instrumental dimensions of inclusive development from a four-fold intellectual agenda. First, inclusive development is used to counter the dominant neoliberal capitalist agenda. Second, we build on concepts such as inclusive growth, inclusive economics, well-being, social justice and human rights. Third, we argue that inclusive development in the context of the ‘great acceleration’<sup>1</sup> and the Anthropocene<sup>2</sup> has

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<sup>1</sup> Steffen, W., Crutzen, P.J. and McNeill, J.R. (2007) The Anthropocene: Are humans now overwhelming the great forces of nature. *Ambio: A Journal of the Human Environment* 36(8): 614–621.

<sup>2</sup> Crutzen, P.J. (2006) The ‘Anthropocene’. In: E. Ehlers and T. Kraft (eds.) *Earth System Science in the*

global dimensions requiring research into how to share our common 'ecospace'<sup>3</sup>. Finally, inclusive development has to be analyzed using a relational approach to understand why it is being poorly or adversely implemented.<sup>4</sup>

Economic analysis, the recent high economic growth in the inland provinces is heavily dependent on a huge input of capital, which is driven by public investment and seems not to be sustainable. To achieve a more inclusive and sustainable development, the Chinese Government and policy-makers should pay more attention to the issues of the low growth of TFP (total factor productivity) and the low growth of labour input in less-developed provinces.<sup>5</sup> Power asymmetries within the bureaucracy, within civil society and across territories interact in ways that hinder state capacity to promote more inclusive development policies.<sup>6</sup>

Although it is considered necessary to analyze china's inclusive development strategy since the reform, there has been debate on income distribution and GDP growth. Most of these debates are focused on the issues of income/wealth distribution, institutional reform and the development of the legal system.<sup>7</sup>

It is predicted that inclusive development can be implemented by (i) developing relevant epistemic communities, communities of practice and social movements, (ii) transforming governance into interactive governance to enable empowerment and (iii) adopting appropriate governance instruments. It concludes that inclusive development will only be brought about through genuine interactive governance that provides the instruments and creates the conditions for adaptive learning and the empowerment of marginalized people.<sup>8</sup>

Social inclusiveness has its roots in human rights, inequality, redistribution, rural development, entitlements and capabilities concepts. Social inclusiveness aims at empowering the poorest through investing in human capital and enhancing the opportunities for participation.<sup>9</sup>

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Anthropocene. Berlin/Heidelberg, Germany: Springer, pp. 13–18.

<sup>3</sup> Gupta, J. (2014) Sharing Our Earth, Inaugural address as Professor of Environment and Development in the Global South, University of Amsterdam, 5 June.

<sup>4</sup> Gupta, J., et al. (2015). "Towards an Elaborated Theory of Inclusive Development." The European Journal of Development Research 27(4): 541-559.

<sup>5</sup> Dai, E. (2016). "China's inclusive development strategy and its effect on regional disparity." *Journal of Chinese Economic and Business Studies* 14(3): 263-278.

<sup>6</sup> Rebecca Neaera Abers, Marilia Silva de Oliveira & Ana Karine Pereira (2016): Inclusive Development and the Asymmetric State: Big Projects and Local Communities in the Brazilian Amazon, *The Journal of Development Studies*, DOI: 10.1080/00220388.2016.1208177

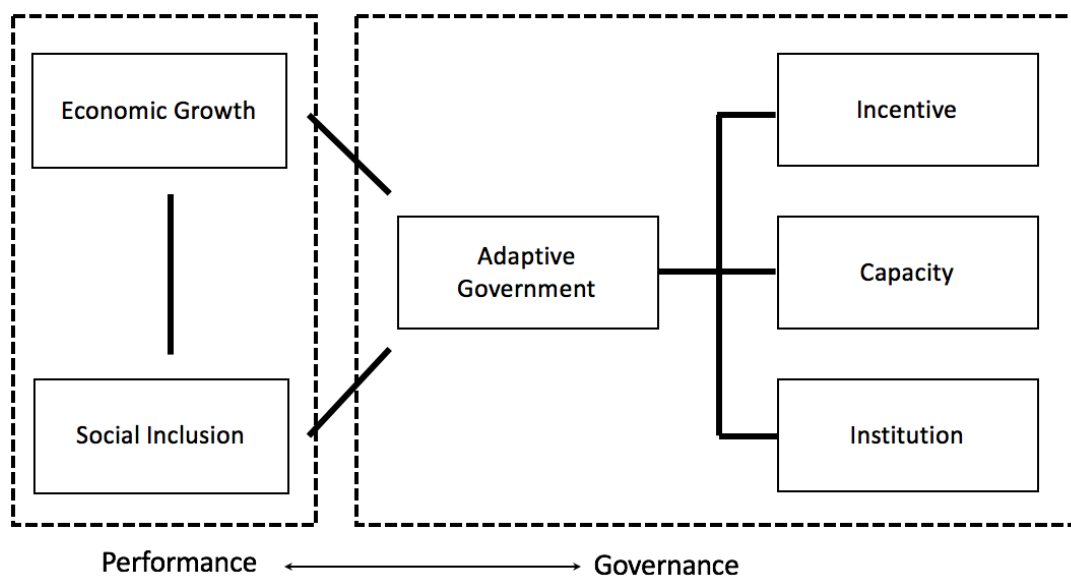
<sup>7</sup> Dai, E. (2016). "China's inclusive development strategy and its effect on regional disparity." *Journal of Chinese Economic and Business Studies* 14(3): 263-278.

<sup>8</sup> Gupta, J., et al. (2015). "Towards an Elaborated Theory of Inclusive Development." The European Journal of Development Research 27(4): 541-559.

<sup>9</sup> Thorbecke, E. (2006). The evolution of the development doctrine: 1950–2005. UNU-WIDER Discussion Paper 2006/155. Helsinki: World Institute for Development Economics Research of the United Nations University.

What is obvious that inclusive development is not naturally happened with market. There are more work needed to be done by the government including central and local level, as well ad NGOs.

We take out the analyzing framework in order to evaluate inclusive development and how it is worked(see figure 1).



**Figure1 Analyzing Framework on Inclusive development**

## **Performance: An International Perspective**

Inclusive growth, first proposed by the Asian Development Bank in 2007, is that "effective inclusive growth strategies need to focus on creating high growth in productive jobs, ensuring equal opportunities for social inclusion and reducing risk, And to the most vulnerable groups to bring a buffer of social safety net. "Inclusive growth is to promote equal opportunities for growth. ADB published "Asia 2050: Achieving the" Asian Century "report in 2012, stating that if Asia can achieve inclusive growth, crossing the middle-income trap. By the middle of this century, Asia accounted for half of global output, trade and investment, Per capita GDP (purchasing power parity) will be more than 40,000 US dollars, also more than the world average (37,000 US dollars).

There is no generally accepted definition of "Inclusive development", and there seems little point in arguing over whether a complex reality coincides with a simple and arbitrarily defined label. Instead, the strategy of this piece is to advance several general characteristics that are plausibly related to a broad range of conceptions of inclusive development: that is, we will be talking about descriptive characteristics of inclusive development, rather than "models." An inclusive relational

approach calls for: a) a rethinking of how merit and public goods are managed.<sup>10</sup> b) policies that deal with all actors as opposed to policies that only deal with empowering the poorest.<sup>11</sup> c) the roots of the direct and indirect drivers of inequality may lie in the ideological foundations of society calling for the questioning of dominant discourses and vested interests. d) the normative, legal, and instrumental interventions.<sup>12</sup>

Whether or not the reader accepts that these features are related to a coherent ideal of “inclusive,” raising the question of inclusive development in this way can help to gain a fresh perspective on the current reality of the Chinese economy.

In this spirit, a plausibly inclusive development system would be judged on the following criteria: growth & development, poverty alleviation, redistribution, public goods and perception.

An inclusive development strategy is thus anchored on two pillars: one is to create economic opportunities through high and sustainable growth; and the other is to broaden access to opportunities for all members of a society by promoting social inclusion<sup>13</sup> (Zhuang 2008).

Then, how to evaluate the macro performance based on inclusive development? What kind of indicators can be used to clearly show whether a country or region promotes inclusive development? **So, the author proposes four core indicators from four dimensions which comprise per capita GDP which measures economic growth and the HDI (human development indicators).** The 2011 international dollar price is used, because “The 2008 Accounting System of National Accounts” among many organizations like the United Nations and the World Bank, expressly stipulates that, for international comparisons such as per capita output and consumption, the data calculated in the national currency must be changed into calculation in universal currency according to purchasing power parity ( Rather than the exchange rate ). **The HDI is an level indicator of human development**, which scales the development trends of all human beings by the United Nations Development Program (UNDP), as the Human Development Index covers three basic dimensions of human development, namely the healthy and long life, knowledge and decent life, which reflect the composite index of average achievement and reflect directly or indirectly whether it develops inclusively.

**The second core indicator is impoverishment rate to see the poverty reduction effect.** We adopt the international poverty line set by the World Bank (\$ 1.90 per person per day, 2011 international dollars ).The data are collected through investigating the primary household by national statistical offices and country office of the World Bank.

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<sup>10</sup> Kaul, I., Conceicao, P., Le Goulven, K., & Mendoza, R. U. (Eds.). (2003). Providing global public goods: Managing globalization. Oxford: Oxford University Press.

<sup>11</sup> Mosse, D. (2010). A relational approach to durable poverty, inequality and power. *The Journal of Development Studies*, 46(7), 1156–1178.

<sup>12</sup> Cook, S. (2006). Structural change, growth and poverty reduction in Asia: Pathways to inclusive development. *Development Policy Review*, 24(1), 51–80.

<sup>13</sup> Zhuang, J. 2008. “Inclusive Growth toward a Harmonious Society in the People’s Republic of China.” *Asian Development Review* 25 (1–2): 22–34.

**The third one is the Gini coefficient weighing income inequality.** We use the Gini coefficient of five major countries provided by the World Bank. The data are gathered through investigating the primary household by national statistical offices and country office of the World Bank. In 2005 to 2015, the data of China’s Gini coefficient are from National Bureau of Statistics.

The three indicators suggest different trends or different situations because of tortuosity and uncertainty in the process of development. The first type is no growth and no inclusiveness featuring no-growth economy and intensifying income gap; secondly, the growth without inclusiveness manifests economic growth and an increasing impoverishment rate; thirdly, the economy increases but income gap steps up which is growing with low inclusiveness; lastly, the impoverishment rate decreases but income is still unequal, which means growth with part inclusiveness. It’s comprehensive and inclusive growth only when the four indicators are all increasing. **China's economy is not only increasing continuously but also it transfers from partly inclusive growth to comprehensively inclusive growth.**

Here, the author calculates four main indicators of five major countries, and the results show that: Firstly, Per Capita GDP, an indicator of economic growth, increases steadily. During the period from 2000 to 2015, the average annual growth rate of per capita GDP in China, India, and Indonesia was higher than the average growth rate of the world (2.4%), reaching 9.0%, 5.6%, and 3.9% respectively. So the three countries mentioned above pertain to countries of growth convergence. In 2000, per capita GDP of the three countries was lower than the world average. The per capita GDP of China, India, and Indonesia respectively was 35.8%, 24.6% and 56.5% of the world average. By 2015, China’s per capita GDP amounted to 91.9% of the world average and increased 56. percentage point compared to the data in 2000 with the greatest increase rate of 3.74 percentage points per year. India was equivalent to the 39.3% of the world average, and compared to 2000, its per capita GDP increased by 14.7 percentage points with an average annual increase of 0.98 percentage points. Indonesia took 71.0% of the world average, and compared to 2000, its GDP per capita increased by 14.5 percentage points with an average annual increase of 0.97 percentage points. At the same time, the per capita GDP of Brazil and Mexico in 2000 was higher than the world average, but its growth rate of 1.6% and 0.7% respectively was lower than the growth. So, they are countries of growth divergence. Brazil’s per capita GDP was equivalent to 99.1% of the world average, decreasing 11.0 percentage points from 2000, and Mexico was 113.1% of the world average (see Table 1), decreasing 31.6 percentage points from 2000. In general, China, India, and Indonesia performed well in terms of economic growth, which laid the prerequisite and economic base for their own inclusive growth.

**Table 1 per capita GDP and average increase rate of five major countries(2000-2030)**

Year	Global	China	India	Indonesia	Brazil	Mexico
Per capita GDP (PPP, the international dollar price in 2011)						
2000	10268	3678	2521	5806	11308	14856
2015	14588	13400	5730	10355	14454	16501
2030	20726	34463	14737	18468	19453	22208
The percentage of world average (%)						
2000	100	35.8	24.6	56.5	110.1	144.7



2015	100	91.9	39.3	71.0	99.1	113.1
2030	100	166.3	71.1	89.1	93.9	107.2
The average increase rate of Per capita GDP (%)						
2000-2015	2.4	9.0	5.6	3.9	1.6	0.7

Description: the Data sources during 2000-2015 are from world Bank Database.

<http://data.worldbank.org/indicator/NY.GDP.PCAP.PP.KD?locations=BR>

[The data of 2030 were estimated by the author.](#)

Secondly, the human development index continued to improve. It can be seen from the perspective of all human development that in 2000 India was in the low human development group with HDI index of 0.496, while China, Indonesia, and Brazil pertain to medium human development group with HDI indicators of 0.588,0.606,0.683, and only Mexico was close to the high human development group with HDI index of 0.699. In 2014, Mexico, Brazil, China entered into the high human development group, their HDI indicators respectively were 0.756,0.755,0.727; Indonesia and India got into the Medium Human Development Group, and HDI indicators were 0.684 and 0.609. This reflected the continuous improvement and even the transition of the five major developing countries in the past ten or more years. During the period from 2000 to 2014, China’s HDI index increased from 0.588 to 0.727, with an average annual growth rate of 1.53% Countries and regions and ranking first among 188 countries and regions in the world. China transited from the Medium Human Development Group to the High Human Development Group which increased the total population of the High Human Development Group by 1.37 billion. A total increase of 1.69 billion people was finally achieved by 200 million people in Brazil and 120 million people in Mexico, and the total increase of 1.69 billion amounted to 67.0% of the high human development group (2.52 billion people) (see Table 1). **This shows that China and other five major developing countries greatly advanced the global human development, remapped the world’s human development, and for the first time presented the trend of convergence between the developing and the developed countries.**

**Thirdly, the amount of population living in absolute poverty and its poverty incidence decreased significantly.** According to data provided by the World Bank, the incidence of international poverty in the world’s developing countries (\$ 1.90 per person per day, 2011 international dollars) was 44.3 percent in 1981, among which incidence of international poverty among China, India, and Indonesia was clearly higher than the world average. Then as a result of the declining incidence of poverty among China, India, and Indonesia, the incidence of poverty in developing countries was also significantly reduced. By 2012, the incidence of poverty in the world’s developing countries dropped to 12.7% with a reduction of 31.6% Percentage points.

China’s poverty incidence dropped from 88.3% in 1981 to 1.85% in 2013, with a decrease of 86.45 percentage points and boasting the largest reduction among the five countries; India’s poverty incidence declined from 53.9% in 1983 to 21.2% in 2011, reducing 32.7 percentage points ; Indonesia’s poverty incidence dropped from 70.31% in 1984 to 8.25% in 2014, decreasing 62.06 percentage points; Brazil’s poverty incidence fell from 29.9% in 1984 to 8.25% in 2014, descending 21.65 percentage points; Mexico’s incidence of poverty increased from 7.9% rose to the peak of 14.3% in 1998, and descended to 3.04% in 2014, with a reduction of 11.26 percentage points. Correspondingly, the number of poor people in China dropped from 883 million in 1981 to 25.16 million in 2013, which mean a reduction 858 million people. And India’s number of



impoverished people fell from 403 million in 1983 to 264 million in 2011, lessening 13.9 million people. The number of poor people in Indonesia lowered from 113 million in 1984 to 21 million in 2014 with a decrease of 88 million. The total number of poor people reduction among three countries together was 1.085 billion (see Table 2). In addition, the number of poor people in Brazil and Mexico also declined with a different degree, and it was the sharp decline in the incidence of poverty among the five largest developing countries that led to a sustained decline in the incidence of poverty among developing countries in the world.

**Table2 The incidence of 1.9\$ international poverty line among developing countries and the five major developing countries(1981-2014)**

Unit: %

Year	Developing countries	China	India	Indonesia	Brazil	Mexico
1981	51.88	88.3			24.3	
1984	47.74	75.8	53.9 (1983)	70.31	29.9	7.9
1987	42.25	60.8	44.8	70.13	18.1	
1990	42.24	66.6		57.3	20.6	7.1 (1989)
1993	40.21	57.0	45.9	57.1	19.9	9.7 (1992)
1996	34.41	42.1		45.9	14.2	14.1
1999	33.4	40.5		40	13.4	14.3 (1998)
2002	30.04	32		23.4	12.3	8.8
2005	24.12	18.8	38.2 (2004)	21.6	9.55	4.8(2004)
2008	21.07	14.7	31.1 (2009)	21.6	6.29	3.8
2010	18.35	11.18		16.0		3.8
2011	15.91	7.9	21.2	13.6	5.50	
2012	14.62	6.47		11.8	4.59	2.68
2013	12.56	1.85		9.83	9.83	
2014				8.25	8.25	3.04
<b>1981-2014 Variation a</b>	39.32	86.45	32.7	62.06	16.05	4.86
<b>1990- 2014Variat ion a</b>	29.68	64.75	24.7	49.05	12.35	4.06

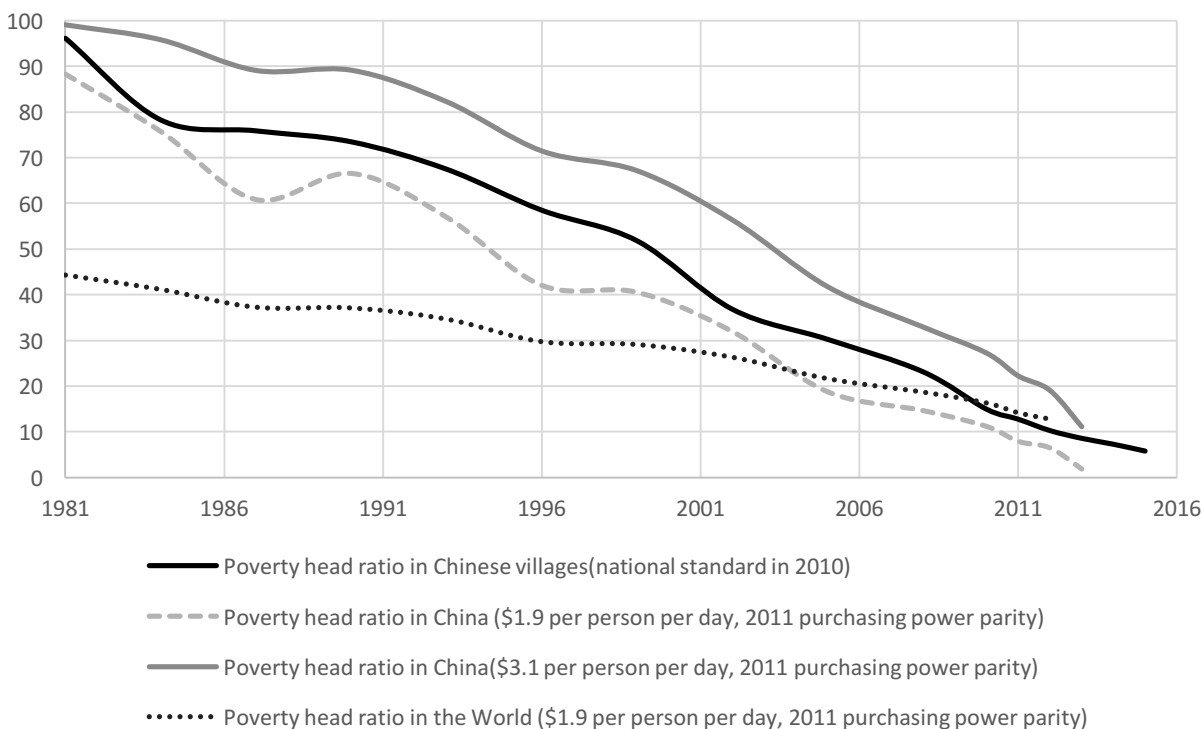
Note: the world developing countries cover middle-income countries and low-income countries and the variation in neighboring years can be acquired from a, for instance, the variation during 1981-2014 in India also stands for variation during 1983-2011. The international poverty line is \$ 1.90 per person per day, and the dollar was measured by purchasing power in 2011. Data

Source: World Bank Database: [HTTP://data.worldbank.org/indicator/](http://data.worldbank.org/indicator/). The data was collected on 19<sup>th</sup> October 2016.

Obviously, China achieved more than the other four major countries from the perspective of poverty reduction effect which also performed better than the average level of developing countries. According to the standard of \$ 3.1 per person per day (2011 purchasing power parity), the incidence of poverty in China dropped from 64.43% in 1981 to 2.52% in 2013, and the number of poor people decreased from 634 million to 34.27 million with a net reduction of 600 million (See Table 2). According to the 2010 Rural Poverty Standard in China, the incidence of poverty declined from 97.5% in 1978 to 5.7% in 2015, and the number of rural poor people was reduced to 55.75 million from 770 million with a net reduction of 714 million people. The incidence of poverty in China has declined significantly over the past three decades, and this falling range was significantly larger than the world average(see Figure 2). It should be said that China has played a role as a "locomotive" in global poverty reduction over the past three decades and has contributed a lot to global development.

**Figure 2 The poverty incidence of China and The World( 1981-2015)**

Unit:%



Source: the data of international poverty line were from the database of World Bank: [HTTP://data.worldbank.org/](http://data.worldbank.org/); The data of poverty incidence in Chinese villages( national standard in 2010) were collected from National Statistics Bureau." The Summary of China statistics in 2016", 70 pages, Beijing: China Statistics Press, 2016. Data were collected on 18<sup>th</sup> October 2016.

**Fourthly, the Gini coefficient that reflects inequality in income is generally high.** Table 3 reflects the important characteristics of the developmental differences among the great powers,

and it is toughest to reduce Gini coefficient among the four categories of indicators. The United States, even as the most developed country, experienced a 0.4 or above Gini coefficient for more than 20 years. The Gini coefficient of the five largest population including China, India, Brazil, Mexico and Indonesia was generally between 0.3 to 0.6, of which Brazil and Mexico witnessed the most serious inequality in income. In 1990-1993 Brazil's Gini coefficient was above 0.6, while Mexico's Gini coefficient reached the peak of 0.54 in 1990. The two countries also experienced decreasing trends and their Gini coefficients were 0.515 and 0.482 respectively which, however, were still high. The Gini coefficient of India and Indonesia were at a relatively low level, but still gradually rising. China's 1981-2015 Gini coefficient can be reflected by the trend of income inequality in China whose variation shows that the Gini coefficient increased firstly during 1981-2008 with the high peak of 0.491 in 2008 and decreased after 2009 with a low peak of 0.462 in 2015 and the whole trend shows an inverted "U" type. And China's Gini coefficient of 0.462 in 2015 is lower than Brazil's 0.515 in 2014 and Mexico's 0.482 in 2014, and is higher than the number in India, Indonesia and America's 0.411 in 2013.

**Table 3 The Gini coefficient of world's major populous countries ( 1981-2015 )**

Unit: %

Year	China	America	India	Indonesia	Brazil	Mexico
1981	29.11				57.93	
1984	27.69		31.11	30.47	58.38	48.95
1987	29.85	37.73	31.88	29.27	59.69	
1990	32.43	38.36		29.19	<u>60.49</u>	<u>54.34</u>
1993	35.5	40.35	30.82	29.31	60.12	50.95
1996	35.7	40.86		31.33	59.89	48.47
1999	39.23	40.46		28.99	58.99	51.67
2002	42.59			29.74	58.62	49.54
2005	48.5	40.62	33.38	34.01	56.64	51.11
2008	<u>49.1</u>	<u>41.75</u>	<u>33.9</u>	34.11	54.37	48.23
2010	48.1	40.46		<u>35.57</u>		48.13
2011	47.7				53.1	
2012	47.4	41.06 (2013)			52.67	48.07
2015	46.2				51.48(2014)	48.21(2014)

Data source: the World Bank database

[HTTP://data.worldbank.org/indicator/SI.POV.GINI](http://data.worldbank.org/indicator/SI.POV.GINI), Data were collected on 19<sup>th</sup> October 2016 and China's data sources were from National Statistics Bureau during 2005-2015. "Underline" represents the maximum in the country.

In conclusion, the per capita GDP, HDI and poverty rates have achieved remarkable results from the perspective of the four major indicators among five major countries. It shows that the economy continues to grow, human development is progressing and the number of poor people is reduced. However, there is enormous difficulty in narrowing the income gap. When faced with inequality problems, the countries, no matter developing countries or developed countries, which are capable

of promoting inclusive growth, taking effective measures, targeting inclusive growth with a responsible attitude are not common. China has achieved phased results in inclusive growth and has undergone a synchronical improvement of three indicators, namely, the increase of per capita GDP and HDI, and reduction of poverty rates, so China's development in this period can be defined as partial inclusive growth. The four indicators ameliorate at the same time after 2008, namely, the improvement of per capita GDP and HDI, the decline of poverty incidence and Gini coefficient, so China features comprehensive inclusive growth in this period. Actually, the report of the 16th CPC National Congress put forward the goal of building a well-off society that benefits over one billion people by 2020, then it's easy to understand why China is currently the only one among five major countries that have improved all the four indicators synchronously and has achieved comprehensive inclusive growth. It should be said that the development and progress of the five major countries will greatly promote and mobilize the economic development, human development and poverty reduction in the developing countries. This will lay a critical foundation for the future implementation of the 2030 sustainable development agenda and enhancement inclusive development.

## **How Much did China's government spend on inclusive development?**

The vast coverage of basic public service has since 1949 been one of the Chinese Communist Party (CCP) regime's greatest successes (Newland,2016)<sup>14</sup>..Although these services were rudimentary, they represented a significant improvement in areas where such services had historically been non-existent. The low level and equilibrium provision of public goods was gradually institutionalized through the work unit in urban areas and through the collective in the countryside. It is a elementary inclusive development system at that time. Life expectancy rose by nearly 33 years over the course of the period, literacy rates increased dramatically, and rural infrastructure expanded(Huang,2011).<sup>15</sup>

Inclusive development system collapsed entirely during the Great Leap Forward and its tragic aftermath, then experienced a resurgence with the revival of the Cooperative Medical Scheme (hezuo yiliao zhidu 合作医疗制度) and the arrival of the “barefoot doctors” during the Cultural Revolution(Duckett,2011).<sup>16</sup> Dismantlement of the commune system in rural areas and large-scale economic restructuring of state and collective sectors in urban areas changed the foundations of Chinese social welfare system. The benefits of new mechanism to ensure social equity and stability are yet to be harnessed.<sup>17</sup> Adopting a development strategy anchored on inclusive growth requires continued policy and institutional reforms to keep growth high and

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<sup>14</sup> Newland, S. A. (2016). Which Public? Whose Goods? What We Know (and What We Don't) About Public Goods in Rural China. *The China Quarterly*, 228, 881-904. doi:10.1017/s030574101600148x

<sup>15</sup> Huang, Y. (2011). The sick man of Asia. *Foreign Affairs*, 90(6), 119-136.

<sup>16</sup> Duckett, J. (2011). Challenging the economic reform paradigm: policy and politics in the early 1980s collapse of the rural cooperative medical system. *The China Quarterly*, 205, 80–95.

<sup>17</sup> Chor-ching Goh, Xubei Luo , Nong Zhu.2009. Income growth, inequality and poverty reduction: A case study of eight provinces in China. *China Economic Review* 20:485–496.

sustainable. In the last three decades, the PRC’s success in integrating its economy with regional and global economies has been a significant source of economic growth. In the next 20–30 years, while it is important to continue and deepen its integration with the rest of the world, the PRC needs to pay greater attention to domestic economic and market integration. This will provide new sources of growth and effectively reduce income disparities between urban and rural populations and across regions. Deepening domestic integration should rely mainly on the private sector and be driven by market forces. The role of the government is to address market, institutional, and policy failures and weaknesses so as to eliminate distortions and barriers<sup>18</sup>. At the same time, there were deficient resources during the planned economy period, while basic public services were equally popularized and laid a key foundation for improving people’s livelihood. However, public service in this period featured low level and singular way of supply. As for the differences of supply, the gap between public service between different residents was mainly reflected in the gap between public service supply of different units.

Chinese government’s attitude and practice to people’s livelihood went through three stages: “be desirable without ability”, “having ability with little willingness” and “be capable and desirable”. At the beginning of the reform, the country’s economic foundation was weak, and there was limited fund in central government to improve people’s livelihood. The central government in this period was willing but unable to improve people’s livelihood. This reverse social protection movement specifically includes three types of policies (UNDP, 2014): policies against shocks, policies of competency promotion, and policies of options protection.

China’s infrastructure of public service has improved continuously. In 2010, there were 4.73 medical persons among every one thousand people and 4.56 beds among every one thousand bed, which was not a great gap compared with developed countries. Meanwhile, the scale between students and teachers in Junior school was 15 in 2010, which was also a small gap concerned with developed countries. It could be said that China had a certain scale and wealthy public service resources after several decades’ expenditure on public services.

China’s feats in public service were achieved before the 1980s because people’s health status didn’t improve greatly during 1980 to 2000, which can be verified through other ways. From 1980 to 1994, the economic system shifted to the socialist system of market economy, so the old public service system wasn’t incompatible with the economic system. The state intensified to construct economy, which means the reduction of public services and financial resources and thus leading to the supply of public services decreasing significantly. The deficit between demand and supply was widened as residents’ income and demand towards public services increased. While the equalization among different regions, urban and rural areas, all kinds of people declined largely, and it was tough to construct public system.

As for transfer of national finance, different levels of financial department changed from sharing a “communal pot” to “eating from a separate kitchen”. For the urban residents, the unit system began to disappear, and the unit would no longer distribute welfare to residents; Farmers turned

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<sup>18</sup> Juzhong Zhuang. 2010. Inclusive Growth toward a Harmonious Society in the People’s Republic of China: Policy Implications. *Asian Development Review* 25(1,2).

unrelated to the production team. All kinds of enterprises, organizations and groups were stripped of welfare responsibility. Individuals were put to society, and the pension, health care, social security and other benefits of residents would be burdened by themselves. Thus, the family pension model was widely used. However, with the large-scale migration of labor, the family pension model was difficult to follow (Frazier, 2004). China's economy has taken off, and the aggregate economic value grew rapidly. But under the influence of Western liberalism, the government gradually abandoned the planned economic system, reduced market intervention and the supply of social assistance. The central government was "capable but without the will" to improve people's livelihood over this time.

At present, China has rebuilt the public service system and is in transition to overall control of public service. The national governance gives priority on the governance of public service which is embodied on the following four aspects:

a. The governance of public service emphasizes the coordinated development of economy and society. In order to narrow the gap between social development and economic development, the Chinese government has shifted its policy focus from stressing economic development to underlining the coordinated development between economy and society. More and more financial resources are devoted to basic public services such as compulsory education, public health and basic health care, basic social security, and public employment services.

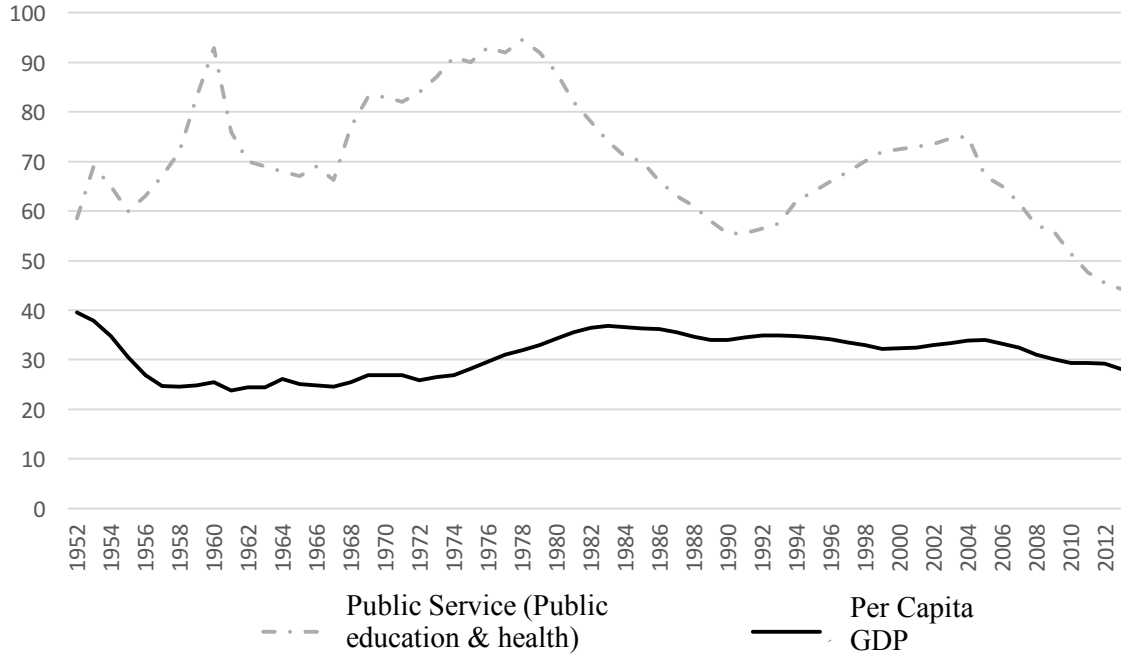
b. The policies and inputs of basic public services are inclined to rural areas. The Chinese government is accelerating the implementation of free and compulsory education, the improvement of the new rural cooperative medical system, the establishment of rural old-age security and minimum living security system, as well as the promotion of other policy measures of social development. And the government is gradually changing the focus of public spending on cities and towns over the past few decades.

c. The basic public service is paying more attention to underdeveloped areas. The Central government is increasing its financial transfer payments to central and western regions.

d. Basic public services are increasingly aware of difficult groups. The government strengthens public employment services, help households with "zero employment" to expand the coverage of the minimum living security system, and establish a basic social security system covering all the people (including millions of migrant workers).

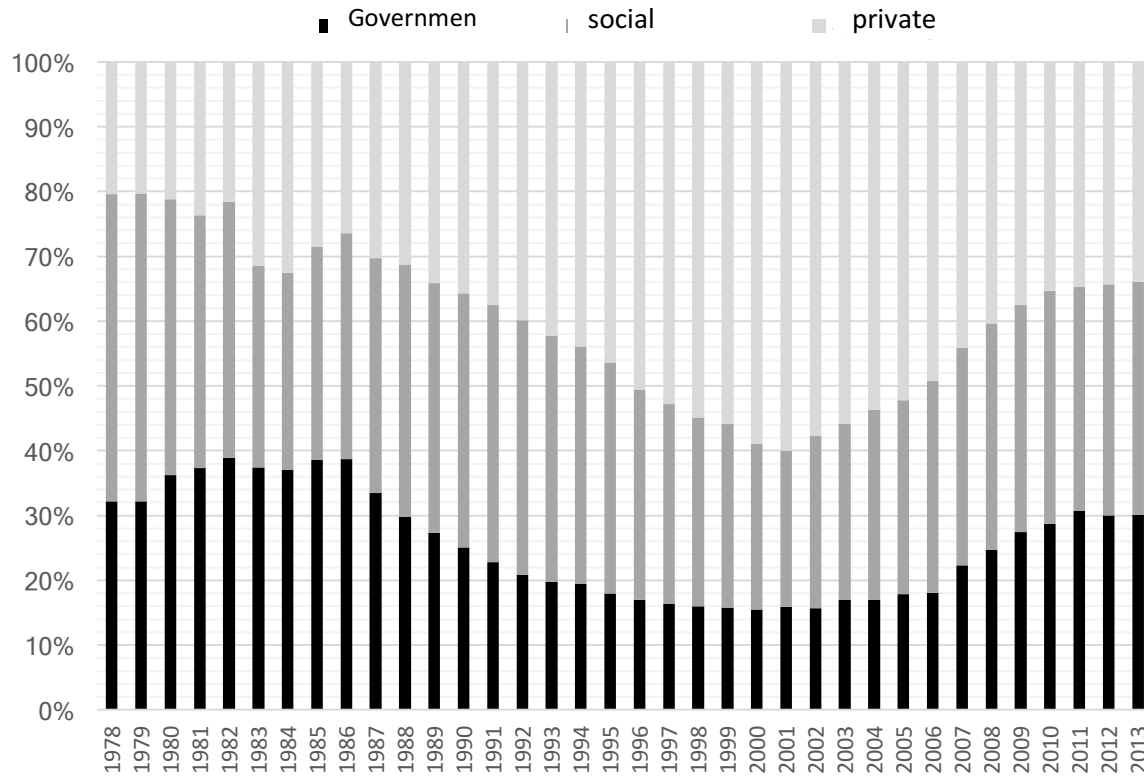
**Figure 3 Regional Variation on GDP per Capita and Public Service (1952-2013, %)**





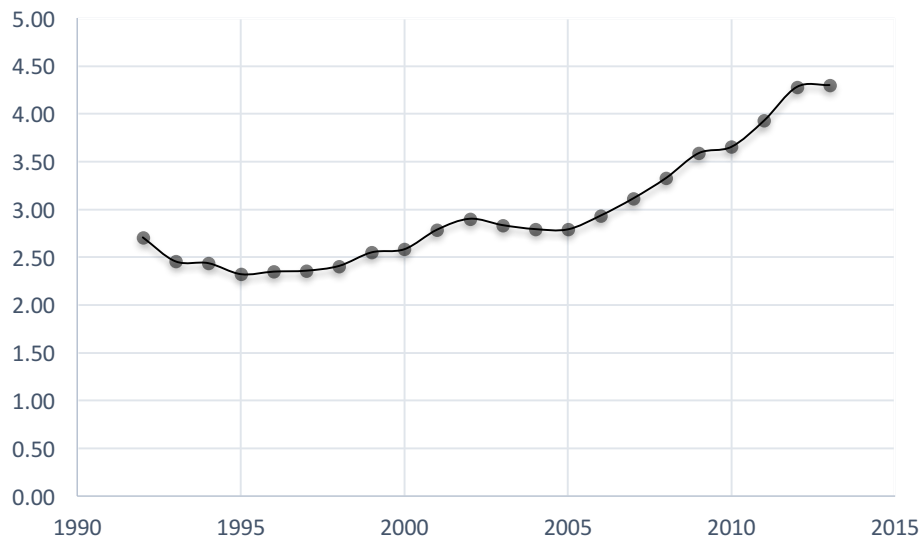
Data Source: compilation of statistical data for new China in sixty years, China Statistical Yearbook 2014, Beijing: China Statistics press.

The reform of the fiscal and taxation system was deepening during the period from 1995 to 2002. Be capable of and aspiring to reconstruct the public service system under the socialist market economic system, the government began to carry out a series of social protection explorations and made significant feats in refining socialist market economic system with Chinese characteristics. The central government has focused on "planning" to lead the national economic and social development and upheld some strategic decisions designed to improving people's livelihood and narrowing the development gap, such as the western development. At the same time, the central government carried out a large-scale transfer payment to address the uneven development of the people's livelihood and other issues. The government was "have the will and ability" to improve people's livelihood at this stage. The present public service development was not perfect and in its pilot period, so it did not fully achieve the protection of people.



Data sources: China Health and Family Planning Statistics Yearbook 2014, 2015.

**Figure 4 Structure of Spending on Health (1978-2013)**



Data sources: China Yearbook 2016, 2016.

**Figure 5 Percentage of State financial education funds accounted for GDP**

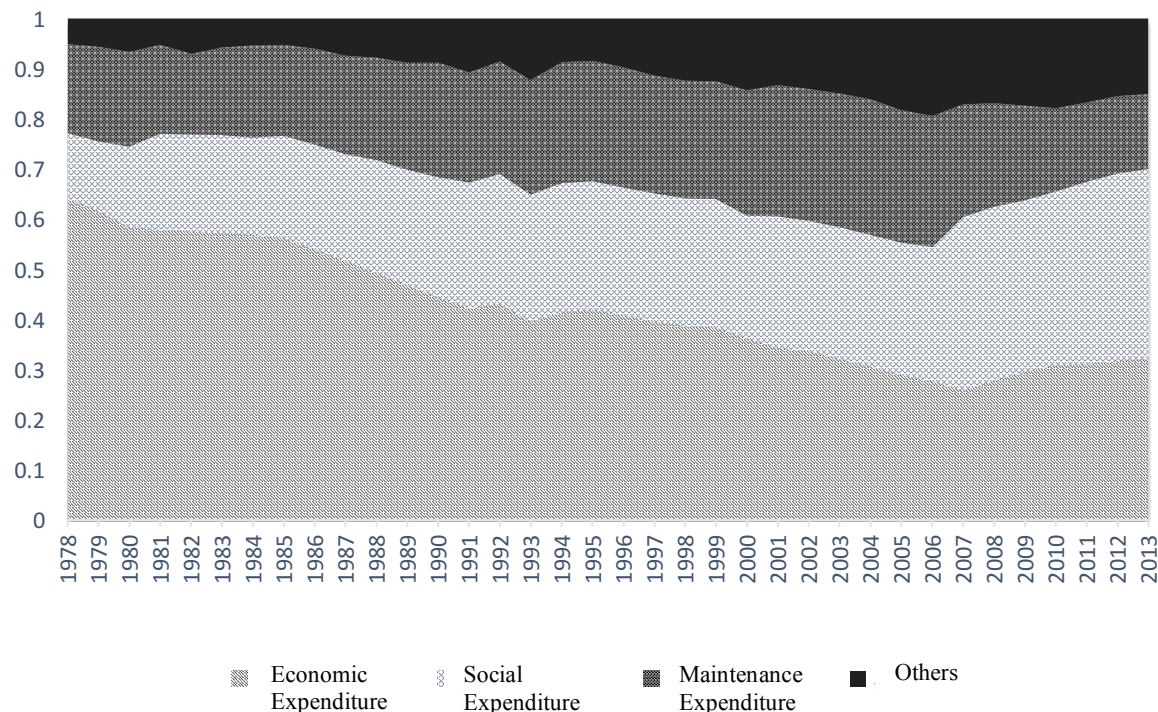
From the perspective of national inclusive development capacity, the central government has raised the proportion of financial transfer payments in the western region since the implementation of the tax system reform in 1994. According to the balance of payments, the share of transfer in the western provinces and autonomous regions in 1994 was 40.6%, and it had exceeded half of the national transfer payment in 2010, reaching 52.5% (see Table 4). This fully reflects that central government conducts redistribution of financial transfer payments, and promotes regional equalization of public expenditure. To ensure the equalization of basic public services, we will continue to carry out the reform to put county directly under the management of provincial governments. The financial transfer payment in regions under the province shall be strengthened particularly, thus leading to mapping between regional finance and expenditure. In general, China's financial expenditure on economic growth declines first and rises slowly and then declines. While the fiscal expenditure society development shows continuous expansion. This illustrates that the state's fiscal expenditure has shifted its focus to people's livelihood (see Figure 6).

**Table 4 Fiscal Transfer Payment from the Central Government (1994-2010)**

<b>Year</b>	<b>East Region (100 Million Yuan)</b>	<b>Middle Region (100 Million Yuan)</b>	<b>West Region (100 Million Yuan)</b>	<b>North-east Region (100 Million Yuan)</b>	<b>Percentage of West Region (%)</b>
<b>1994</b>	582.46	56.05	559.85	180.96	40.6
<b>2000</b>	1099.00	152.13	1466.34	575.88	44.5
<b>2005</b>	2607.03	412.60	3703.51	1422.65	45.5
<b>2010</b>	7176.82	1409.36	13764.88	3873.51	52.5

Statement: Fiscal transfer payment is calculated by fiscal expenditure minus revenue.

Data Resources: 1949-2008 years of data sources: "China's sixty years of statistical data compilation", each region's financial revenue and expenditure, data of 2009 and 2010 originated from China Statistical Yearbook 2010 and China Statistical Yearbook 2011.



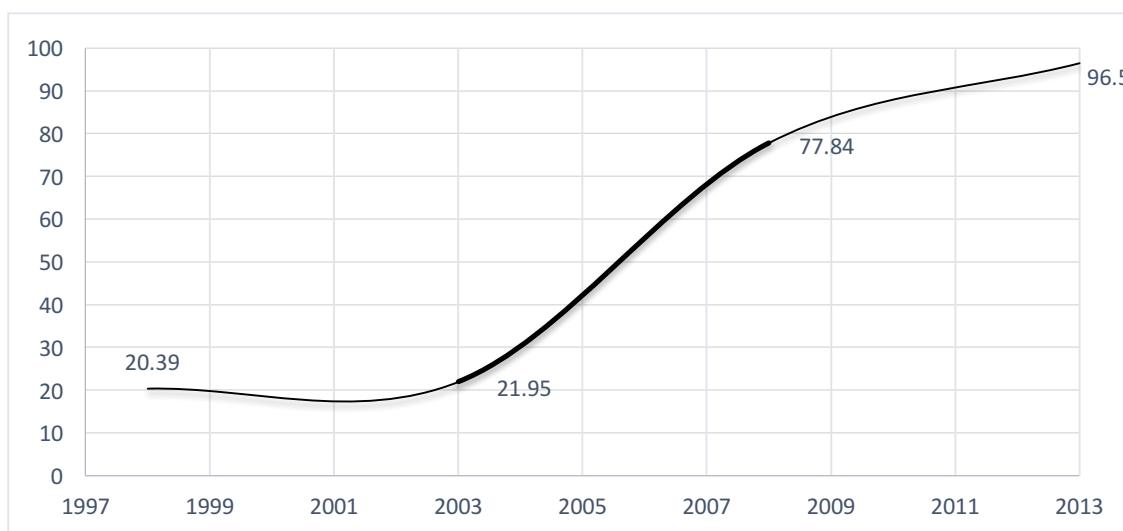
Notes: economic expenditure including forestry and water affairs, transportation, resource exploration and power information services, business services and other services, financial supervision expenses, grain and oil reserve management, land and meteorological services, urban and rural community affairs; social expenditure including public security, education, science and technology, culture, sports and media social security and employment, housing security expenditure and medical health; maintenance expenditure including public services, such as national defense and foreign affairs, in addition to other expenses. Source of calculation data: compilation of statistical data for new China in sixty years, China Statistical Yearbook 2008-2014.

**Figure 6 Structure of Public Finance Expenditure (1978-2013)**

## **Does the Chinese Government Self-Consciously adopt inclusive development?**

In the 21st century, the state has recognized it's urgent to reformulate the public service system with much more problems generated by the absence of public service. The state also pays more and more attention to the increasingly prominent social equity, as well as conflicts and other problems caused by the incomplete system of public service. The SARS crisis in 2003 was a turning point in the construction of the public service system. The government did not respond to the suddenly epidemic disease due to the long absence of public service system. And this slow reaction in turn reflects the contradictions and problems of triggered by unsound system of public service and absence of government. At that time, most of the residents could only rely on their own expense in the medical process . The external shocks in 2003- the SRS crisis made it clear how fragile China's public service system was, fully exposed incompleteness of China's basic public service system and the contradictions and problems between government and society. In this particular context, the Chinese government highlighted it was government's basic duty to concern, emphasize, safeguard and improve people's livelihood. And on the other hand, it's the

most direct and realistic for governments at all levels to improve the basic public services that the people are most concerned about.



Data sources: 1998, 2003, calculated according to the 2008 National Health Survey data in 2013, according to 2012 data projections, see "China weaving the world's largest security network basic medical insurance coverage rate of 95%", "people's Daily", August 2012.

**Figure 7 Coverage of Medicare in China (1998-2013)**

The course from the 16th CPC National Congress to the 18th CPC National Congress witnessed the rapid development of public service system. The multi-level system of public service was initially formed, social security included. The report of the 16th CPC National Congress proposed that employment was the foundation of people's livelihood, clarified the transfer of government's function and raised to improve the government's function of economic mediation, market supervision, social management and public service. The report of the 16th CPC National Congress pointed out that we should pay more attention to social construction, and strive to protect and improve people's livelihood. The report of the 18th CPC National Congress focuses on social construction and clarified its measures. The first one is to narrow the income distribution gap and to achieve "two synchronization", which suggests that residents' income and economic development improves simultaneously and that labor compensation and labor productivity to increases synchronously; the second is to consummate the basic public service system to achieve equalization; The third one is to safeguard social security system, follow the multi-level and sustainable principle featuring full coverage and security basics, and finally make all people benefiting from the development fruits. This action has a clear goal and boasts diversified forms, and it also reflects that the CPC Central Committee highly values people's livelihood.

Under the guidance of the 16th and 17th National Congress of the CPC, the State Council framed the "Eleventh Five-Year Plan" and the "12th Five-Year Plan" respectively. "Eleventh Five-Year Plan" for the first time specified the field of public services, and all levels of government shall effectively perform their functions by optimizing the public resources. "Eleventh Five-Year Plan" also firstly stipulated the priority and focuses of public expenditure. The 11th Five-Year Plan also

defined the public service area for the first time, covering 11 priority areas for government public services and 17 priority areas for public finances.

To some extent, that the report of the 17th CPC National Congress proposed to promote social construction is important historical significance. The CPC Central Committee put forward the "scientific outlook on development" as early as 2003, while in practice the central government upheld scientific development and local government carried out accelerated development". This development model, like draining the pond to get all the fish, is undoubtedly buying demand from the future, which accumulates "development debt" for future generations.

In retrospect, the state has continuously made plans of equalization of basic public services from the strategic level. The share of basic public service has increased significantly in the five-year plan since the "Sixth Five-Year Plan", and its' proportion reached 71.4% in the 12th Five-Year Plan (see Table 5). The 10th Five-Year Plan set the public service as the main task of government and suggested government to invest heavily in the public resources to make everyone have access to basic public services. "Eleventh Five-Year Plan" made it obligatory for the government to provide public service, further specified and strengthen the important function of public services. "Eleventh Five-Year" period, a giant leap period, laid the foundation for livelihood development in a separate section for basic public service and promoted nine key areas of equalization in public service. The performance assessment of basic public service and administrative accountability shall be strengthened. China allots increasing share to basic public service, and it's critical for the transfer of government to achieve equalization in basic public service. China decided to reform the medical system in 2009 aimed at enabling all urban and rural residents to enjoy health care. By the end of 2013, 99% of China's rural population has joined the new rural cooperative medical insurance (Xinhua News Agency, 2014). 99% of Chinese people in rural areas were benefiting from the new rural cooperative medical system ( Xinhua News Agency, 2014). In general, the 11th Five-Year Plan first identified the goal of achieving equalization of basic public services. As the first five-year plan under the guidance of the scientific outlook of development, the plan clearly put forward that development must be scientific and adhered to the people-oriented ideology. The plan also suggested to change the concept of development, innovate development model, improve the quality of development and achieve transformation of governance. The 11th Five-Year Plan also creatively defined the main areas of government's public service and social governance. "12th Five-Year Plan" stipulated more comprehensively and clearly areas and standards of public service. "11<sup>th</sup> and 12th Five-Year Plan ” has become the flag of government transfer to the public service-oriented regions.

Table 5 The Five-year Plan and public service ( from 6<sup>th</sup> to 12<sup>th</sup> five-year plan )

The planning period Index type	The 6 <sup>th</sup> five-year	7 <sup>th</sup>	8 <sup>th</sup>	9 <sup>th</sup>	10 <sup>th</sup>	11 <sup>th</sup>	12 <sup>th</sup>
Service for survival (number)	1	3	3	2	7	6	6
Service for development (number)	3	1	2	3	7	1	2
Service for environment (number)		1	2	1	11	8	12
Total of public service indicators (number)	4	5	7	6	25	15	20
The grand total	33	28	27	16	48	27	28
Proportion of public service (unit: %)	12.1	17.9	25.9	37.5	52.1	55.6	71.4



Data Source: the doctoral dissertation of Yan Yilong, "China's Transformation of the Five-Year Plan: Interpretation on Performance and Experience (1953 - 2010)", December 2010. Survival services include employment, social security, housing protection and so on. Developmental services include education, health care, culture, and sports. Environmental services cover public transport, public communications, public facilities, environmental protection, public safety and so on.

Faced with unprecedented challenges, the state began to adjust its development strategy and policy objectives. Narrowing the gap in public service supply was the key to bridging the gap. The report of the 16th National Congress of the Communist Party of China put forward to strengthen public service facilities, and then the national "Eleventh Five-Year Plan" raised to promote the equalization of basic public services, thus making it as an important national strategy; The 17<sup>th</sup> CPC National Congress proposed to emphasize equalization of public service and stated clearly that to achieve this goal is the focus and difficulties of the Chinese Communist Party in power. Later the national "12<sup>th</sup> five-year" brought forward "to establish a sound basic public services system in a separate chapter", and to make a comprehensive layout about the basic public service equalization. In 2012, the State Council promulgated the "Twelfth Five-Year Plan of National Basic Public Service System", and elaborated system construction and arrangement of the national basic public service. This indicates that the equalization of basic public services has risen from a basic concept to a national practice, which reflects the growing importance of public services in the ruling course of the party and the state.

Public service and people's living standard has increased rapidly especially since 2010. The report of 18<sup>th</sup> CPC National Congress pursued the goal of speeding up the sound system of public service, which not only constituted solutions of unbalanced, uncoordinated and unsustainable development, but also the exploration and innovation towards policies of social equity since reform.

China had a weak economy during the planned economy period while starting from a low base and benefiting from the planned economy system, people's livelihood improved greatly. Years of education and health expectancy at birth increased rapidly. In the planned economy period, China has established a relatively simple, low protective and highly equal public service system. Based on unit system, household registration system and urban and rural dual structure, the system of public service were divided into "unit system" in the urban areas and "people's communes" in rural areas and finally formed basic public service supply system fit with the planned economy. On the one hand, cities employed "unit system welfare", and the public service supply model of "enterprises burdened with society". On the other hand, countryside's implemented "collective welfare". The state provided fewer funds and resources directly to rural areas compared with cities. The basic public service system in the planned economy period fully embodied the characteristics of "covering the basic", which made China harvest remarkably in aspects of human development index such as the increase in life expectancy and educational level with an underdeveloped economy.

## **Regime Support for Inclusive Development with Chinese Style?**

What we learn from China's lessons on inclusive development is that it is not one-time event, but consume daily efforts and adaptive strategy to seek for inclusive development. Centralization of

financial capacity, self-consciously value, and policy planning settings play important role on China's inclusive development.

Although China has got remarkable achievements on inclusive development, there still got much space to sustain an effective regime support to maintain long-term inclusive development. We can find the existed system helpful to get inclusive development like the authority Regime, communism value, and policy planning system, etc. However, what is more important is that a pro-inclusiveness incentive system for Bureaucrats. In November 2013, The third plenary session of the 18<sup>th</sup> Central Committee of the Communist Party of China adopted "CPC Central Committee on deepening reform of the overall number of major issues" . It is indicated that local government bear the responsibility to deliver public service, which thus make public service potentially become the core index assessment of local government officials.

Since government is essential for China's inclusive development , there will be variation on inclusive development in the future. A more effective institution should be built to make development more inclusive. As China is going across the middle-income trap, the role of civil society and NGOs should be involved to make inclusive development more sustainable.