

## **Conceptualizing Economic Security and Governance: China Confronts Globalization**

**Author:** Wang Zhengyi (School of International Studies, Peking University)

**Source:** The Pacific Review (Routledge, UK), Vol. 17 No. 4 2004: 523-545.

**Abstract:** With the expansion and deepening of globalization, as well as China's entry into the World Trade Organization, the nexus between economic growth and national security has gained prominence in China since the mid-1990s. How to ensure socio-economic security while maintaining its robust economic growth is now the most serious concern of the Chinese Communist Party (CCP) and the Chinese government. This paper addresses three questions: first, it explores why and how the transformation of economic growth and national security as two separate logics to a single domain evolved conceptually over the past two decades in China; second, what kinds of insecurities are generated by China's robust economic growth coupled with the expansion and deepening of globalization, and in which way and to what extent do they challenge China's government; third, what kinds of mechanisms or policy instruments have been adopted by China's government to address emerging economic insecurities while maintaining robust economic growth. The paper concludes that in the case of China, globalization has posed new challenges to economic security, but given that economic insecurity has its particular salience in individual countries, national institutional adjustment or adaptation becomes increasingly important for each country to govern in the interests of economic security while maintaining economic growth.

**Keywords:** China; globalization; economic security; governance; institutional adjustment

### **Introduction**

Economic growth and national security had been regarded as two separate logics rather than a single domain in China until the breakout of the Asian economic crisis in 1997. Before the middle of the 1990s, economic reform and economic growth had been given high priority on the agenda of China's government domestic policy, while national security, as a crucial part of China's foreign policy, was mainly related to policy instruments to ensure territorial integrity or to prevent subversion from outside hostile forces. Partly because of the widening and deepening of globalization and China's growing incorporation into the world economy since 1978, and partly due to the alarming outcomes of the Asian economic crisis starting in 1997 in East Asia, the economic-security nexus has gradually come into the view of China's policy-makers and scholars. Governing insecurities resulting from economic growth, both conceptually and as policy, has received increasing attention since the mid-1990s. Since then, China's government has created many policy instruments and mechanisms, although less mature, to govern the emerging economic insecurities from its robust economic growth.

Representing a different set of concerns from those who complain about China's economic growth without political reform are worries about China's capacity to maintain its economic growth and govern

its economic insecurities. In this regard, three questions will be discussed in this paper: first, why and how the transformation of economic growth and national security as two separate logics to a single domain evolved conceptually over the past two decades in China; second, what kinds of insecurities are raised by China's robust economic growth amidst the expansion and deepening of globalization as well as by China's entry into the World Trade Organization (WTO), and in which way and to what extent do these insecurities challenge China's government; and third, what kinds of mechanisms or policy instruments have been adopted by China's government to channel emerging economic insecurities while maintaining robust economic growth.

#### Economic growth and national security in China: from two separate logics to a single domain

The evolution of the relationship between economic growth and national security in China, both academically and officially, since opening up in 1978 could be divided into two stages, i.e. economic growth and national security as two separate logics from 1978 to 1992; and that as a single domain from the mid-1990s onwards, especially after the Asian economic crisis in 1997 and China's entrance into the WTO.

#### Maintaining economic growth/security as two separate logics (1978-92)

Compared to the Mao Zedong era, three kinds of transitions have taken place in China under the Deng Xiaoping leadership since 1978, including from a centrally planned economy to a market-based one; from a rural, agricultural society to an urban, industrial one; and from a non-WTO nation to a WTO one, for which transition economic reform was placed on the top of both the domestic and international policy agendas. However, until the 1990s, undertaking domestic reforms gradually while integrating into the world economy allowed national security and economic growth to be characterized as two separate logics.

At the 3rd Plenum of the 11th Central Committee in December 1978, China embarked on economic reform aimed at improving its economic performance and raising people's living standards. From then till 1992, domestic economic reform around a socialist planned economy/market economy relationship evolved gradually while accompanied by uninterrupted ideological debates. First of all, the "planned economy" and "market adjustment" were officially adopted at the 12th Party Congress in September 1982, but the former as primary and later as secondary. And then the "planned commodity economy" was adopted at the 3rd Plenum of the 12th Party Congress in October 1984 and subsequently elucidated as "the state controls the market, and the market guides enterprises" at the 13th Party Congress in October 1987. Finally "establishment of a socialist market economy" was put forward at the 14th Party Congress in November 1992 (Yabuki 1995: 43).

During the evolution of conceptions of economic reform, "economic growth" and "national security" had been regarded as two separate logics. In the economic domain, it was believed that as long as it benefits economic growth, whatever the domestic economic reform and international cooperation required could be adopted. Three examples illustrate this: first, the open-door policy has been maintained, and the number of "Special Economic Zones" extended from four (Shenzhen, Zhuhai, Shantou and Xiamen) in 1978 to fourteen coastal cities in 1984 in order to attract foreign direct

investment; second, the decentralization of fiscal authority in 1980 and of the trade apparatus in 1984 was carried out, which played an important role in attracting foreign direct investment and promoting trade growth in many regions, especially in coastal areas; third, "opposing bourgeois liberalization" as a political movement, which happened in 1983, 1986 and 1989 respectively, was regarded as irrelevant to economic reform and confined strictly to the political and security domains. In Deng Xiaoping's words:

As for the scope and focus of opposing bourgeois liberalization. ... Don't relate it with the following, including the policy of economic reform, rural policy, scientific and technological studies, style and technique of literature and art, and everyday life of people. It has its particular definition. (Documents Research Division of Central Committee of Chinese Communist Party 1987:1208)

At the same time, national security either as a concept or a policy was strictly confined to the ideological and political domains and regarded as one independent of economic reform. Generally speaking, the concept of national security had two kinds of basic meanings domestically and internationally during the same period. Domestically, national security meant to maintain the leadership of the Chinese Communist Party and the socialist system. Although Deng Xiaoping indicated his approval for political reform in August 1980, reiterated in August 1986, the bottom line was to adhere to the "Four Basic Principles" put forward by Deng Xiaoping in 1979, of which the most basic is the leadership of the Chinese Communist Party and socialism under which economic growth was vitalized through the market. In Deng's words, "only if we make our country a modern, powerful socialist state can we more effectively consolidate the socialist system and cope with foreign aggression and subversion" (cited in Zhao 1996: 51). Internationally, national security meant to ensure independent state sovereignty and territorial integrity. While promoting 'opening-up' to the outside world, the "Five Principles of Peaceful Coexistence" (mutual respect for sovereignty and territorial integrity, mutual non-aggression, non-interference in each other's internal affairs, equality and mutual benefit, and peaceful coexistence) are basic principles that China uses in dealing with international affairs. In one word, national security was conceptualized as part of Chinese foreign policy and irrelevant to its foreign economic relations such as trade and foreign direct investment.

Seeking economic growth/security linkage as a single domain (from 1992)

With Deng Xiaoping's inspection tour to South China in January-February 1992 followed by the holding of the 14th Party Congress in November 1992, Chinese economic reform entered into a new stage characterized by boom and moderation. In the subsequent decade, China sustained its high economic growth, even maintaining the growth momentum during and after the Asian economic crisis. From 1991 to 2000, China registered an average annual growth rate in GDP of about 10.1 per cent (see Figure 1) and

[Figure 1 China's economic growth in the 1990s]

maintained a robust annual GDP growth rate of 7.3 per cent in 2001 and 7.6 per cent in 2002, while growth per capita increased from \$236 (¥855) in 1985, \$344 (¥1,643) in 1990 to \$909 (¥7,543) in 2001 (National Bureau of Statistics of China 2000: 51). The annual inflation rate was kept under 3 per cent (Yu 2001). As for other important economic indicators such as investment and trade, it is estimated

that the Chinese mainland has swallowed up \$321 billion, or 45 per cent, of the \$719 billion in foreign direct investment flowing into East Asia as a region (ASEAN, China, Japan and South Korea) since 1990. while its share of total US imports has more than tripled to 8,4 per cent since 1989 and export to its neighbours soared 27.8 per cent, to \$249 billion (Hawkins 2002). China's macroeconomic performance is even described either as 'a true economic miracle' (Yu 2001), or "one of the few bright spots in the region' (Asian Development Bank 2000).

Compared to economic reforms undertaken in the 1980s., it is also noted that the Chinese economic growth in the 1990s has been accompanied by the following three features. First, transformation of the economic structure has not been completed, especially reform of the state-owned enterprises (SOEs) and banks, although the Chinese government has taken a great many efforts in this direction. Second, China's economy has increasingly come to depend on the world economy, especially on foreign trade and foreign direct investment. Figures show that foreign trade in the Chinese economy rose from 10 per cent in 1978 to about 44 per cent in 2001 (Figure 2), while foreign direct investment in China rose from \$1 billion in 1983 to \$47 billion in 2001 (Figure 3). Third, socio-economic polarization has intensified with the deepening of domestic reform and the process of China's incorporation into economic globalization.

[Figure 2 China's dependence on foreign trade, 1979-2001]

[Figure 3 Foreign direct investment in China. 1983-2001]

These three features that have accompanied economic growth led Chinese scholars and policy-makers to begin to reconceptualize the economics-security relationship and seek linkages between economic growth and national security, especially after the Asian economic crisis in 1997 and China's entry into the WTO. As a result, national economic security has become the most popular topic for Chinese scholars and policy-makers after the mid-1990s, and a lot of works have come out since then.' It is especially noteworthy that 'national economic security and globalization' as a concept was explicitly expressed in Documents of the 16th National Congress of the Communist Party of China:

In response to the new situation of economic globalization and China's entry into the WTO, we should take part in international economic and technological cooperation and competition on a wider scale, in more spheres and on a higher level, make the best use of both international and domestic markets, optimize the allocation of resources, expand the space for development, and accelerate reform and development by opening-up— In opening wider to the outside world, we must pay great attention to safeguarding our national economic security. (CCP 2002: 34, 35)

Economic insecurity in China: domestic and international sources With three kinds of transitions taking place in China, the risks and uncertainties in the Chinese economy and the market-related society that diminish the capacity of the state and its extractive capacity have gradually emerged and now receive serious attention domestically and internationally.<sup>2</sup> It is commonly acknowledged that the economic insecurities, which challenge China's capacity to govern its economy and market-related society include: (1) rising unemployment: (2) severe economic inequalities between coastal and interior provinces, rural and urban areas and those in the official core of the economy, and those surviving in

petty and informal economic activities; and (3) decentralization of authority in the Chinese economy and society.

### **Rising unemployment**

The first challenge to China's governance is rising unemployment. China's officially registered unemployment rate is 3.0 to 3.6 per cent.<sup>3</sup> However, an increasing number of researchers, domestically and internationally, have focused on its real unemployment rate,<sup>4</sup> which since 1993 has risen sharply and to a much higher degree than China's official registered unemployment rate. For example, while the official unemployment rate was 3.0 per cent in 1996, and 3.1 per cent in 1997, 1998, 1999 and 2000, the real rate calculated by researchers was 5.1-6.0 per cent in 1996, 6.8-7.8 per cent in 1997, 7.9-8.3 per cent in 1998 and 8.2 per cent in 1999 (Lai 2003). Some Chinese scholars such as Hu Angang even compute high real rates and low real rates, with both much higher than the officially registered unemployment rate (Figure 4). Rising real unemployment rate in China is related to the following three developments: first, it is directly related to the bankrupt system of state-owned enterprises (SOEs), especially in traditional manufacturing sectors. The SOEs have been regarded as the pillar of the Chinese economy,

[Figure 4 Urban employment insecurity in China, 1978-98]

on which the socialist market-economy with Chinese characteristics is based and legitimized. Therefore, the success of SOEs is a key indicator of overall Chinese economic structural adjustment and economic transition from a centrally planned economy to a market-dominated one. It is noted that the deficits of SOEs had been tolerated and values of subsidies to deficit enterprises had been increased yearly from 1985 to 1990, while the 'triangle debt' scandal was maintained (Yabuki 1995: 51-2). During the 1990s, it was estimated that approximately 40 per cent of SOEs have chronic deficits, and over 20 per cent of banks' portfolios in China consist of non-performing loans to money-losing SOEs (Economy 1998: 12). Second, unemployment took a unique form called 'Xiagang' (lay-off)<sup>5</sup> and concentrated in the urban state-owned and collective-owned industrial sectors in the 1980s and early 1990s. After 1997, 'Xiagang' workers were no longer registered as employed ones within the relevant units and are now among the main component of unemployment in China. This is why China's officially registered unemployment rate brings about debate and criticism from international organizations such as the International Labour Organization (International Labour Organization 2001)<sup>6</sup> and the Asian Development Bank (Asia Times 2000).<sup>7</sup> Last but not least, a social security system for unemployed workers was fully established only recently. In other words, if unemployed workers were unable to find alternative work, they probably entered the ranks of the urban poor.

Moreover, the existing situation is unlikely to improve soon with China's accession to the WTO and its integration with economic globalization, according to Hu Angang and Wang Shaoguang, because economic growth in China is entering a stage of so-called 'jobless growth'. Their calculations, shown in Figure 5, revealed that in the 1980s, about 0.32 per cent increase in employment opportunities was created by every additional percentage of GDP growth, but by the middle of the 1990s, this relationship changed. Job

[Figure 5 GDP growth and employment growth, 1980-99]

opportunities increased by only 0.14 per cent with every additional percentage of GDP growth. During the late 1990s, this trend continued to worsen. For example, in 1999, only 0.05 per cent increase of employment accompanied the 7.1 per cent GDP growth rate (Wang 2000).

It is not surprising at all, therefore, that dealing with rising unemployment and creating more job opportunities is placed at the top of the agenda of the Chinese Communist Party. In the economic blueprint project of the CCP, it is, for the first time, the task of creating work to improve people's livelihood that is treated as 'arduous' and 'important':

Doing everything possible to create more jobs, and improving the people's lives. Employment has a vital bearing on people's livelihood. The task of increasing employment is arduous and important now and will remain so for a long time to come. It is a long-term strategy and policy of the state to expand employment. Party committees and governments at all levels must take it as their major responsibility to improve the business environment and create more jobs. (CCP 2002:33; italics in original)

Continued inequalities

Whether or not there was income polarization was, in the 1980s, regarded by Deng Xiaoping as one of the criteria to differentiate capitalism from socialism:

One of the features distinguishing socialism from capitalism is that socialism means common prosperity, not polarization of income. The wealth created belongs first to the state and second to the people; it is therefore impossible for a new bourgeoisie to emerge. (Cited from Hu 1997:131)

However, since the mid-1990s, continued inequalities in income distribution with China's economic growth has become an undoubted fact and therefore another tough challenge for China's government.

There appear obviously three kinds of inequalities in China (International Labour Organization 2001). The first is the inequality between per capita income of rural households and that of urban households. As Table 1 shows, in 1978, per capita income of urban households was about 2.5 times of that of rural households, and this has been maintained until now. The second is the growing inequality between coastal provinces and inland areas. From the source of foreign trade by region from 1992 to 2001 (see Figure 6) and the flow of foreign direct investment by region from 1985 to 2001 (see Figure 7), we find that both foreign trade and foreign direct investment were mainly concentrated on or near one-third of China's provinces. In other words, the

[Table 1 Per capita annual income of urban and rural households and the related index]

[Figure 6 Foreign trade by location of managing units by region, 1992-2001]

[Figure 7 Foreign direct investment by region, 1985-2001]

coastal provinces benefited much more from economic globalization than inland provinces, and thus

have more job opportunities and higher incomes. Figure 8 shows that the per capita GDP in the coastal provinces (Jiangsu, Zhejiang, Guangdong, Fujian, Shandong) are higher than that in the inland

[Figure 8 Per capita GDP of all provinces, municipalities and autonomous regions, 2001]

provinces, except for three centrally administered cities with Shanghai taking a lead at \$4,500 (¥37,382). Beijing ranking second at \$3,000 (¥25,523) and Tianjin third at \$2,400 (¥20,154).

The third type is the growing inequality between those in the official core of the economy and those surviving in petty and informal economic activities. A research report by the Asian Development Bank shows that "about 230 million people (18.5 per cent of PRC's population) still live below the \$1- a-day poverty line and 670 million (53.7 per cent of the population) live below \$2-a-day' (Asia Times 2000). Even in urban areas, about 12-15 million people (4-5 percent of the urban population), according to the Development Research Centre of the State Council of China in 1997. were living under the poverty line, assuming an urban poverty line of \$200 (¥1,7(H)) per capita income per year (Asia Times 2000), although the PRC has never officially adopted an urban poverty line.

### **Decentralization of authority**

The third kind of economic insecurity comes from the decentralization of authority in the Chinese economy as domestic reforms interact with economic globalization (Economy 1998: 14; Saich 2001; 152). This is not unique to China, given that decentralization of authority has taken place world-wide over the past fifteen years (International Bank for Reconstruction and Development/World Bank 2000), but it is one that is extremely serious for the CCP and China's government considering its governance of vast territory and large population and the legacy of its long authoritarian history. The decentralization of authority originated from the tension between central and local financial relationships with the former in deficit (for example, minus ¥365.35 million in 1978 and minus ¥382.36 million in 1980 respectively) and the later in surplus (¥366.52 million in 1978 and ¥285.50 million in 1980), as shown in Table 2. The decentralization of authority, as an important policy instrument to balance central and local relationships and give local governments a more powerful incentive to encourage economic expansion, started with the 1980 fiscal reform called 'Eating in Separate Kitchens', followed by decentralization of foreign trade apparatus and other measures in 1984 (Shirk 1993; 178-81). and finally was reconfirmed as 'separate tax system'<sup>8</sup> in "Decision of the Chinese Communist Party Central on Some Issues Concerning Establishment of a Socialist Market Economic Structure' adopted by the 3rd Plenum of the 14th Central Committee of the Chinese Communist Party in Beijing, 11-14 November 1993.

In retrospect, the decentralization of authority as a policy undoubtedly alleviated the tension between the centre and the local authorities, but it also weakened the state's capacity to govern the macroeconomy. As a result of decentralization, the negative implications of the increase in local government's power emerged in the late 1980s and early 1990s. According to Susan Shirk, the most serious of these were (i) economic overheating accompanied

[Table 2 Relationship of central and local finance]

by inflation, shortages, and budget and trade deficits; (ii) segmentation of the national market by local protectionism; (iii) competition among local governments for foreign trade and investment; and (iv) local administrative interference and rent-seeking in enterprise management (Shirk 1993: 182). Moreover, although the centre's finances improved gradually from 1994 with implementation of tax system reforms as listed in Table 2, the central government fiscal deficit has been maintained during the 1990s (National Bureau of Statistics of China 2002: 265). This was because the central government has had to give fiscal subsidies to many inland provinces, which finally diminished and limited the state's capacity to govern the macroeconomy and deal with potential crises. For example, in the aftermath of the Asian crisis, the government followed an expansionary fiscal policy. Two fiscal stimulus packages (\$12 billion in 1998 and \$7.2 billion in 1999) were used to increase investment in infrastructure and pump prime growth, as a result of which the fiscal deficit increased from less than 2 per cent of GDP to 4.2 per cent in 1999 Asia Times

### **How China confronts economic insecurity**

With the emergence of economic insecurity from rising unemployment, continued distributional inequalities, and the decentralization of authority, the balance of reform, development and stability has been placed at the top of the agenda for both the Chinese Communist Party and China's government, as noted below:

Ensuring stability as a principle of overriding importance, and balancing reform, development and stability. Stability is a prerequisite for reform and development. We should take into full consideration the momentum of reform, the speed of development and the capacity of the general public to cope with changes. Continued improvement of people's lives must be regarded as an important link in balancing reform, development and stability. (CCP 2002: 11; italics in original).

In order to confront economic insecurities, China has embarked on a series of adjustments since the mid-1990s, especially gradual institutional adjustments, establishing a social security system, and coordinating the development of the regional economy.

### **Gradual institutional adjustments**

To balance political stability and economic growth has been the key of China's reform since 1978, which not only derives from lessons from China's own experience such as the 'Great Leap Forward' in 1958 and the 'Cultural Revolution' in the 1960s, but also from lessons of the collapse of the Soviet Union. Consequently, the gradual adjustment of institutions has become an important measure to confront domestic socio-economic changes. Three kinds of institutional adjustments have proceeded continuously since they were put forward by Deng Xiaoping in the mid-1980s (Deng Xiaoping, cited from Documents Research Division of Central Committee of Chinese Communist Party 1987: 1106).

The first was to deal with party-government-enterprise relations by 'two separations', i.e. the 'separation of party from administration' (dang zheng fen kai) and 'separation of administration from enterprise' (zheng qi fen kai). The 'two separations' originated from the envisaged political reform



in the mid-1980s, aimed at avoiding overwhelming influence of the party on the day-to-day management of enterprises and returning more management power to enterprises. It finally failed because of unceasing ideological debates, economic troubles and political instability in the late 1980s, especially the Tiananmen demonstration in 1989. However, the 'macro adjustment and management' (hong giiian tiao kong) policy has been emphasized repeatedly to confront economic decentralization since the 3rd Plenum of the 14th Central Committee in November 1993, while promoting widesweeping economic reforms under the formulation 'socialist market economy' (Saich 2001:71). Under the 'macro adjustment and management' policy, the financial system and the enterprise system have begun restructuring, which paved the way, more or less, for robust economic growth in the 1990s.

The second was to balance central and local relations through the 'decentralization of authority'. Compared with the vertical system under a centrally planned economy, there obviously appears to be a gradual transition to a horizontal coordination system in government structure. The vertical system meant that central government controls the state and society, and socioeconomic development in each province must follow the central government's mandate, while local governments are counterparts both in structure and function but have no room to make their own choices in policy-making. In contrast to this older system, the horizontal coordination system under decentralization started in the mid-1980s, as mentioned before, but with local governments getting more decision-making power, as Susan Shirk observed, to approve foreign investment projects, special trade and investment zones, tax rates for foreign investment firms, establishment of trading companies, export subsidies, allocation of foreign exchange at official rates, and access to the foreign exchange swap markets, along with extensive authority over the domestic economy (Shirk 1994:31). The local governments became challengers to central government as well as became each others' competitors in the 1990s, forcing central government to undertake tax system reform in 1993 and rationalization in 1998 to prevent the levying of excessive fees and levies by local authorities (Saich 2001: 75).

The third adjustment was to improve efficiency and prevent corruption by the 'simplification of administrative structure'. The simplification of administration structure, as a part of political reform, has been conducted four times (in 1983,1988,1993 and 1998) since 1978. It has significant socio-economic implications, in the following two ways: first, it indicates that both the CCP and the Chinese government are trying to adjust themselves to cope with economic and social changes and improve its efficiency: second, and more importantly, this measure, along with the 'separation of party from administration' and 'separation of administration from enterprise", prevents, to some extent, rent-seeking that had been rampant both in the party system and in the government apparatus at all levels after the open-door policy had been adopted (Economy 1998: 15). This was regarded as threatening to undermine the legitimacy of the CCP and discouraging the confidence of the general public in the 'reform and open-door policy' of the authorities.

In a word, the three kinds of institutional adjustments, although as expedient measures, actually have shaped China's socio-economic transitions and been conducive to its robust economic growth.

### **Establishing a social security system**

While institutional adjustments have paved the way for maintaining economic growth, deepening the

reform of the income distribution system and improving the social security system are other important instruments, which was for the first time expressed explicitly in the 16th National Congress of the Communist Party of China:

Deepening the reform of the Income distribution system and improving the social security system. Rationalizing the relations of income distribution has a bearing on the immediate interests of the general public and the display of their initiative- We should adjust and standardize the relations of distribution among the state, enterprises and individuals. (CCP 2002: 33; italics in original)

Rhetorically China's government is optimistic about its ability to create employment. According to the State Council Information Office, 'by the end of 2001, employees in urban areas accounted for 32.8 per cent of the total, and those in rural areas for 67.2 per cent. The unemployment rate on record in urban areas was 3.6 per cent' (State Council Information Office 2002). In reality, China's government feels great pressure from the rising unemployment rate and takes it as a serious challenge to political and social stability; the government indicated recently:

The Chinese government is also fully aware that the unemployment problem in both the rural and urban areas will remain sharp, and structural unemployment will become more serious for a long time to come. Labour relations are expected to become more complicated, the ageing of the population and the increase of unemployment will put more pressure on social security, and promotion of social security in rural areas will still have a way to go. (State Council Information Office 2002)

Since the 15th Party Congress and 9th National People's Congress in September 1997 and March 1998 respectively, a series of mechanisms to reallocate state/society relations by China's government has been undertaken to counter socio-economic instability from rising unemployment, including: a market-oriented employment mechanism; making overall plans for urban and rural employment; optimizing employment structure; establishing reemployment service centres and training centres; and setting up a social security system.

### **Establishing a market-oriented employment mechanism**

To cope with the transition from a planned economy to a market economy and the formation of new labour relations, a market-oriented employment mechanism has been called for in China since the 1980s. The key to a market-oriented employment mechanism is 'labourers finding employment on their own initiative, the market adjusting the demand for employment and the government promoting employment' (State Council Information Office 2002).

### **Making overall plans for urban and rural employment**

Facing a serious lack of employment opportunities in the rural areas that have abundant labour, and the flow of labour from the rural areas to the urban areas (urbanization), two basic policies have been worked out (State Council Information Office 2002). The first is to encourage the rural labour force to find work locally. In order to make use of local resources, the government has readjusted the structure of agriculture and that of the rural economy: develop profitable and labour-intensive agriculture

alongside non-agricultural industries in rural areas; guide township enterprises to develop in line with the construction of towns and small cities; enlarge the construction scales of infrastructure facilities; and promote elementary education and vocational training in rural areas. The second is to guide rural labour to find employment in other areas.

### **Optimizing the employment structure**

It includes restructuring primary, secondary and tertiary industries, and that of state-owned, collective and private enterprises. While undertaking reform of the SOEs, the government has encouraged the development of tertiary and private industries, which has seen progress in the past two decades. The percentage of employment in primary industry has dropped markedly, while those of secondary and tertiary industries have risen rapidly. In 2000, employment in the primary, secondary and tertiary industries were registered to account for 50 per cent, 22.5 per cent and 27.5 per cent respectively; the employees of state and collective enterprises and institutions accounted for 37.3 per cent of the total urban employees in 2001. down from 99.8 per cent in 1978 (State Council Information Office 2002).

### **Establishing re-employment service and training centres**

Beginning in 1998, the government started to implement the first phase of the '10 million in three years' re-employment training programme aimed at training 10 million laid-off jobless persons in three years. According to official claims (State Council Information Office 2002), from 1998-2000, more than 13 million laid-off and unemployed persons nation-wide had taken part in training, and the re-employment rate after six months of training had reached 60 per cent.

### **Setting up a social security system**

Compared to measures mentioned above, the social security system has been regarded as fundamental for social stability and thus given priority on the political agenda of the CCP and China's government. Starting in 1998, Labour and Social Security Departments at all levels have been established and a National Social Security Fund was set up. which comes from the central finance appropriation and other channels. A 'two guarantees' policy has been adopted since then. The first is a guarantee of the basic livelihood of the laid off personnel from SOEs in which the laid-off personnel receive allowance for basic living expenses and are paid social insurance premiums; the second guarantee is to ensure basic livelihood for all retirees and that they receive basic pensions in full and on time.

### **Coordinating the development of the regional economy**

The regional disparity and the instabilities it raises has become the third issue for both the CCP and China's government to address, of which the development of the western region is the most pressing: Advancing the development of the western region and bring about a coordinated development of regional economies. The implementation of the strategy for the development of the western region has a bearing on the overall situation of national development, ethnic unity and stability in border areas. (CCP 2002: 28; italics in original)

The Western Region Development Programme,<sup>9</sup> which started in 1999, has been regarded as a great strategy to 'eliminate regional disparities gradually, consolidate the unity of ethnic groups, ensure border safety and social stability and promote social progress' (Office of the Leading Group for Western Region Development of the State Council 2002). The main objectives of the Western Region Development Programme during the 10th Five-Year Plan period claimed by the Office of the Leading Group for Western Region Development of the State Council of China include:

During the 10th Five-Year Plan period, priority should be given to such key tasks as infrastructure construction, ecological improvement, environmental protection, industrial restructuring and developing science, technology and education. Efforts should be concentrated on the construction of key projects in the following fields: water conservancy, communications, telecommunications, energy, urban public utilities, ecology, science and technology, education and rural infrastructure.<sup>10</sup>

It is too early to evaluate the Western Region Development Programme, but three points are certain at least by now. First, China's policy-makers are aware of regional disparity and its potential threat to China's political and social stability and hope to diminish or eliminate rising regional disparities through policy. Second, coordinating development of regional economy is also an important mechanism to maintain China's economic growth by promoting domestic market demand. From the main objectives of the Western Region Development Programme, we find water conservation, communications, telecommunications, energy, urban public utilities, ecology, science and technology, education and rural infrastructure identified as central goals, which not only provide a legitimacy for the central government to enlarge its investment in these regions, but also for attracting FDI to these regions. From 1999 to 2002, the central government invested US\$73 billion (¥600 billion) in the western region for thirty-six infrastructure programmes; and for 2001-02, nearly US\$4 billion (¥30 billion) was provided for water conservation and ecology (Office of the Leading Group for Western Region Development of the State Council 2002). Third, western regional development is useful to alleviate not only the emerging tensions between central government and local governments (inland provinces) due to the latter's complaints that they are accorded less preferential treatment than the coastal areas, but also the tension between local governments in the coastal areas and local governments in inland areas that are due to different economic policy privileges, economic opportunities and economic performance, and different fiscal subsidies provided from central government over the past two decades.

### **Concluding remarks**

There is no doubt that China has benefited from its open-door policy in the context of globalization over the past two decades. The consensus is that China has benefited far more from globalization compared to other regions such as Latin America and Africa (Mittelman 2000: 49-54). That is perhaps why China undertook a fifteen-year effort to apply for WTO entry and continues its open-door policy. However, globalization and China's gradual incorporation into the world economy not only pose risks for the Chinese domestic market (especially economic structure) and its market-related society (for example, polarization, disparity and unemployment pressure) as discussed above; more important is the diminishing capacity of the state to govern Chinese economic reform and its changing society.

It appears that the uncertainties and risks from rising unemployment, continued inequalities and decentralization of authority will become more serious because of deepening globalization and China's WTO entry, even as China maintains its robust economic growth in the future. Therefore, to govern in the interests of economic security has certainly been placed at the top of the agenda of the CCP and China's government, and increasingly efficient institutional adjustments will have to be undertaken to confront these potential economic insecurities. While it is not possible to draw any definite conclusions that the institutional adjustments and other policy instruments adopted by China to maintain its economic growth and address emerging economic insecurities have been fully successful, we are, at least, able to draw three kinds of lessons from China's experience in order to help us understand how difficult it is to govern in the interests of economic security in the context of globalization.

First, globalization, especially as the flow of capital and trade becomes a dynamic force to promote economic growth for the individual country, and subsequently changes the nature and structure of national security structure, we need to re-conceptualize the linkages between economic growth and national security. However, until now, the conception and recognition of the link between economic growth and national security, for both intellectuals and policy-makers, has been shifting increasingly away from traditional dichotomies between the domestic and international levels, and between economic growth and security (political and military).

Second, institutional adjustments or policy instruments at the national level are still key measures available for individual states in East Asia to address national economic insecurities arising from globalization, given the fact that the nation-states are still the major actors, although not the only actors, in the interdependent international system. But, the reactions of different countries to national economic security may vary. From observing the evolution of conceptions about economic security in China and Chinese approaches to addressing economic insecurity in the context of globalization, we can say that an approach based on gradualism has been successful, especially when compared to the 'shock therapy' chosen by the Soviet Union and in light of the economic crisis in East Asia. But, this does not mean that China will never face similar events.

Third, it is necessary for individual countries to establish a broader social-economic insurance network rather than depending solely on economic policy instruments. Because the economic insecurity from globalization emerges from the bottom, as in China, and through multiple channels due to globalization of the economy, managing economy and society becomes much more difficult for the state. The Chinese case shows that policy instruments may be efficient in the short term and in some domains, but for long-term socioeconomic security, a more balanced social-economic insurance network to channel the risks of globalization needs to be fostered via state-led institutional adjustment or institutional (formal and informal) cooperation at both regional and global levels, or both if only to reduce the cost of institutional adjustment in individual countries and to ensure that the insecurities are addressed at source.

#### Acknowledgements

I am very grateful to my three research assistants Qu Bo, Yang Yi and Zhong Feiteng for their critical

suggestions in both preparing and revising this paper. Thanks also go to provoking comments from participants when I presented this paper at the International Workshop 'Globalization and Economic Security in East Asia: Governance and Institutions', 11-12 September 2003, Singapore.

## Notes

1 As for economic security studies in China, the Asian economic crisis in 1997 was an important event which led Chinese scholars and officials to pay attention to the economy/security relationship and put forward 'new security'; see, for example, 'Origin of economic security'. *Contemporary World and Socialism*, No. 4. 1997: "East Asian economic security and China's power". *Strategy and Management*, Jan. 1998; 'A survey of opinions about economic security'. *Academic Tendency*, June 1998; 'On national economic security'. *World Economics and Politics*. No. 6, 1999; 'National economy and China's economic security. *Forum on World Economy and Politics*, Vol. 2. 2000; "A survey of economic security research abroad". *Management of Scientific Research*, Vol. 1, 2001; and *National Economic Security under Economic Globalization*. National Defense University Press, 1999; *Economic Globalization and National Economic Security*. Economics Publishing House, 2000; *The Tendency of China's Economic Security* Economics Publishing House. 2002.

2 As for the studies from scholars, see, for example, Susumu Yabuki (1995), Elizabeth Economy (1998), Wang Shaoguang (1999.2000) and Tony Saich (2001). As for surveys from international organizations, see, for example, *Asia Times* (2000) and International Labour Organization (2001).

3 According to China's official statistics, the registered unemployment rate in urban areas was 3.1 per cent in 1998. 3.1 per cent in 1999. 3.1 percent in 2000, and 3.6 per cent in 2001, respectively; see *China Statistical Yearbook 2002*. p. 117. 4 See, for example, Wang Shaoguang (2000), Lai Pingyao (2003). *Asia Times* (2000) and International Labour Organization (2001).

5 The 'Xiagang' staff and workers refer to those in urban state-owned and collective enterprises who became redundant while keeping welfare connections with their original units and receiving a minimum wage.

6 International Labour Organization (2001). In terms of labour market security, conventional statistics are misleading. The unemployment rate typically mentioned is 3.1 per cent. But, as is easy to show, this is actually a residual, and is a fiction, which cannot even be used as a proxy for unemployment or for time-series analysis, let alone for international comparisons.

7 *Asia Times* (2000). The official estimate of urban unemployment at the end of 1999 was 5.8 million, about 3.1 per cent of the urban labour force. However, this estimate covers only the urban unemployed who are registered with the Ministry of Labour and Social Security. It does not cover the 9.4 million Xiagang workers who were laid off as part of the SOE reforms but have not found alternative employment. When Xiagang workers were included, urban employment was about 15 million, or about 8.2 per cent of the urban labour force.

8 The taxes are divided into three parts in 'separate tax systems': 'central taxes' are taxes needed to

maintain the ability to exercise macro control on a national scale for the national benefit; 'regional taxes' refers to taxes to meet regional needs; and 'shared taxes' are taxes to directly support economic development at the central level and local level.

9 The Western Region Development Programme covers six provinces, one municipality and five autonomous regions, namely, Chongqing Municipality, Sichuan Province. Guizhou Province. Yunnan Province. Shanxi Province. Gansu Province. Qinghai Province. Ningxia Hui Autonomous Region, Xinjiang Uygur Autonomous Region, Tibet Autonomous Region. Inner Mongolia Autonomous Region. Guangxi Zhuang Autonomous Region.

10 Office of the Leading Group for Western Region Development of the State Council (2002). It Includes seven objectives: (1) To substantially improve the underdeveloped infrastructure and start or complete the construction of key infrastructure projects in such sectors as water conservancy, communications, energy and telecommunications etc. (2) To carry out all-round ecological and environmental improvement in the upper reach of the Yangtze River, the Three Gorges, the upper and middle reaches of the Yellow River, the Hei River basin and the Tarim River basin, basically contain the environmental degradation in key areas and make significant progress in the combat against pollution. (3) To greatly improve the market competitiveness of agricultural and sideline products with competitive edge, mineral products and tourism, achieve substantial progress in the upgrading of traditional industries, industrial restructuring and in the development of high-tech industries with a competitive edge, and greatly improve the quality of economic growth and economic efficiency. (4) To universally apply advanced practical technologies to key areas of development, build up the capacity of scientific and technological innovation, make the Nine-Year Compulsory Education universally available, improve the quality of human resources, expand the team of talented professionals and greatly improve such public utilities as cultural services and healthcare in urban areas. (5) To greatly improve urban infrastructure in municipalities directly under central government and the capital cities of provinces and autonomous regions, make considerable progress in the construction of medium and small cities and towns, improve urban environment and noticeably raise the proportion of the urban population. (6) To put in place the modern corporate system of large and medium SOEs. greatly increase the proportion of the output value and assets of non-public enterprises, and also the western region's proportion of foreign capital utilization and foreign trade in the national totals. (7) To reduce rural poverty, ensure that rural people have enough food and clothing and lead relatively comfortable lives, lower the natural growth rate of the population significantly and basically contain the scale-up of income disparities between the western region and other regions.

## References

Asian Development Bank (2000) 'China's economic prospects', online. Available at [http://www.adb.org/DQcuments/Speeches/2000/sp2000\(M\)l.asp](http://www.adb.org/DQcuments/Speeches/2000/sp2000(M)l.asp) (accessed 5 March 2003).

Asia Times (2000) Country Economic Review: People's Republic of China, online. Available at <http://www.atimes.com/reports/BL23Ai01.html> (accessed 5 March 2003).

Chinese Communist Party (2002) Documents of the 16th National Congress of the Communist Party of

China, Beijing: Foreign Languages Press.

Documents Research Division of Central Committee of Chinese Communist Party (1987) Selected Readings of Important Documents since the Third Plenum of the Eleventh Central Committee, Beijing: People's Press.

Economy, Elizabeth (1998) China Confronts the Challenge of Globalization: implications for Domestic Cohesion and International Cooperation. Washington, DC: Rockefeller Brothers Fund, Inc.

Harris, Stuart and Mack, Andrew (eds) (1997) Asia-Pacific Security: The Economics- Politics Nexus. Melbourne: Allen Unwin Australia Pty Ltd.

Hawkins. William R. (2002) "The Chinese economic challenge and its geo-political implications', online. Available at <http://www.tradealerl.org> (accessed 1 March 2003).

Hu Sheng (1997) Reflections on China's Road to Development: Nine Essays by Hu Sheng, 1983-1996. Beijing: Commercial Press.

International Bank for Reconstruction and Development/World Bank (2000) World Development Report 1999/2000, Oxford: Oxford University Press, Ch. 5.

International Labour Organization (2001) 'China: labour market and income insecurity', online. Available at <http://www.ilo.org> (accessed 1 March 2003).

Lai Pingyao (2003) 'China's economic growth: new trends and implications'. China and World Economy, No. 1.

Mastel. Greg (1997) The Rite of the Chinese Economy: The Middle Kingdom Emerges, Armonk, NY: M. E. Sharpe.

Mittelman, James H. (2000) The Globalization Syndrome: Transformation and Resistance. Princeton, NJ: Princeton University Press.

National Bureau of Statistics of China, China Statistical Yearbook, various years, China Statistical Publishing House.

Office of the Leading Group for Western Region Development of the State Council (2002) 'Overall plan of Western Region Development during the Tenth Five- Year Plan period", online. Available at <http://vyww.chinawest.gov.cn/> (accessed 20 March 2003)

Saich, Tony (2001) Governance and Politics of China, New York: Palgrave. Shirk, Susan L. (1993) Political Logic of Economic Reform in China, Berkeley, CA: University of California Press.

-----(1994) How China Opened its Door: The Political Success of PRC's Foreign Trade and Investment



Reforms, Washington, DC: Brookings Institution.

State Council Information Office (2002) 'Labour and social security in China', online. Available at china.org.cn (accessed 20 March 2003).

Wang Shaoguang (1999) *The Political Economy of Uneven Development: The Case of China*, Armonk, NY: M. E. Sharpe.

----- (2000) 'Openness, distributive conflict, and social insurance: the social and political implication of China's WTO membership', online. Available at [http://www.gateway2china.com/report/CUHK\\_paper.htm](http://www.gateway2china.com/report/CUHK_paper.htm) (accessed 25 February 2003).

Yabuki, Susumu (1995) *China's New Political Economy: The Giant Awakes*, trans. Stephen M. Harner. Boulder, CO: Westview Press.

Yu Yongding (2001) 'A review of China's macroeconomic development and policies in the 1990s', *China and World Economy*. No. 6.

Zhao Ouansheng (1996) *Interpreting Chinese Foreign Policy*, Hong Kong: Oxford University Press.