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The Political Economy of Giving

Legitimacy, Welfare, and the Influence of Foreign NGOs in China

Nathan Wallace

SIT: Yunnan Province

Spring 2005

Introduction

Since the death of Mao and the rise of reformers in China, the world has eagerly awaited the results of changes sweeping through the developing nation. Deng Xiaoping and his successors have promised reform, which has come in the form of market liberalization. Now, after 20 years of reform, the Chinese people have seen a boom of economic prosperity. Their nation has joined the WTO and taken a central role in the world economy. Reform has also reduced political oversight of people's daily lives and allowed the economy and society to exist in a less regulated environment. That being said, liberalization has also had dramatic effects on the delivery of social welfare, a major component of the socialist system, which is still the official goal of market development. To relieve enterprises of the burden of welfare delivery and allow the market to flourish through capitalist initiatives, the Party / state was obliged to reduce taxation on state owned enterprises in hopes of freeing capital with which the enterprises could invest. However, this both put more pressure on the government to deliver resources and reduced the state budget with which to do so. As the government's share of national GDP dwindled, the state began accessing bank capital to finance welfare programs. Doing so has in turn depleted bank resources and left the nation in dire need of foreign capital donation. It was in this landscape that foreign non-government organizations (NGO's) emerged; delivering both efficient and equitable changes to existing welfare delivery systems and much needed foreign capital. The Chinese Communist Party's dependency on performance legitimacy through the social contract system directly led to escalating financial problems. NGOs,

in pursuing their own goals, have enhanced the delivery of welfare in China and, in turn, helped to maintain the legitimacy of Party / state rule.

Early Reform

“Reform” is a very loose term; malleable and transient. It is the kind of word used by politicians to hide behind. It replaces complex concepts and packages them in one neat, clean idea. It is, however, necessary to avoid simplifying the changes in China today with a single word. Reform in China is a myriad of changes. It is a liberalization of society and economy. It is a switch in the way the Party and state earn legitimacy, both domestically and abroad. It is an attempt to balance socialism and capitalism and prove to the world that capitalism can be improved upon with government oversight and socialist intentions. Xiaonong Cheng describes it with the following; “Reform in a socialist country is a process of institutional transformation which includes redefining the interests of, and the relationship between, State and society”.¹ The current Chinese experiment is a groundbreaking effort to save a Communist state under the pressure of encroaching capitalism. The survival of the Chinese state will mark success where the Soviet Union and other Communist nations have failed, breaking under the strain encroaching capitalism. The importance of this process is obvious. Less obvious is its complexity.

¹ Xiaonong Cheng. “Breaking the Social Contract.” Dilemmas of Reform in Jiang Zemin’s China. London: Lynne Rienner Publishers, 1999. 108.

Legitimacy

Max Weber claimed that the legitimacy of any government is based on one of three grounds.

1. Rational Grounds: An honest belief by citizens in the legality of rules and the right of the government's authority.
2. Traditional Grounds: A citizen's belief in the sanctity of tradition.
3. Charismatic Grounds: A belief in the exemplary character of leadership.²

All three grounds for legitimacy require something of the government to earn citizens' support. For a nation to have rational legitimacy it must earn the citizens' trust. By providing opportunity, security, justice and or prosperity, legitimacy can be earned. For a nation to have traditional legitimacy it must earn the citizens' faith. Having or constructing a glorious history, promoting the religious right to rule, or maintaining an ancient tradition of rule will earn government legitimacy through the citizens' faith in tradition. To earn charismatic legitimacy, the leadership must be of irreproachable character. This can occur either from the actual virtue of a leader's character or from a constructed ideology which professes the leadership's virtue. According to Weber only these three methods are available secure legitimacy and support from a populace and ensure the survival of rule.

Before the Communist forces took control of China in 1949, emperors ruled the Middle Kingdom through successive dynasties. Their legitimacy derived from the

² Guoguang Wu. "Legitimacy Crisis, Political Economy, and the Fifteenth Party Congress." Dilemmas of Reform in Jiang Zemin's China. London: Lynne Rienner Publishers, 1999. 14.

thousands plus year history of dynastic rule in China. The people believed in the strength and power of tradition and rarely questioned the government system; only at times its rulers. When the PRC 'liberated' the nation from imperial rule, it did so in hopes of destroying the traditions of China. The revolution was an attack on the traditional system of rule and, as such, the PRC could not maintain legitimacy through tradition. It had, however, established an ideology, which carried the Communists through the civil war and on to victory. Legitimacy for the early PRC was one derived from the faith in Communism and the success of that ideology in direct competition with the bourgeois nationalists. Over the history of the PRC the ideology changed from a belief in Marxism-Leninism to a devout following of Mao and his thought. It was charisma and ideology that carried Mao through the Great Leap Forward and the Cultural Revolution, not actual success in providing more food or security. Xiaonong Cheng describes the system as "command and obedience."³ Since the government could not satisfy people with a better life, they suppressed the masses with ideology.

However, market liberalization following the death of Mao helped shift the structure of government legitimacy once more. As the nation lost its charismatic leader and the ideology he professed was slowly abandoned, the government needed a new method to secure loyalty. If Max Weber is correct in his analysis of government legitimacy, the PRC only had two choices. Having already smashed tradition, the Party / state could reconstruct a new ideology or actually provide the resources to promote rational legitimacy. In a sense, both methods were pursued with the later

³ Xiaonong Cheng. "Breaking the Social Contract." 109.

being the most significant.

In the era of Deng Xiaoping, the Party / state pursued legitimacy through the performance of the economy. Great strides were made in liberalizing the market; allowing growth and prosperity to emerge bit by bit. However, the Party was still uninterested in political reform, a key component to rational legitimacy. In the beginning, both political and economic reforms are relatively easy. As reform continues the process grows in complexity. By the 15th party congress and the emergence of Jiang Zemin as Deng's successor, economic reform had become an increasingly difficult task. Reform had led to a variety of unwanted negative consequences that seemed to grow as reform continued. Unemployment, the income gap and capital flight all emerged and grew as liberalization and restructuring continued. Despite the risk involved in continuing economic reform, political reform remained untried.⁴ Essentially, the Party feared political reform for the potential disaster it could have to Party rule. Instead of pursuing the potentially easier political reform, the Party pushed harder on economic reform, trying to squeeze more legitimacy out of an already tapped process.

Despite Jiang Zemin's efforts to idealize the "Deng Xiaoping Theory", it would be economic performance that would emerge as the pursued method of securing citizens support and faith in the party. The previous "command and control" system was replaced by "feed and cooperate."⁵ Economic performance, not ideology or charisma, would be the Party / state's link to survival.

⁴ Guoguang Wu. "Legitimacy Crisis, Political Economy, and the Fifteenth Party Congress." 15.

⁵ Xiaonong Cheng. "Breaking the Social Contract." 108.

The Social Contract System

The social contract system is often thought of as a founding philosophy behind modern democracy. However, in its most basic sense, a social contract is a form of trade between a government and its people and can occur under any political system. As citizens put their faith and trust in a ruling government they expect in exchange certain benefits; security, opportunity, basic needs, etc. When the contract is unfulfilled, it is often thought that the people have the right to change their government, or at the very least withhold support. In China, the Party / state receives support by providing economic benefits. Legitimacy is exchanged for development in China's emerging social contract. However, if reform fails and benefits become scarce, the citizens of China can and will withdraw their faith in Party rule. The social contract has become a viable means to legitimacy, replacing ideological rule, but the same system that today holds up the Party may tomorrow initiate its fall.

For the most part, the maintenance of the social contract is dependent upon the happiness of the urban population. Those living in cities have more access to education and outside information and are, as such, more politically influential. They are also more easily organized and work in industrial sectors crucial to the survival of the state. Dissent among the urban workers can be more disruptive to the functioning of the national economy than dissent in rural populations and as such the government has focused most welfare programs in cities. However, the situation among the urban workers is quite complicated and securing their support is difficult. In the late 80's

and early 90's close to 85% of the urban population worked in the state sector.⁶ Their lives were that of organized dependency with all essentials of life provided through each *danwei* or work unit. During early market reform, it was the goal of the urban population to adopt a modern lifestyle while at the same time preserve the benefits of state socialism. It is because of this contradiction that the Party / state stopped short of complete reform and the Chinese social welfare system remained throughout early market liberalization.

As reform progressed, the Party / state's dependence on the social contract deepened and the delivery of welfare benefits became increasingly important. In 1990, Jiang Zemin reminded the local officials that "buying political stability with money" was a key policy to be understood.⁷ To maintain legitimacy and draw attention away from the negative impacts of reform, the early 1990's saw a great amount of money funneled through the social contract. Benefits took many forms. Fiscally, the state provided massive amounts of welfare and material benefits to state owned enterprises (SOEs) to raise the opportunity cost of switching to the private sector. It gave concessions such as offering benefits through reform or refusing to take away workers' already vested interests. In the most extreme concessions, the Party / state would actually abandon some aspects of reform to spare the negative consequences of an unfulfilled social contract. When Zhu Rongji tried to reduce the number of redundant mining workers in 1991, angered employees rose up and killed a manager,

⁶ Ibid, 110.

⁷ Ibid, 113.

successfully scaring Zhu away from reform in the industry.⁸ The people's reaction in the social contract became an obvious limitation on how far reform could proceed in China, and the party's dependency on the social contract system weakened its authority to make unpopular choices.

Consequences

Reform during the late 20th century produced mixed results. Positively, reform created more opportunities for work in the non-public sector as SOEs lost significance. The social contract succeeded in stabilizing the economy and, in turn, the political legitimacy of the Party. Economic growth was secured and the increase in foreign trade has opened avenues for foreign investment and opportunities for export by domestic enterprises. However, the reform movement was only partial in scope; mainly due to popular resistance like the mining situation stated above. By not completing the reform movement, the Party has de facto protected institutional legacies of the past, such as inefficient SOEs. It has allowed corruption to grow and has exhausted resources on unproductive endeavors.

Reform's Impact on Social Welfare

It was the initial goal of reform to create a welfare system that is both just and efficient.⁹ Previously, the socialist welfare system created in the PRC was universal. The Iron Rice bowl aimed to ensure that all people had food and security. It was a unilateral project taken on by the Party / state in that those who benefited had no

⁸ Ibid, 115.

⁹ Gao Shangquan, Chi Fulin, ed. China's Social Security System. Beijing: Foreign Languages Press, 1996. 18.

control of, or responsibility for, its maintenance. Workers worked and the state took care of their needs. However, the system could not survive through reform. It was an inefficient system because citizens could often abuse benefits with little or no consequences. Over use of medical treatment and other benefits provided through SOEs drained money out of the system. To rectify the problem the state reduced the taxation on enterprises and had employees pay a partial tax to contribute to the fund.¹⁰ By having employees pay for their welfare indirectly, the state maintained the welfare system while reducing the occurrences of abuse.

The above is an example of welfare reform aimed at increasing efficiency. Efficiency however is not simply a factor of the system itself. Because it has been the burden of enterprises to maintain the welfare of its employees, efficiency is most often a product of successful business. In the past, problems have arisen, especially among small, limited capital firms, when medical payments or insurance benefits were too high to promote overall productivity. When the government reduced taxation on SOEs it not only made workers more responsible, it also freed capital for the SOEs to invest and increase productivity. Maximizing welfare efficiency is directly linked to maximizing the productivity of the local economy.

Justice in the welfare system is a goal of equal benefits regardless of an individual's class in society. It is also the belief that welfare benefits should be equal between industries and enterprises. One of the greatest challenges to Chinese welfare reform is ensuring justice between rural and urban, rich and poor sectors of society.

¹⁰ Ibid, 8.

With those two evaluations in mind it seems that the welfare system has made certain strides but remains imperfect. In an interview with Duan Guang of the Institute of Economy, he expressed that the current state of welfare is improving.¹¹ Currently, welfare is delivered in three ways; through private insurance, government subsidies, and provisions to employees of bankrupt companies. Although much of the welfare system still lies in the hands of *danwei*, Duan Guang believes the system covers nearly all urban residents successfully.

In fact, in the year 2000 the government set up a social security fund to better provide for the welfare of the Chinese people. According to the Xinhua news agency, the fund totaled 170.8 billion Yuan (20.8 billion US\$) by the end of 2004.¹² Also in 2004, the investment rate of the fund in the stock market reached 15%, as the government hoped to let investment mature the fund over the coming years. Investment into the fund is also enhanced by the Social Welfare Lottery. Much like lotteries in the United State, the Social Welfare Lottery provides an opportunity for ticket buyers to match numbers with those in a drawing. Benefits pay out well while proceeds go to support the welfare system.¹³

Internally, there are signs that the government's attention to welfare reform has borne fruit. The People's daily reported in 2001 that 6 million laid off workers were receiving stipends for basic expenses and that 31 million retirees were drawing pensions successfully. The article also claimed that the Ministry of Labor and Social

¹¹ Duan Guang. Interview with Duan Guang. Institute of Economy. 18 May 2005.

¹² [China Social Security Fund Announces Total Assets](http://www.china.org.cn/english/government/124092.htm). Xinhua News Agency. 29 March 2005.
<<http://www.china.org.cn/english/government/124092.htm>>

¹³ Duan Guang. Interview.

Security was to create employment opportunities for 8 million unemployed people in hopes of lowering unemployment to below 4% by years end.¹⁴

Despite the domestic news opinion however, the system looks less successful from the outside. Duan Guang was willing to point out that welfare in the rural areas is practically non-existent, with retirement security coming from large families not government funds. Workers who migrate to the cities from the countryside are equally uninsured, notes Duan Guang, and have no welfare benefits at all. This suggests a major flaw in the justice of the current social welfare system. Perhaps because urban workers have more political influence, the government has used the social contract to provide welfare in the cities but not in the countryside.

There is also an increasing gap between income in urban areas and income in the countryside. In 2002, the nominal ratio of income in the cities to income in the countryside was 3.11 to 1. When the differences between consumer price indices in the respective local economies are considered the real ratio of 2.30 is rendered. In other words, prices assumed the same, the income in urban areas is 2.3 times higher than income in rural areas.¹⁵ The inequity of the system has started to effect efficiency as well. When rural areas have less income, the demand from them for domestically produce goods dwindles. Demand for domestic products has also gone down in cities, but for a different reason. As urbanites' income increases so to does their taste for imported goods. Combined, the rural / urban income gap has left Chinese enterprises

¹⁴ [Social Security Work Improves in China](http://english.people.com.cn/200112/12/eng20011212_86531.shtml). People's Daily. 31 Dec 2001.

<http://english.people.com.cn/200112/12/eng20011212_86531.shtml>

¹⁵ Cai Fang. "Rural Urban Income Gap and Critical Point of Institutional Change." 21 May 2005.

<http://www.cass.net.cn/chinese/s06_rks/37wp.pdf>

with decreasing domestic demand for Chinese-made goods.¹⁶

Another gap is also forming within Chinese society; the gap between rich and poor. According to the State Statistics Bureau as reported by the People's Daily, "less than five percent of China's wealthiest hold nearly a half of the country's savings deposits worth more than 6 trillion Yuan."¹⁷ An increasing problem represented by this income disparity is capital flight. The wealthy five percent mentioned above have enough money to invest substantial amounts abroad; reducing China's domestic capital flows. Also, unemployment from SOE layoffs continues to be a problem and its consequences are evident in the rift between rich and poor. Throughout the reform period, the inefficiency of SOEs has been a menacing problem. In a 1997 article by Guoguang Wu entitled "Legitimacy Crisis, Political Economy, and the Fifteenth Party Congress," it is estimated that 70% of China's 100,000 SOEs are losing money.¹⁸ Part of the problem is over-employment and, to avoid losses, the government has been forced to perform layoffs, which put legitimacy at risk. Guoguang Wu reports that 30% of the 113 million industrial workers are not needed. In all sectors, 100 million jobs may be sacrificed in the pursuit of efficiency. The results have been worse than the People's daily 2001 prediction. The Economist, a British publication that monitors international politics and economics, cited that in 2003 Chinese unemployment reached 10.1% after steadily rising from 8.2% in 2000.¹⁹ Duan Guang also mentioned that the growing population would continue to put strain on the economy, raising

¹⁶ Xiaonong Cheng. "Breaking the Social Contract." 119.

¹⁷ China's Income Disparity Grows, People's Daily. 12 July 2000.
<http://english.people.com.cn/english/200007/12/eng20000712_45330.html>

¹⁸ Guoguang Wu. "Legitimacy Crisis, Political Economy, and the Fifteenth Party Congress." 20.

¹⁹ Country Briefings: China, The Economist. 13 May 2004.
<http://www.economist.com/countries/China/profile.cfm?folder=Profile%20Economic%20Data>>

unemployment rates even more.

In all, reform of the social welfare system has progressed but is unable to get past one of China's most pervasive economic problems, a lack of money. SOEs do not have enough money to support large payrolls and the government, despite the welfare fund, does not have enough money to support a truly just and efficient welfare system. The financial market of China is under constant strain and its woes send shockwaves through the welfare system.

Where has all the money gone?

As stated above, a popular method for improving responsibility in the social welfare system was to split taxation between enterprises and workers. This also freed capital for enterprise investment. However, the money that is collected from workers fails to fully compensate for the amount of money freed in enterprises. Viewing this system as a closed economy, the money freed for investment must be accounted for. In actuality, the state's annual budget has been shrinking as a result. Xiaonong Cheng cites that in 1978 the state consumption of GDP was at 35% and dropped to 20% by 1988.²⁰ Since 1988, the state's budget has been unable to finance the social contract. According to the Economist, the state's consumption of the national GDP continues to shrink, from 13.08% in 2000 to 12.90% in 2003.²¹ In fact, the government's allotted budget became so tight that it soon was forced to access other funds. In the 1980's the household share of national income rose between 10 to 15 percent and the ratio of savings to national income rose from 4% in 1978 to 15% in

²⁰ Xiaonong Cheng. "Breaking the Social Contract." 118.

²¹ Country Briefings: China. The Economist. 13 May 2004.

1990.²² Because central authority controls bank systems, the government took advantage of increased public savings and began drawing from bank savings to pay for its welfare program and finance the dying state sector.

Even as the budget dwindled and even as state sector profits fell from 15% to 2% between 1985 and 1993, the state continued to draw funds it did not have to finance SOEs' inefficiency.²³ However, even this money was not sufficient and enterprises began to turn to loans to pay for welfare benefits and buy political compliance. Xiaonong Cheng states that many of the managers taking out these loans had no plan to repay them. It would appear that the maintenance of the social contract and the happiness of workers were more important than profits or economic viability. Because, again, all money must go accounted, the banks would bear the consequences of welfare spending.

The money drawn out by the central government compounded by the outstanding state sector loans had the overall effect of increasing the risk of bankruptcy among China's financial institutions. This occurred because the total net assets of the banking system shrank with each RMB funneled into the SOEs and the welfare system. Soon, the banks found themselves without financial resources and the loans they continued to issue were not backed by actual money. In 1994, 60% of China's bank loans were 'dead loans'.²⁴ According to international standards the Chinese banking system was technically bankrupt by 1997. Only the prop of central authority kept it from going under. To pay for social welfare and uphold the social contract, the Party / State had

²² Xiaonong Cheng. "Breaking the Social Contract." 118.

²³ Ibid, 118.

²⁴ Ibid, 119.

depleted all its financial resources. If stress were to be removed from the social contract and the banks saved, outside capital would have to enter the economy in an amount greater than resources leaving. Essentially, China needed donations.

NGOs and Economic Turnaround

As the Chinese system struggled to fund social welfare in the early 1990's, foreign NGOs began emerging to address concerns ranging from health and disease prevention to environmental protection.²⁵ Although there is no direct causation, the correlation between government constraints and NGO development is significant. If the Party had been unable to continue funding the social contract, the political stability of China could have been jeopardized. NGO external funding and welfare delivery improvement helped to ward off the impending financial crisis of the 1990's and in turn pull the Party back from the brink of looming political turmoil. For these reasons, the government has, in general, warmly welcomed the presence NGOs, and the two parties' interaction has been cooperative. Zhang Liwei of the Lijiang city Foreign Affairs Office seconded those sentiments by saying that the government, both local and national, has had strong, productive relationships with foreign NGOs.²⁶

It has increasingly evident that the 190 plus NGOs in China and the CCP have become allies in social welfare delivery. With an estimated combine annual spending of 100 million USD, the impact of foreign NGOs on the economy of welfare in China

²⁵ NGOs Come of Age. BJReview.com. 14 May 2005. < <http://www.bjreview.com.cn/200413/viewpoint.htm>>

²⁶ Zhang Liwei. Interview with Zhang Liwei. Lijiang city Foreign Affairs Office. 19 April 2005.

has been significant.²⁷ Though overall economic growth has continued in China without need of external support, credit for the recent progress in stability and efficiency is due in part to the financial assistance of foreign NGOs. As cited by the Economist, GDP growth reached a real rate of 9.10% in 2003 compared to 8.00% in 2000.²⁸ The banking system, virtually bankrupt in 1997, has taken steps to analyze risky investment areas and, as such, has reduced losses on new loans. The percentage of non-performing or 'dead' loans has also been reduced to 13.2% in 2004 from 18% in 2003.²⁹ Their ability to do this lies in part with the willingness of NGOs to invest resources in areas deemed risky for bank lending. Even in the SOE sector, which still occupied 41% of China's industrial output in 2002, steps have been taken to minimize loss and maximize efficiency. One state owned coal-fired power plant has generated more than a million dollars in savings by monitoring coal quality from suppliers.³⁰

For the time being, the Party / state has successfully tackled the pressing issues of the late 1990's financial woes. The social contract, and the government's access to legitimacy, remains intact. Providing one hundred million US dollars a year, the financial contributions of NGOs have made great strides in developing welfare delivery systems and have, inadvertently, helped fund the CCP's purchase of political stability. Though the Party / state still has great obstacles to overcome, including unemployment, the rural / urban income gap, and the growing disparity between rich

²⁷ About the Dingo. China Development Brief. October 1999.

<<http://www.chinadevelopmentbrief.com/page.asp?sec=4&sub=4&pg=0>>

²⁸ Country Briefings: China. The Economist. 13 May 2004.

²⁹ Consumer Lending in China. The Economist. 21 April 2005.

<http://www.economist.com/displaystory.cfm?story_id=S%27%29%28L%25QQ%5B%26%200%215%0A>

³⁰ Spurring performance in China's State-Owned Enterprises. McKinsey Quarterly. 2004. <

http://www.mckinseyquarterly.com/article_page.aspx?ar=1492&L2=19&L3=69&srid=7&gp=1>

and poor, the future appears brighter than it once was. At present, through the combined resources of state-sponsored programs and foreign NGO activity, the social contract is fulfilled and in a stable and fiscally sound manner.

Case Studies

The following three case studies give insight into the manner in which NGOs directly influence social welfare. Though they by no means represent a summary of all NGO activity in China, they do provide a look into the mechanisms of NGOs in Yunnan province.

Role of NGOs in Welfare Development

In securing their independent ambitions, foreign NGOs directly or indirectly play a dramatic role in developing social welfare systems at local levels. The following case studies will refer to the following five aspects of NGO welfare development.

1. Providing access to foreign capital
2. Improving the justice of welfare distribution
3. Improving the efficiency of economy or life in an area
4. Developing sustainable living and economic growth
5. Promoting healthy living, which in turn lowers the welfare burden of medical expenses.

The Nature Conservancy (TNC)

The Nature Conservancy was officially registered in the United States in 1951. They began international work in the 1980's and came to China in 1997 at the request of the Chinese government. Their mission as declared in the TNC mission statement

is “To preserve the plants, animals, and natural communities that represent diversity of life on earth by protecting the lands and waters they need to survive.” Supported by 56 staff members, TNC has 4 field offices in Yunnan (Nujiang, Lijiang, Shangri-la, and Deqin) plus administration in Beijing. Their work centers on ‘conservation area planning’ in which threats to natural resources are discovered and strategies are developed to combat destructive practices. Their current work can best be categorized by the following:

1. Alternate Energy Planning
 - Reducing the consumption of wood in energy production
2. Environmental Education
 - Increasing awareness of natural resources and conservation
4. Integrated Resource Planning and Area Management
 - Helping to build the capacity of nature reserve management
3. Photo Voice
 - Helping local people’s express themselves through photos of their communities.³¹

Lijiang Field Project

As stated above, one of the most influential roles played by NGOs in China is improving the access to external capital. In partnership with the United Nations, the Nature Conservancy in Lijiang has started a program of consumer credit lending in

³¹ Xia Zuzhang. Interview with Xia Zuzhang. Alternative Energy Program Director TNC. 20 April 2005.

hopes of developing rural economy. The program, started in January 2005, provides participating families with a 5000 RMB loan to pursue economic initiatives. Mu Jinhua, a TNC project manager at the Lijiang field office, reported that much of the money goes into purchasing livestock, specifically pigs³². The loan is expected to be repaid to TNC with interest paid into a village association registered with the civil affairs office. Though the money is not a donation, it is still access to capital that would otherwise remain unavailable. Because income in rural areas is low, banks often feel loans to rural areas are at a higher risk of remaining unpaid. As such, few rural families can secure the capital to start up livestock raising or a small business. TNC has thus far provided 30,000 RMB dispersed among 6 families since the program's inception in January.

The money provided by The Nature Conservancy does a great deal to promote justice in the distribution of welfare resources in Yunnan. Currently, 13 of the 15 counties in which TNC is operating are below the poverty level.³³ As stated above, the ability of these people to pull themselves up is heavily dependent on the government's willingness to provide economic opportunity. Limited government finances and the risks of rural lending have left these communities with little external assistance. The Nature Conservancy hopes to equalize the imbalance in welfare opportunity between rural and urban areas through their consumer credit program.

Along with the credit program, the Lijiang field office is doing a great deal to promote the use of alternative energy. Wood burning poses a great threat to the forests

³² Mu Jinhua. Interview with Mu Jinhua. Alternative Energy Program Coordinator TNC. 20 April 2005.

³³ Xia Zuzhang. Interview.

of Northwest Yunnan province and much of TNC work in alternative energy is to protect natural resources. However, improving energy production has a great impact on the efficiency of life in the affected communities. Collecting wood in the amounts needed for heating and cooking, especially in higher altitude areas, takes time. It is estimated that in the TNC project areas 75% of households use wood as the primary fuel. In lowland areas, between 2 - 6 tons of wood is used per household per year. In higher altitude areas where there is a greater demand for heating, households can use up to 20 or 30 tons of wood per year.³⁴ The time needed to collect wood has a high opportunity cost. Opportunity cost is the cost of not doing something because one is doing something else. For instance, while villagers are collecting wood they are not working the fields or tending livestock. In general, collecting wood for fuel takes time away from activities that could contribute economic benefits to the community. Alternative energy solutions improve an area's efficiency just by lowering the amount of time needed to collect wood fuel.

Efficiency is also improved by the various means of energy production. TNC has introduced biogas energy production into a few communities in Lijiang province. Biogas energy units use human and animal waste to produce a relatively clean burning gas used mainly for cooking. Through a fermentation process, waste products are used constructively to provide fuel with little maintenance. Families need only to collect waste in the unit. The process continues without any other necessary inputs. Besides the flammable gas, product from the units can also be sprayed on fruits to

³⁴ Ibid.

prevent pests with no harm to humans. Time is saved in energy production and fruit can be produced with less loss due to pests.

Solar water heaters are also being introduced in TNC areas. Sitting on the roof, the solar water heater uses energy from the sun to heat water with no external inputs and very little maintenance. Previously, villagers prepared pig feed with water heated by wood fuel. Now hot water is readily available and does not require the burning of inefficient wood. In the Haixi Village, a TNC work site, one half of the 176 households contain either biogas or solar energy units (50 units and 38 units respectively).³⁵ Mu Jinhua reports that the villages participating in the alternate energy project are happy with the improvements and the benefits provided by efficient energy production.

Both consumer credit programs and the alternate energy project are aimed at providing options for sustainable growth. In fact, Xia Zuzhang mentioned that conservation, the overall goal of TNC work, and sustainability are one in the same. To conserve natural resources a sustainable balance must be made between man and nature. In terms of social welfare, sustainability equals stability and a foundation upon which progress can be made. As stated above, the Chinese governments struggle to provide for benefits in the social contract has been an unsustainable process. Resources were used faster than they could be replenished. In the countryside, however, the Nature Conservancy has created patches of sustainable living, key to any successful welfare system.

³⁵ Wang Jianjiao. Interview with Wang Jianjiao. Lijiang Provincial Foreign Affairs Office. 20 April 2005.

TNC projects have also promoted healthy living in work areas. Wood fuel has a reputation for creating indoor air pollution problems, especially under intensive use. By reducing the use of wood consumption, alternate energy equally reduces problems related to indoor air pollution. Biogas units also handle problems with waste management in areas with little sanitation infrastructure. Because waste goes into biogas units it stays out of water supplies improving the quality of water for villagers and those living downstream. The improvement of health in an area has a direct impact on social welfare delivery. Improving health reduces the amount of already limited resources that must be diverted into medical improvement. In areas like Haixi Village, healthy living keeps villagers productive and frees resources for development.

As can be expected, The Nature Conservancy has had no conflicts with the government. Xia Zuzhang attributes this to the TNC approach. He explained, “The Nature conservancy is not about forcing ideas on people. TNC simply recognizes a problem and proposes a solution. It is offering assistance not insisting upon it.” The Nature Conservancy also keeps a mutual, cooperative relationship with the government. It is the NGOs’ policy that projects are owned by the government. TNC is simply a tool for assistance.

Oxfam Hong Kong

Registered in the 1980's Oxfam Hong Kong is one of 10 members of the umbrella organization, Oxfam International. Oxfam Hong Kong describes their work with the following, "We work with people regardless of race, sex, religion, or politics in their struggle against poverty, distress, and suffering. Our vision is for a world where people are equally assured of their rights with respect, including access to food, shelter, employment and health care, in a sustainable manner." The organization entered China with plans to start long-term poverty reduction programs in the North and Southwest. In 1992, Oxfam H.K. established itself in Kunming. Currently Oxfam H.K. has offices in Kunming, Guizhou, and Beijing with about 40 staff in total. The six guiding aims of their program are sustainable livelihood, basic services, life security, participation in society, equity and diversity, and global citizenship. All of their programs are at least 6 years in duration plus a 2-year start up period.³⁶

The majority of Oxfam Hong Kong's contributions are monetary in nature. Over a year's period each of the three China offices have an independent budget of around 10 million RMB. The money spent in China, representing 52% of the organization's total yearly expenditure, is largely funded by donations from Hong Kong citizens and private business. Poverty reduction, according to Oxfam Hong Kong is directly linked to capital access so a major portion of their work in communities involves creating a working financial system. Under the management of village organizations and the monitoring eye of Oxfam, donated money is loaned out among the community for

³⁶ Dimin Wang. Interview with Dimin Wang. Senior Administrative Officer Oxfam Hong Kong. 13 May 2005.

small enterprising or infrastructure development. Loans are to be repaid, however unlike the TNC credit lending program all Oxfam money stays in the community. Repayment, including minimal interest, goes back to the village organization. Because the money stays in the village, communities can collectively pursue large infrastructure programs or re-circulate finances for loans in the future. In Oxfam work areas, welfare systems are improved exponentially simply from access to newly created capital markets.

As stated above, access to credit in rural areas is difficult because low-income rural families are often seen as having a greater potential to default on loan payments. Oxfam, however, has a policy of donating to the poorest areas in China regardless of their ability to repay. One reason the program has been so well received is its willingness to establish lending systems in communities the government cannot or will not aide. The group also pays special attention to the women in the affected communities. As Dimin Wang, Senior Administrative Officer at the Kunming office, stated, women in China have traditionally been unable to express feelings or opinions in regard to community development. Oxfam ensures that in work communities, women's voices are heard and they are involved in decision-making. Both lending to disenfranchised areas and developing the role of women in local communities has improved the justice of welfare in rural areas.

The development of rural areas through large sum donation is most evident in large-scale infrastructure development. Much of the Oxfam money initially goes to developing roads, schools or health care institutions. The effect of even limited

infrastructure on a village's economy is significant. Construction of roads in an area both increases the efficiency of internal transportation and opens up markets outside the village for trade. Roadwork can even increase the ease of importing externally produced goods into the local economy, which often can reduce price inflation from transportation costs. The construction of schools also does a great deal to improve the functioning of an economy. New generations of educated children are growing up in Oxfam villages with access to skill training and start-up capital. Entirely agricultural villages are now diversifying their economic value by starting enterprises in woodcutting, weaving or other handicrafts.

As previously stated, it is one of the Oxfam aim's to promote sustainable livelihood. This is achieved primarily because donated money stays within the community. If properly managed and well regulated the Oxfam initial donation will last for years upon years in the community. With successful investment in productive enterprises the money may even accumulate profits and interest. As the popular saying goes, "it takes money to earn money." Oxfam gives poverty stricken areas the initial capital to develop successful and sustainable economic growth.

In regard to healthy living, Oxfam donation has gone to the development of medical facilities in villages previously without proper health care systems. Aside from the obvious delivery of medical care, these facilities have also been engaged in health education in the surrounding area. Oxfam money supports education that allows villagers to make healthier choices and take care of minor ailments effectively and without the need for expensive medical treatment. Aside from the direct

development of health maintenance, Oxfam money has significantly reduced poverty in work areas. By simply improving the standard of living, Oxfam has given villagers the means to create their own healthy lifestyle. Education, medical care and poverty reduction have together improved the overall health of Oxfam villages and have alleviated many welfare concerns.

Oxfam Hong Kong's interaction with the government has been equally successful. All projects are carried out under mutually signed contracts, and the local government is involved in every step of the Oxfam project. In many rural areas, especially in those heavily burdened by poverty, local authorities are under constant pressure to improve the welfare of local people. However, in most cases the government does not have the resources or knowledge to do so. Oxfam's donations of resources and functional knowledge have aided local governments and given them the means to provide proper social welfare.

Health and Development Aid Abroad (HADAA)

The Health and Development Aid Abroad organization is a small Australian based NGO dedicated to improving the lives of those plagued by poor health and economic misfortune. HADAA, established first in Kunming in 2000, is smaller than the previous two NGOs with only 10 staff members and a 200,000 RMB per year operating budget. The organization is devoted to improving access to capital through loans, English language education, and health and sanitation systems.³⁷

³⁷ Dennis, Colin. Interview with Colin Dennis. Chief Representative in Yunnan, Health and Development Aid Abroad. 18 May 2005.

Like The Nature Conservancy and Oxfam Hong Kong, HADAA has started a micro-enterprise lending program to support the development of local economies. The HADAA fund, supported by private donations and grants, lends 2,000 RMB on average to families for the development of small enterprises. Like TNC lending, most HADAA loans go to the development of pig farming, though Colin Dennis, Chief Representative for HADAA in Yunnan, told of one loan going to the construction of a family restaurant. All HADAA loans are expected to be repaid but there is no interest or administration fee charged. Like the other lending programs, HADAA loans target those who otherwise are without access to government-sponsored loans for development. HADAA provides foreign capital where domestic lending chooses not to go.

One program unique to HADAA is child sponsorship. In events of war, poverty or distress, it is usually children who suffer the most. Without full and equal treatment, children are at the mercy of surrounding adults and often survive on the resources of others. In poverty situations, children are least likely to have the capacity to support themselves and often domestic welfare programs do little to help. For these reasons, HADAA has developed a child sponsorship program. Individual children are sponsored from the HADAA budget and are provided basic necessities to ensure a healthy livelihood. Unlike other sponsorship programs, there are no contributing families overseas with a direct, one-to-one relationship with a sponsored child. However, HADAA employees have developed relationships with the children under the organizations care. The Health and Development Aid Abroad group is currently

providing just support to over 500 children in Yunnan.

Like TNC and Oxfam, HADAA wishes to promote justice by bringing their resources to the poorest and most needy areas of China. However, Dennis noted that this is often not possible. At times, the government will request that lending or financial assistance be withheld from the poorest groups. Fearing they will be unable to properly make use of donations, the government has, at times, asked HADAA to give resources only to those in need who had the capacity to make use of them.

HADAA has been successful despite their comparatively small budget partially because of the belief that education, not necessarily money, provides the best resource to development. Thus, part of their work in China includes the development of rural education systems. In Northeast Yunnan, HADAA has two staff members promoting an organized English education program in country schools. One teacher is working directly with students on English education. The other is developing an English curriculum and teaching teachers proper English instruction. It is believed that education is the best means to a good occupation, and good work is the best means to a successful livelihood. It is the goal of HADAA to improve development, and as such economic efficiency, through rural education programs.

In the areas where HADAA and other NGOs are working, poverty is a pervasive and consistent part of life. It is the goal of poverty reduction organizations to combat poverty, not just temporarily, but indefinitely. Therefore, all programs, including HADAA's, are aimed at sustainable poverty reduction and economic development. The micro-enterprise lending program is aimed at creating enterprises that will bring a

consistent income to villages or communities. The education program hopes to give rural people the means to effectively and efficiently combat poverty in their community. Both are elements of sustainable development in an area.

Aside from lending and education reform, HADAA has started planning programs to reduce the prevalence of AIDS in the Laos border region. According to Avert.org, an international AIDS charity, the prevalence of AIDS in Yunnan ranks it as one of the most affected areas in China.³⁸ The border regions are especially precarious as much of the disease's spread is attributed to drug use in the area. Although still primitive, the HADAA program hopes to reduce the spread of AIDS through education and support. The Health and Development Aid Abroad organization is also pursuing small infrastructure development in Xishuanbanna, especially development of sanitation systems. Dennis noted one project in which HADAA developed public toilets in a village that previously had no such sanitation system. The AIDS project and the development of sanitation infrastructure are means to promote healthier living in the NGOs work areas.

Unlike TNC and Oxfam Hong Kong, Colin Dennis did mention that HADAA has had minor difficulties with the government in the past. Although their relationship is at present healthy, the government has chided HADAA for its small operating budget. Dennis continued, explaining that there is an unstated minimum amount of money the government expects from NGOs. He elaborated, mentioning that even the Chinese term for NGO, *Fei (1) Zheng (4) fu (3) Zu (3) Zhi (1)*, has an implied financial

³⁸ [Avert.org](http://www.avert.org/aidschina.htm). Annabel Kanabus. Avert. 22 December 2004. < <http://www.avert.org/aidschina.htm>>

component. It would seem that the government not only appreciates foreign donation through NGOs, it expects it. That being said, HADAA has received cooperation from the government and continues to operate in good standing.

Appendix A: Resources *(In order of Appearance)*

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[9&srId=7&gp=1](http://www.mckinseyquarterly.com/article_page.aspx?ar=1492&L2=19&L3=69&srId=7&gp=1)

Xia Zuzhang. Interview with Xia Zuzhang. Alternative Energy Program Director

TNC. 20 April 2005.

Mu Jinhua. Interview with Mu Jinhua. Alternative Energy Program Coordinator

TNC. 20 April 2005.

Wang Jianjiao. Interview with Wang Jianjiao. Lijiang Provincial Foreign Affairs

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Dimin Wang. Interview with Dimin Wang. Senior Administrative Officer Oxfam

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Dennis, Colin. Interview with Colin Dennis. Chief Representative in Yunnan,

Health and Development Aid Abroad. 18 May 2005.

Avert.org. Annabel Kanabus. Avert. 22 December 2004.

<http://www.avert.org/aidschina.htm>

Additional Resources

Gao Shangquan, Chi Fulin, ed. Reforming China's Financial System. Beijing: Foreign Languages Press, 1996.

Appendix B: Itinerary

The 19th and 20th of April were spent in Lijiang with members of the local foreign affairs office and the staff of The Nature Conservancy Lijiang field office. For the remainder of the research period (April 25- May 24, 2005), interviews and field study were conducted in the city of Kunming China. Any transportation expenses were minor and can be attributed to taxi and bus fare within Kunming.

Appendix C: Post-Project Evaluation

Conducting ISP research was initially very frustrating. Scheduling appointments over the phone and trying to navigate around Kunming to reach interview sites was rather difficult, especially in light of my inability to speak Chinese. Within the first week, I scheduled and subsequently failed to get to, two different interviews because I could not find their location. As the local NGOs shut down for the holiday during the second week of my research, I was feeling frustrated and slightly overwhelmed. However, once people returned from holiday, I was able to schedule interviews and had a productive 3rd week. With help from Lu Yuan, I was able to meet with Duan Guang from the Institute of Economy, which provided an internal opinion on the development of welfare and the economy.

Overall, this has been a vastly rewarding process. I've had the opportunity to meet with successful and devoted individuals, working hard to better the circumstance

of the Chinese people. All informants were kind, patient and willing to tell all they could about their activities in Yunnan. I feel that this project has been successful even beyond my first expectations.

Appendix D: Future Possible Topics

- A closer look at foreign NGOs' impact on specific communities and economies
- NGOs use of government advocacy programs
- Methods of delivering social welfare
- Emerging private insurance
- Old age pension systems or the social security of the elderly
- Unemployment and the government's response
- NGOs and the conservation movement in Yunnan

ISP Project Proposal

Nathan Wallace

Spring 2005

I. Abstract

Since the death of Mao and the rise of reformers in China, the world has eagerly awaited the results of market liberalization. Switching from command and control to market driven economics, however, effects more than banks and businesses. The entire economic, political, and social landscape of China is being reborn in light of reform. Xiaonong Cheng, in his article "Breaking the Social Contract," refers to one such collateral change. He points out that reform has switched the power structure in China from "command and obedience" to "feeding and cooperation;" more specifically the Party / State can no longer hide on top of a mountain of ideology and force, but is now compelled to concede benefits in turn for legitimacy and support. It must engage in a social contract. As such the Party / State's power is dependent on its ability to secure welfare benefits to the 1 billion plus people of China; a much more daunting task under market liberalization than under socialism.

Concurrent with market liberalization, foreign NGOs and aid organizations have blossomed in China's once inhospitable soil. A nation which was born in the fight against imperialism is now welcoming foreign ideas on aid, economics, and social welfare. It is the goal of this project to analyze the relationship between foreign NGOs' supplement to social welfare and the legitimacy of the Party / state in the social contract. Previous work on the subject has made references to such a connection; such as Jude Howell's "Prospects for NGOs in China." "The reformers are envisaging a greater role for social organizations in the delivery of social welfare services." However, this project hopes to make contributions to this dialogue by studying the nature of the NGO-Party / state relationship in Yunnan, and the potential benefits to Party / state legitimacy through the social benefits provided by NGOs.

II. Resources

Dilemmas of Reform in Jiang Zemin's China edited by Andrew J. Nathan 1999

"Breaking the Social Contract" by Xiaonong Cheng

China's Social Security System edited by Gao Shangquan and Chi Fulin 1996

Reforming China's Financial System edited by Gao Shangquan and Chi Fulin 1996

"Prospects for NGOs in China" by Jude Howell 1995

Interview with the following at their convenience

Ghias, Yunnan Project Manager, Save the Children UK

Zhuang Hao, CFO Nature Conservancy in Yunnan

Li Bo, Program Director, CBIK

III. Methodology

Questions

- What are the benefits provided by NGOs that cannot be reproduced by the Chinese Government
- What are the methods used by NGOs to provide social welfare?
- How does the government feel about foreign NGOs operating in China?
- Are the contributions to social welfare recognized by the Party / state
- In what way does the government limit the action of NGOs

-Are these limitations consistent with the belief that NGOs are only to provide benefits to welfare?

Procedures

Interviews, guided conversations, research of previous materials

IV. Itinerary

Sites and Dates

Research conducted in Kunming for the duration of the ISP period.

V. Budget

600 Yuan – lodging

200 Yuan – transportation

400 Yuan – food

1000 Yuan – miscellaneous

VI. Expectations

Difficulties

I imagine that my inability to speak Chinese will be very limiting. I anticipate that I can find staff within foreign NGOs that can speak English, but I still feel I will run into difficulties with communication.

Strategies

I hope to enlist the help of fellow SIT students when I need translation help. I also imagine I will have to be patient and accept setbacks gracefully.