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Fair Development in China

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Fair Development in China

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Chapter 1
Introduction to *Fair Development in China*

Qingyun Jiang, Lixian Qian, and Min Ding

Abstract In this chapter, we provide a brief explanation on the motivation of this book and an overview of its structure. China is the second biggest economy in the world and has significant needs to transform its mechanisms of economic growth and social development. It is a crucial mission for China to achieve sustainable innovation and fair development, which can impact China at the individual, firm, and society levels, as well as other countries. This book consists of 15 peer-reviewed chapters divided into six different parts (including overview, individual and social perspective, organizational perspective, government perspective, international perspective, and conclusion). This book is edited to collectively present a wide range of views and opinions from active researchers in different disciplines on current challenges and proposed solutions to promote fair development in China.

China is the second biggest economy in the world, and it has significant needs to transform its mechanisms of economic growth and social development. In 2003, China proposed the *Scientific Outlook of Development* to promote sustainable development:

> The *Scientific Outlook on Development* takes development as its top priority, putting people first as its core, comprehensive, balanced and sustainable development as its basic requirement, and overall consideration as its fundamental approach. Its methods are to integrate the urban and rural development, regional development, economic and social development,

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> harmonious development between man and nature, domestic development and opening to the outside world. Its important goals are to make sure that the aims and outcomes of all the work of the Party and the State are to realize, safeguard and expand the fundamental interests of the overwhelming majority of the people, respect the principal position of the people, give play to their creativity, protect their rights and interests, and promote their all-round development and social progress (National Development and Reform Commission of China 2012: 2).

Despite the progress achieved in recent years, China's *National Report on Sustainable Development* highlights that China continues to face several challenges when pursuing sustainable development, such as unbalanced growth pressure in the central and western regions and rural areas of China, the fragility of the natural environment, resource constraints, and structural problems in economic and social development (National Development and Reform Commission of China 2012).

Several critical pathways highlighted in the national sustainable development report are further discussed in this book. First, it is well-recognized that the extensive economic growth in China based primarily on the export of low value-added goods and governmental infrastructure investments in previous decades have contributed to the overuse of natural resources as well as severe environmental pollution. Therefore, China has defined economic restructuring as a major initiative and building a resource-saving society as an important focus in promoting sustainable development (National Development and Reform Commission of China 2012). Similarly, the authors of Chap. 13 of this book suggest that, from an industrial perspective, China should encourage the development of low resource-consuming industries and enhance resource utilization, while from a consumption perspective China should encourage rational consumption and discourage luxury consumption.

Second, the social welfare system in China has been developed more slowly than the economy, particularly for vulnerable groups, such as rural residents, migrant workers, and their family members. Therefore, the social welfare or social security system is another key focus area for sustainable development, since "guaranteeing and improving people's livelihood is the main purpose of promoting sustainable development" (National Development and Reform Commission of China 2012: 8). This book includes two chapters (Chaps. 5 and 6) in which the authors discuss fairness-related issues in the social welfare system in China and suggested solutions.

Third, the role of non-governmental organizations (NGOs) and public participation also has been emphasized as key mechanisms for enhancing sustainable development capacity (National Development and Reform Commission of China 2012). Several chapters of this book are dedicated to discussing either the collaborative contributions of different organizations and individual citizens to the national governance system (Chap. 4) or the development of a rural governance ecology in order to improve fairness (Chap. 12). In several other chapters (Chaps. 8–10), the authors discuss organizational and inter-organizational topics related to sustainability and fairness.

The contents of this edited book go far beyond describing the pathways that will help achieve sustainable development; thus, we decided to use the concept of *fair*

development as the theme for this book. The concept of fair development is adopted from Ding (2014), who developed a generic framework of human development. Sustainable development falls under the umbrella of the human development principles (HDP) in his framework. Specifically, fair development is defined as "human development that strives to ensure distributive, procedural, and restorative fairness related to the opportunities, resources, and outputs of human development to the extent they are compatible in any particular application, between a benchmark entity and X, where X is a well-defined entity that either exists now or will exist Y years from now" (Ding 2014: 40). Compared with sustainable development, fair development is clearly defined, more actionable, and can reduce perceptions of conspiracy (Ding 2014).

This edited book provides a collection of various perspectives on topics related to fair development in China. Specifically, this book consists of 15 peer-reviewed chapters divided into six different parts, which collectively present a wide range of views and opinions from active researchers in different disciplines on current challenges and proposed solutions to promote fair development in China.

In the Chinese context, there are three interrelated concepts, *gōng píng* (公平 in Chinese), *zhèng yì* (正义 in Chinese), and *gōng zhèng* (公正 in Chinese), which roughly correspond to equality, justice, and fairness, respectively, in English. In ancient Greece, the concept of justice was discussed by Plato in his book *The Republic*. More recently, John Rawls argues that justice, particularly distributive justice, is a form of fairness (Rawls 1999; Rawls and Kelly 2001). The two principles of justice are defined by Rawls (1999): "First: each person is to have an equal right to the most extensive scheme of equal basic liberties compatible with a similar scheme of liberties for others. Second: social and economic inequalities are to be arranged so that they are both (a) reasonably expected to be to everyone's advantage, and (b) attached to positions and offices open to all" (p. 53). Nowadays, these concepts remain important and have been discussed intensively by the western scholars (Sen 2009; Cohen 2008; Føllesdal and Pogge 2005; Heinze 2013; Konow 2003).

The first part of this book consists of three chapters that provide overviews on the concepts, theories, and practical guidelines of fair development, particularly in China's context. In Chap. 2 of this book, "Fair Development: Theoretical Evolution and Practical Orientation in China," Qingyun Jiang of Fudan University first discusses specific definitions and nuances of the three concepts of fairness, equality, and justice, followed by a review of the origins of fairness in traditional Chinese culture, particularly Confucianism. The author then explores three perspectives of promoting the practice of fair development in China: philosophy, systems, and behavior.

In Chap. 3, "The Multidimensional Dynamic Balance of Current and Future Development," Yihong Yu of Fudan University first discusses a human development system with three dimensions (i.e., needs, quality, and ability) interacted with six dimensions of the human development environment (i.e., economy, society, culture, ecology, technology, and institutions). After identifying weaknesses of the Human Development Index created by the United Nations Development Program, the

author proposes the use of Pareto optimality and equity maximization as two static principles and the use of per capita measurement, absolute improvement, and incremental compensation as three dynamic principles to evaluate fair development and intervene in the system's evolution. Finally, the author discusses two policy recommendations for ensuring dynamic balance: a student admission mechanism in the higher education system and waste classification in a circular economy.

In Chap. 4, "Four-Wheel Drive: Collaborative Governance by Government, Enterprises, Social Organizations, and Individuals," Kaiyan Shen and Hui Yu of Shanghai Academy of Social Science first discuss the shared responsibilities of governments, enterprises, society, and individuals in promoting fair development in general. They follow this discussion with a review of existing problems and bottlenecks that impede the achievement of fair development in China. Finally, the authors propose a primary direction and key focus areas for China to promote fair development through the coordinated governance of governments, enterprises, social organizations, and individuals.

In the second part of this book, the following three chapters discuss fairness-related topics from the individual and social perspective. In Chap. 5, "Fairness in the Chinese People's Lives: Challenges and Solutions," Lixian Qian of Xi'an Jiaotong-Liverpool University presents a content analysis of the policy proposals from National Plenary Sessions of the Chinese People's Political Consultative Conference (CPPCC) from the last 6 years to describe the current state of social fairness in Chinese people's lives. By focusing on three areas of utmost concern—education, healthcare, and elderly care—the author provides an overview of current challenges and presents a range of policy proposals aimed at promoting fairness in each area.

In Chap. 6, "An Evaluation of Fairness in China's Current Social Welfare System," Jiangming Ji of the Shanghai Administration Institute first reviews the development history of social welfare systems around the world as well as in China and then describes unfair elements in the current social welfare system of China. The chapter ends with guiding principles and solutions for building a sustainable and development-oriented social welfare system in China.

In Chap. 7, "The Evaluation of Fair Wealth," Ming Ji of Fudan University and Min Ding of Pennsylvania State University and Fudan University explain the concept of *fair wealth* (Ding 2015) and construct an indicator system for evaluating it. Based on the fairness principle, the indicator system consists of three levels and includes a series of formulas for calculating a fairness index. The chapter also provides an example calculation of two fictional people's fair wealth by taking into account aspects of both wealth and fairness. More broadly, the authors suggest that the fair wealth evaluation system can be extended to assess the fairness of regional wealth and incorporate public opinion.

The next three chapters, organized as the third part of this book, address fairness-related topics from an organizational perspective. In Chap. 8, "Corporate Social Responsibility," Xuanwei Cao of Xi'an Jiaotong-Liverpool University first reflects on the essence of corporate social responsibility (CSR) and discusses its development in China. The author then highlights environmental pollution as one of the main CSR challenges for Chinese firms. A case study based on a CSR survey con-

ducted in Suzhou Industrial Park provides more insights into areas of improvement when promoting CSR in China, and public–private partnership (PPP) is argued to better help firms integrate CSR into business innovation opportunities.

In Chap. 9, "Social Enterprise Movement," Wei Zhang of Fudan University first describes the prosperity of the social enterprise movement worldwide and then discusses in detail its development history and the roles of different participants, as well as challenges and opportunities of the social enterprise movement in China. Finally, the author proposes the concept of *enterprising social innovation* by arguing that the social enterprise movement is actually a global effort to more effectively balance efficiency and equity as human society evolves, making it an innovation trend and direction for social business.

In Chap. 10, "Interorganizational Fair Governance in China," Chuang Zhang of Dongbei University of Finance and Economics presents issues related to inter-firm fairness governance from academic, enterprise, and government perspectives. From the academic perspective, the author reviews literature on fairness governance in inter-firm organizations by Chinese scholars or in the context of the Chinese market. From the enterprise perspective, the author analyzes the fairness governance practices of the 100 biggest enterprises in China, as well as the fairness governance of leading retailers in China with their suppliers. From the government perspective, the author discusses Chinese governmental regulations as well as their limitations in promoting equality and fairness in transactional behaviors between enterprises.

In the part four of this book, the next three chapters focus on fair development from the governmental perspectives. Based on a brief review of generic viewpoints and relevant theories, in Chap. 11 of this book, "The Balance of Equity and Efficiency in Urban Planning," Yunyi Tang and Ruihan Zhang of Shanghai Academy of Social Science first discuss the theoretical relationship between equity and efficiency in economics. The authors then point out that urban planning should give balanced consideration to equity and efficiency, but currently China still follows the principle of "prioritizing efficiency by considering equity" that conforms to its basic national conditions. In order to keep pace with the new situations, they conclude that more in-depth consideration should be given on the balance of equity and efficiency in the future of urban planning.

In Chap. 12, "Fair Development: The Construction of a Rural Social Governance Ecology in China," Ming Lei of Peking University first briefly discusses the current status and institutional dilemma of rural social governance in China and proposes the idea of a rural governance ecology as the path to achieve fair development-oriented rural governance modernization in China. The author analyzes in depth the concept, system features, and system construction of a rural social governance ecology and provides a wide range of recommendations while highlighting some potential problems associated with developing such a governance ecology.

In Chap. 13, "Decrease the Hard and Increase the Soft; Avoid the Material and Promote the Virtual," Zheng Zheng of Fudan University and Zhigang Ge of Jiaxing University discuss the unsustainable export-oriented economic development mode in China that mainly relies on low-end manufacturing, which has led to massive resource consumption and severe environmental pollution. The authors propose two

solutions to address these challenges and improve sustainable development in China. The first solution is called "decrease the hard and increase the soft," which consists of recommendations for optimizing the industrial structure, developing a circular and green economy, and enhancing independent innovation abilities. The second solution is called "avoid the substantial and enhance the virtual," which emphasizes the importance of reducing material consumption and increasing non-materialistic virtual consumption during the transition from an export-oriented to a consumption-oriented economy in China.

The next two chapters focus on the international perspective of fair development in China. In Chap. 14, "Multinationals' Experiences in China: Fairness and Unfairness," Yabin Huang, a former chief legal advisor of multinational corporations in China and now affiliated to the Institute for Sustainable Innovation and Growth of Fudan University, discusses fairness-related experiences of multinational corporations (MNCs) during three stages since China implemented the reform and opening policy in the late 1970s. During the first stage (1978–1992), foreign investors were treated well, despite some restrictions on foreign investment in terms of market access. The second stage (1992–2008) was the golden period for MNCs in China. During this stage, MNCs enjoyed super-national treatment from central and local governments, which was unfair for domestic enterprises. At the same time, MNCs were annoyed by some difficulties such as intellectual property rights infringement and the abuse of power by government. During the present stage (2008–present), MNCs no longer receive super-national treatment in China and must compete against local players. MNCs now sometimes face unfair discrimination due to the immature legal system in China.

Chapter 15, "Consumption Culture and Fair Development in China," is the only chapter in this book written by non-native Chinese scholar, Pia Polsa of the Hanken School of Economics. From the Western perspective, the author discusses the role of consumption and saving as a driver of economic growth, the relationship between face and consumption in China, and humans' roles as citizens and consumers. Based on this discussion, the author proposes a concept—the *circle of consumption*—that challenges the traditional view of sustainable and ecologically friendly consumption and argues that China has been adopting an alternative developmental method that might yield insights for the development of the rest of the world.

In the conclusion part of this book, "The Nine Dimensions of Fair Development Aspirations in China," Min Ding of Pennsylvania State University and Fudan University presents nine dimensions of aspirations for fair development that are most relevant to present day China based on extensive qualitative research. He then presents the results of a large scale survey of students from elite Chinese universities to assess their perceptions of these dimensions. The survey results show that although future Chinese elites care deeply about various issues related to fair development, they present significantly heterogeneous views on the relative importance of different dimensions and the forms of each dimension that should be adopted.

To clarify, the definition of *fairness* in this book differs from *justice* and is not limited to *equality*. If fairness is equivalent to justice or equality, there would be no reason for its existence as a concept. So-called fairness should comprise both

equality and integrity, which means equal treatment and equal opportunities under fair and non-biased conditions. Compared to the concept of justice, fairness is discussed in this book not in terms of values, but in terms of its rational achievement. We do not intend to involve ourselves in the liberal vs. Marxist debate on the concepts of fairness and justice.

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Part I
Overview

Chapter 2
Fair Development: Theoretical Evolution and Practical Orientation in China

Qingyun Jiang

Abstract After examining and comparing the concepts of equality, justice, and fairness and their evolution in both the East and the West, I adopt a unique three-level perspective of philosophy, systems, and behaviors to develop a theoretical framework and practical direction for fair development in China. Confucian philosophy has had a dominant influence on the formation of the Chinese fairness ideology and related social practices. The social ideal that "the world community is equally shared by all," the disparity structure maintained by the ritual system, and the conscious behavioral development of the elite class of scholars and officials are the primary driving forces of the continuous evolution of fairness in Chinese society. Traditionally, fairness in China was institutionalized through the "benevolence" and "rites" of Confucianism. Looking forward to the future, China needs to influence the theories and practices of fair development by: (a) embedding the concept of equality in the ideology of fair development, (b) enabling the development of fairness through institutional construction, and (c) promoting the construction of social norms as a civil movement to advance fair development.

2.1 Introduction

After more than a century of overlapping Eastern and Western influences in China, current definitions and behavioral perceptions of equality (公平 in Chinese), justice (正义 in Chinese), and fairness (公正 in Chinese) have become confusing and complicated in both academic circles and society at large. In this chapter, I briefly explore the basic concepts of equality, justice, and fairness, before examining their origins and evolution in Chinese culture. I then explore the core issues of fair development in China and suggest a better direction for fair development in China based on the transformation of concepts, systems, and behaviors.

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2.2 Some Basic Concepts: Equality, Justice, and Fairness

In politics, law, sociology, economics, and even the social sciences, equality, justice, and fairness, are generally considered to be fundamental concepts with definite connotations. In practice, however, individuals (whether they be scholars or members of the general public) have their own specific understandings of these concepts, especially when combined with other related concepts. Obviously, the expectation that this book will clarify these fundamental concepts is not realistic. Yet in order to create a common foundation and vocabulary for the discussions in the chapters that follow, it is necessary to provide some conventionalized definitions.

2.2.1 On "Equality"

In the West, equality is an ancient concept. The ancient Egyptians had a clear conceptualization of equality, and even a God of Equality to judge whether people were diligent in sowing and reaping. In ancient Greece, equality was honored as a virtue and viewed as the foundation of an ideal social system (Wan and Chen 2000). To a large extent, equality and justice were synonymous at that time. In his book, *The Republic*, Plato described justice (equality) as a general principle for the establishment of a country, in that "everyone must perform his/her duty corresponding most to his/her nature." Aristotle further pointed out that "equality is the quality by which things are done," while Epicurus divided equality into that of law and society, distinguishing between the concepts of equality and justice (Chen and Liu 2010). As a result of ideological emancipation during the seventeenth and eighteenth centuries, two general perspectives of equality emerged: first, from the perspective of individualism, equality was seen as "treating equally without discrimination," which is a code of conduct for human interaction; second, from the perspective of social standards, equality was viewed as a component of justice, "the role of the principle of fair opportunity is to ensure that the system of cooperation is one of pure procedural justice" (Rawls 2009: 76).

Thus, the core of the concept of equality in the modern sense is equal treatment without discrimination and equal opportunities. Although there exists much ambiguity and many overlaps in the connotations of equality and justice, equality in this book is defined as a code of conduct and just procedures.

2.2.2 On "Justice"

Justice is also a very old concept, originating in human morality. The word justice comes from the name of Dike in ancient Greece, the goddess who judged good and evil in the mortal world. Likewise, in Latin, the word justice derives from the name

of Justitia, the goddess of justice in ancient Rome, and includes aspects of integrity, selflessness, equality, and justice in its meaning (Liao 2002). It can be seen that justice and equality at that time were, to a large extent, synonymous.

The ancient Greek philosopher Solon associated justice with the concept of one's due, making it a concept with clear social and moral significance (Liao 2002). This is actually the origin of justice in property distribution. But Plato held that Solon's concept of justice was more likely to link righteousness to evil, and he argued that justice should be associated with virtues in a holistic (vs. specific) way. Aristotle further expressed that of all the virtues, justice was the only one associated with the goodness of others.

During the Middle Ages, the concept of justice became more influenced by the Christian world view. In Christianity, the concepts of justice in ancient Greece, including one's due, holistic virtues, and fair treatment of others, were all integrated into the concept of a righteous conscience when communicating with God. But with the development of modern enlightenment (i.e., liberalism) in the West, the concept of justice was extended. That is, justice lies in one's due, which, first and foremost, is the right of personal property. Hume believed that this form of justice emerged along with the formation of the property regime and was the basis for its rule system (Liao 2003), thereby incorporating connotations of procedural justice into the justice concept.

The master of the concept of justice in the modern era is John Rawls (2009), who introduced the concept of "fair justice" in his famous book, *A Theory of Justice*. Fair justice requires a sound, well-organized system of social cooperation in which each member shoulders his or her fair share of burdens and everyone enjoys full rights to the basic freedoms of society produced through cooperation. Moreover, the institutional arrangement of the system of cooperation guarantees that these rights will not be sacrificed to achieve a larger purpose, suffer from serious setbacks due to external contingencies, or be deprived as a result of cumulative consequences of specific actions (Liao 2003).

It can be seen that the concept of justice in the modern sense actually derives from system contracts based on moral virtues and related concepts. Seen from the perspective of system contracts, distributive and procedural justice are required operating conditions for an effective cooperation system. As a concept, justice remains connected with the upright moral virtues of goodness and conscience in values and religions; in this book, justice is defined in this sense.

2.2.3 On "Fairness"

Fairness is comprised of equality and justice. In the existing literature, most scholars (e.g., Wu 2007; Zhong and Qi 2008) equate the concept of fairness to justice. In China, a significant number of scholars discuss fairness from a Marxist perspective, defining the concept as equality and justice (e.g., Yuan 1992).

In Chinese, the meaning of the word fairness (pronounced *gong zheng*) is relatively obscure yet broad. *Gong* (the public) connotes the world, society, authority, disclosure, joint ownership, righteousness, etc., while *zheng* (the just) connotes integrity, impartiality, justice, the righteous path, etc. Therefore, the word fairness can take on different meanings based on the context. Fairness can be a synonym for justice, as a socialized understanding of the theoretical concept; it can also be a theoretical concept with a similar connotation to equality, which is guided by specific values. In this chapter, fairness is defined from the compound meaning of equality and justice, which focuses more on justice under the premise of righteousness, which is a higher order value.

2.3 Fairness in Chinese Culture: Origins and Evolution

As a country with a long history rooted in ancient civilizations, China has its own cultural traditions, political system, economic structure, and ideological sources. Prior to Westernization, China had its own vocabulary, interpretation, and thoughts about equality and justice. In the wake of this movement, a series of Western works were translated and introduced, and the Chinese people were exposed to political vocabularies in Western societies based largely on concepts such as equality and justice. After a series of enlightenment movements like the Hundred Days' Reform, the Revolution of 1911, and the New Culture Movement, these concepts gradually infiltrated China's politics, laws, economy, society, and culture and began to influence China's social development and cultural evolution.

2.3.1 Origins

Strictly speaking, in the earliest Chinese literature, few works included words like equality and justice; moreover, the words that were used differed semantically from those same words today. In the works of pre-Qin scholars, words associated with equality and justice include *gong* (公), *ping* (平), *zhong* (中), *zheng* (正), *dao* (道), *yi* (义), *jun* (均), *qi* (齐), and *de* (德) (Li 2004; Zhai 2010).

2.3.1.1 Equality

The Chinese concept of equality evolved from folk wisdom. Although "inequality, rather than want, is the cause of trouble" (*The Analects*) was the initial expression of this folk wisdom in ancient China, its impact on future generations is vital. For thousands of years, people had different understandings of the actual connotations of *gua* (scarcity) and *bujun* (unevenness). Despite these differences, all people cared greatly about unevenness, which influenced behaviors throughout history, even the

tradition of "egalitarian" distribution before China implemented reform and opened up its markets.

According to Li (2004), Xun Kuang was likely the first in ancient China to discuss the concept of equality in a detailed way. He said:

> Therefore, justice is the guideline for handling government affairs; while moderation is the criterion for it. Those equipped with laws can manage things according to the laws, while those without laws to abide by manage things according to analogy, both of which are thorough measures for dealing with government affairs. It is a distorted way to handle those affairs by being partial and without routine. As a matter of fact, there once existed such a situation that a state, well equipped with a good legal system, was plagued with social unrest; while it was seldom the case that a state, ruled by a gentleman with both ability and political integrity, was in the trouble of social unrest. It is said that "a stable society makes gentlemen, while a chaotic one villains." That is the rule.

It can be seen that Xunzi's thinking had extended beyond the conceptual and he had shifted his attention to the practice of equality by way of systems and codes of conduct.

Generally, the concept of equality in modern times has at least two connotations: righteousness and parity. Righteousness is an expression of values, while parity is both the process and the objective. It means that by virtue of enjoying the same rights and fulfilling the same obligations, equal access to economic, political, cultural, social, and ecological rights is pursued. Compared to the connotations of equality in modern times, the concept of equality in traditional China more clearly reflected values such as righteousness and emphasized ethical guidelines. However, the pursuit of equality, especially in relationships between individuals in the modern sense, was largely neglected. This should be one of the most important tasks in the development of equality in modern China.

2.3.1.2 Justice

Words like *zhong* (中), *zheng* (正), *dao* (道), and *yi* (义) relate more to the modern concept of justice. Justice is a higher level concept that incorporates a specific ethical standard into equality. As a concept, justice includes moral equality (the kingly way and natural laws, meaning the goal of values) and moral values; as a system, justice is the equality of *zhong* (the kingly way, integrity and moderation); as a set of behaviors, justice is the equality of *zheng* (in accordance with social norms).

Compared with equality, justice should be the more accepted concept from a historical perspective, but in most cases they are interpreted as being synonymous and used interchangeably. From the pre-Qin period to the May 4th Movement, Confucian philosophy dominated nearly all social processes in China, from cultivating moral character and regulating family interactions, to ruling the state and making the world peaceful. How can equality be pursued justly? From a Confucian perspective, pursuing a goal justly is seemingly more important than the end results. This remains one aspect of Chinese culture in which ethical standards are prioritized.

Thus, as far back as the pre-Qin era, the Chinese had clearly thought about the concepts of equality and justice, systems, and behaviors. However, they basically only explored the moral principles of equality and justice; the work of constructing a system and formulating codes of conduct for equality and justice was left to later thinkers and rulers.

As mentioned previously, there are significant overlaps between the concepts of equality and justice. The Chinese are more focused on equality under the premise of justice, which is a higher level of equality in the sense of values. This is particularly prominent in the ideological system of Confucianism. Therefore, in the sections that follow, I integrate equality and justice into the concept of fairness in order to explore the evolution of some related thoughts in the context of Chinese culture.

2.3.2 Evolution

Although dynasties changed constantly from the Qin and Han to the Ming and Qing, Confucian philosophy was the consistent foundation for the government and development of Chinese society throughout its long history. Therefore, I explain the concept of fairness in Chinese society using the lens of Confucianism.

2.3.2.1 Confucian Ideas About Fairness

In Confucianism, fairness relates primarily to the values and social ideals under its influence. The ideological achievements in fairness made by pre-Qin philosophers are mostly embodied in the values and ethical standards. In the ensuing 2000 years, Confucian thoughts on fairness were constantly improved to form an ideological system. In the *Book of Rites* in Confucian literature, Li Yun referred to a society whose lofty values and ideals were to seek benefits for all the people in the world: "When the great way prevails, the world community is equally shared by all." This requires individuals to be subordinate to the whole, which ensures that individuals receive "just" and "fair" treatment within the group (Shao 2012).

In Confucianism, fairness is ritualized within a system that has a correspondingly different structure. After 2000 years of developing a feudal society, a clear connotation of fairness had developed in Chinese society, and a corresponding system based on Confucian philosophy was constructed in order to solidify it. Overall, strict egalitarian thoughts were eliminated from the connotation of fairness, in favor of relative equality and justice based on the pattern of hierarchical disparities. Confucius said: "Do not worry about the scant amount, but equal distribution, and do not worry about poverty, but social unrest." Likewise, Dong Zhongshu said: "Do not worry about poverty, but equal distribution." The aim being to "enable the rich to show their wealth without being arrogant, and the poor to support themselves without worry." In *Luxuriant Dew of the Spring and Autumn Annals*, Dong described how these principles are used to adjust the average distribution "so that there is no

lack of wealth and the rulers and the ruled rest assured. As a matter of fact, it is easy to govern." Confucianism emphasizes that disparities exist in everything of this world, and they should stay in their proper place, which is the natural order (Shao 2012). This order was the foundation of the "ritual system," which defined and maintained the disparity structure of ancient Chinese society (that is, the inequality between people) and ensured equality among people of the same group or class (e.g., those who excelled in learning had equal opportunity to become officials under the civil service examination system).

Finally, Confucian-based social norms and codes of conduct related to fairness aligned the behaviors of scholars and officials with the ideal of the "Great Unity under Heaven" espoused in Confucian philosophy. Confucian ideas about fairness were incorporated into rulers' governing principles and designs of economic systems (Shao 2012). Confucian codes of conduct for the elite class of scholars and officials aligned actions "for oneself" and "for private purposes" with the Great Unity under Heaven ideal of fairness to ensure that the external manifestations of everyone's behaviors were ultimately beneficial "for the public" and "for public purposes" (Qian 2012).

2.3.2.2 The Institutionalization of Confucian Ideas About Fairness

Overall, the value goal of Confucian ideas about fairness is the Great Unity under Heaven, which is a very idealistic goal of social development. As mentioned previously, in the *Book of Rites*, Li Yun referred to an ideal society with the lofty goal of creating benefits for all people on earth. Implementing this kind of ideal in state governance is the "benevolence" of Confucianism. Advocating self-improvement for scholars and officials was insufficient for achieving this goal; a formal system had to be established: the "rites" of Confucianism. The rites comprise a code of conduct consisting of feudal codes of ethics, moral standards, etiquettes, and customs. The benevolence and rites of Confucianism can be seen as early attempts to institutionalize fairness in China.

2.4 Promoting Fair Development: Ideology, Systems, and Behaviors

During the late nineteenth and early twentieth centuries, China's traditional fairness ideology was being influenced by both traditional and modern Western ideologies as a result of the Westernization Movement, the Hundred Days' Reform, and the New Culture Movement. But in mainland China, discussions about fairness and equality were truly revived in the 1980s after a protracted era of war, upheaval, and turmoil. With in-depth cross-cultural exchanges in the fields of economics, management science, political science, and sociology, as well as the introduction of massive bodies of Western academic literature, mainland Chinese began to reflect on fair

social practices. As a result, many endeavored to reconstruct the theoretical system for fair development and to explore the possibility of establishing a social system, institutions, and norms to support its implementation in China.

2.4.1 Philosophical and Institutional Weaknesses of Traditional Chinese Fairness Ideology

I noted several problems associated with traditional Chinese fairness ideology in the previous sections. In the sections that follow, I focus on two specific weaknesses of traditional Chinese fairness ideology that are most relevant to the implementation of fair development in China.

2.4.1.1 A Focus on Equalization Rather than Equality

Theoretically, equalization is not the same as egalitarianism (Li 2004); yet in actual practice, equalization has been simplified as equal division or equal distribution in Chinese society (Zhai 2010). Hence, equalization is seen as egalitarianism under certain conditions, which is quite different from the connotation of equality embodied in Western ideology. Traditionally, equalization meant justice or equality within a specific social rank in the ancient Chinese hierarchical society. This maintained and consolidated the social hierarchy, which directly contradicts the modern human rights value that all men are born equal. Therefore, reconstructing traditional Chinese ideology based on modern philosophy is fundamental for the implementation of fair development in China.

2.4.1.2 A Focus on Personal Values and Morality Rather than Societal Norms

It was hard to embed the fairness ideology into the system, let alone incorporate it into social structures and operations. First, traditional fairness ideology only prevailed within a certain social class in the ancient feudal monarchy whose leader enjoyed God-given power. In China's feudal times, there only existed a few bottom-up cross-strata mechanisms for identifying talents, namely the talent promotion system based on one's filial piety and moral record, and the imperial examination system. China has long been in want of democratic institutions for the discussion of civil affairs like those in European city states (see Gu 1982), which explains why fairness ideology did not penetrate social institutions. Second, traditional Chinese fairness ideology was applicable only in a few fields such as law, economic distribution, and mediation of social conflicts. Moreover, even in those limited areas, ethical norms (etiquette) and laws played a dominant role, while fairness was a complementary element.

2.4.2 Reconstructing Ideological and Institutional Norms

The implementation of fair development in China requires the reconstruction of fairness ideology and institutional norms.

2.4.2.1 Embed the Concept of Equality in the Ideology of Fair Development

As an organic part of China's socialist core values, the philosophy of "liberty, equality, justice and the rule of law" will surely lay a solid foundation for fair development in contemporary China. It will also be beneficial, in both the short and long term, to embed the modern conceptualization of equality into China's traditional fairness ideology so as to promote fair development in China.

First, there are two groups of people who should be viewed as equals: those who need fair treatment and justice (object), and those who actively formulate equality institutions and are involved in administering equality (subject). In other words, all men are born equal. Everyone enjoys naturally bestowed (rather than philanthropically given) human rights. Only in this way does the basic principle of fair development make sense.

Second, the principle of equality will transform China's fairness ideology, system, and regulation to truly respect individual freedom. For a long time, China's ancient culture attached more importance to collectivism than individualism and tended to give an abstract rather than concrete description of individuals. Vaguely labeled as "subjects of a feudal ruler," individuals were not given due attention in Chinese culture. Even in Mencius's seemingly democratic people-oriented thought, people were not entitled to be treated with integrity, let alone given individual freedom. Hence, it is next to impossible to discuss equality or equal rights in the context of personal integrity. It is definitely a flaw in Chinese fairness ideology and an obstacle to modernization. In Western history, the rise of liberalism marked the beginning of modernization, while individual freedom constituted the cornerstone of ideas about modern equality and justice.

Today, equality is being introduced into the fair development system, further expanding its connotation. Equality goes beyond traditional aspects such as interpersonal relationships, human rights, and resource ownership. It is important to remember that human beings, other creatures, and the entire world are equal, too. Only by introducing this kind of equality philosophy into traditional Chinese fairness ideology can fair development truly be promoted in China.

2.4.2.2 Enable the Development of Fairness with Institutional Construction

Based on the previous analysis, it can be concluded that due to institutional weaknesses and flaws in traditional Chinese fairness ideology, moral fairness (benevolence) cannot truly be incorporated into behavioral justice to establish social norms

that ensure the effective functioning of the whole system. So, how can institutional improvement be promoted? Based on historical experience, it is more practical to start by implementing an operational instrumental system and move towards constructing a social or organizational system before attempting to revolutionize fundamental institutions.

The good news is, the instrumental fairness system in China already has a solid foundation. For example, since the reform was implemented and China opened up its markets, there has been a systematic transition from egalitarian to performance-based distribution, from single-element to multi-element allocation, and from primary to secondary distribution. Although China's Gini coefficient remains high, people's sense of satisfaction and happiness are increasing. In terms of sustainable development, China has formulated a series of regulations to save energy and reduce emissions. For example, China has established carbon exchanges to restore fair development (Ding 2013) and strengthen the operational system. It is hoped that in the future, government departments, non-profit organizations, and related agencies can work together to improve the instrumental system.

The next step involves enhancing system development and institutional efficiency to ensure fair development. Efforts should be made to formulate and improve institutions where necessary. Institutions should play a big role in coordinating different entities such as the government, enterprises, and relevant social organizations. If institutions fail to function, it is important to find ways to improve them and develop methods to effectively implement them. In addition, resource mobilization strategies, organizational structures, and functional mechanisms must be transformed to ensure high efficiency for the whole system.

Moreover, fair development requires systematic transformation of the existing legal and political frameworks. It is predictably difficult to make progress in equality and fairness within China's current legal and political framework. Against the backdrop of sustainable development and the modernization movement, it is more appropriate and effective to seek breakthroughs in economic zones and then to promote institutional reconstruction in other areas in a gradual and stable manner.

2.4.2.3 Promote the Construction of Social Norms

Historically speaking, by emphasizing the integration of social norms and individual self-cultivation, Confucianism has successfully regulated people's behavior through Confucian ethics and rites to achieve the goal of supreme harmony. However, its actual achievement in terms of institutional construction is negligible. Under the strict rule of emperors in ancient China, people were deprived of the opportunity to participate in civil movements. As bystanders, they definitely did not feel a sense of achievement. To promote fair development in contemporary China, people must be fully engaged in the movement and cultivate their responsibilities as modern citizens.

The core value of social norms is to develop self-conscious behavioral standards within every citizen and to form a common social contract that regulates everyone's

behavior. But historically speaking, China has never witnessed the birth of a civil society in which people have actively participated in the equality and justice system and cultivated a deeply rooted equality ideology. It is fair to say that the foundation for constructing China's social norms is quite weak. But it is time to make up for this deficiency. A lasting civil movement is urgently needed to enhance fair development in China. In addition to a uniform ideology, fully engaged citizens are vital. Qualified citizens make a well-functioning society, which further enhances sustainable development at large.

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Chapter 3
The Multidimensional Dynamic Balance of Current and Future Development

Yihong Yu

Abstract Human development can be described as having three general dimensions: needs, quality, and ability. Likewise, the human development environment can be described as having six dimensions: economy, society, culture, ecology, technology, and institutions. By integrating the six environmental dimensions with the three dimensions of human development, I construct a framework of the human development system and present a qualitative analysis of the impacts of the various environmental dimensions on each other, and ultimately on human development. Using this framework as the foundation, human development as ultimate goal of development, and fair development as the fundamental principle, the status of the system and its evolutionary trends can be assessed. At present, the United Nations Human Development Program's human development index does not reflect comprehensive human development needs, and a multidimensional, dynamic, balanced solution remains elusive. I propose static criteria of Pareto optimality and maximum equality and dynamic criteria of per capita measurement, absolute improvement, and incremental compensation as the basic mechanisms to assess the status of the human development system and intervene in its evolution.

3.1 Introduction

Development includes many dimensions, such as economy, society, culture, ecological environment, technology, etc., but underlying all developmental dimensions is the core goal of human development. Human development also includes many other dimensions (i.e., physiological, psychological, material, mental, etc.). The many dimensions of development—and more specifically, human development—are affected by many factors that also affect each other, comprising a complex system.

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Vertically incorporated into the dimension of time, the system itself is in a process of constant evolution. Statically, the system state can be described using some basic key variables; dynamically, the system's evolutionary path can be described.

The so-called *dynamic balance* implies the path of system change based on human intervention. Moreover, goals should be set for any intervention. In this chapter, I set fair development as the core goal of human intervention. To balance the evolution of system, an intervention should respect the objective laws of evolution, clearly identify the various constraints on system evolution, and be built based on several reasonable specific principles of "fair" targets. Based on my analysis, I construct a general theoretical framework and provide preliminary policy ideas and recommendations.

3.2 A Multi-dimensional Description of Human Development

3.2.1 The Subject and Object of Development

There are significant differences between the definitions of *development* and *growth*. Growth only refers to an increase in GDP and per capita GDP, while development, although limited to an understanding from an economic perspective, has broader and more profound intension and leads to large scale extension.

This understanding of the concept of development makes it difficult to remain confined to purely economic concepts for two reasons. First, the discipline itself is bounded by the obvious purpose of being used as a tool (and thus is more subject to academic requirements), yet this boundary is typically not as clear in reality. Second, even from the perspective of theoretical and empirical research and related policy studies, the boundaries between disciplines are becoming increasingly blurred. Cross-boundary research has become the dominant tendency, driven by the dynamics of the actual world—that is, the intricate relationships among different aspects of the issues and objects being studied.

Based on the distinction between subject and object, we are all human beings and therefore should focus on human development. Most current research is focused on the environment of human development (in the broad, objective sense instead of narrow sense of ecological or natural environment), including economy, society, culture, ecology, technology, etc. However, if human development is taken as the core goal, researchers who investigate the developmental environment must pay special attention to the impact of environmental evolution on human development and focus on resolving difficulties so as to ensure this goal is realized. Generally speaking, even though researchers have worked diligently and produced copious amounts of evidence, these efforts are far from adequate for identifying the myriad problems and challenges facing human development and for developing countermeasures to ensure the realization of human development goals.

3.2.2 Human Development vs. Individual Development

Human development is not the simultaneous development of all people as individuals; significant differences exist between human development and individual development. As the basic layer of the bubble theory (Ding 2013), the definition of the symbiotic duo clearly depicts these differences. The *symbiotic duo* is

> where the desires of the species and the desires of the self (an individual member of the species) reside. Despite the fact that these desires are often at odds with each other, one cannot survive without the other. Without individuals, there is no species to speak of. Without the species (i.e., other individuals in the same species), an individual cannot survive for long, let alone lead a fulfilling life. This symbiotic relationship between the two entities is the fundamental force that drives how human society operates (Ding 2013: 11).

According to Marx and Engels (1995), human development is one of the essential ideals of communism. In their article, the authors frequently used phrases such as "the all-round development of individuals," "the development of personal originality and freedom," and "individuals developing in an all-round way," pointing out that a communist society would be one in which "personal originality and free development are no longer empty talk" (Marx and Engels 1995: 294).

So, what are the connotations of "all-round development" and "original development?" According to Marx and Engels, as the goal of an ideal society, work is not just a way of making a living, but is the primary purpose of life. Once socially necessary labor is reduced to a minimum, all individuals have sufficient time for traditional cultural pursuits such as science, the arts, socializing, etc., thereby transforming the exclusive products of the ruling class into the common wealth of all members of society, furthering their development (Central Compilation and Translation Bureau 1995a). Moreover, the primary responsibility of members of society is to develop their comprehensive ability (Marx and Engels 1995).

Wu (2005: 31–32) summarized his understanding of Marx's multi-faceted concept of all-round human development:

> First, the all-round development of human activities, especially human labor activities, as well as human needs and ability… Second, the full development of human social relations, the universality of human social interaction and the complete possession and mutual control of social relations by humans… Third, the overall improvement of human quality and the free development of their character.

Building on these ideas, I describe human development in three dimensions: needs, quality, and ability. The development of needs is the foundation for the development of quality, the development of quality is the foundation for the development of ability, while the development of ability is the explicit feature of human development. Although the ideal communist society is far from reality, Marx and Engels (1995) depicted a beautiful picture for the core target of development, clearly illustrating the essential characteristics of the ideal state of human development.

Human beings are both individuals and a collective species; the two concepts are interdependent, but have some important differences. These differences become especially prominent when measuring human development levels. The Human

Development Index (HDI) published by the United Nations Development Program (UNDP) is the most authoritative measurement tool. In 1990, the UNDP published its first Human Development Report, which included an HDI. In the report, the UNDP (1990: 9) stated: "People are the real wealth of a nation. The basic objective of development is to create an enabling environment for people to enjoy long, healthy and creative lives."

The use of HDI to measure the human development level of a country is an extension of the traditional GNP index. Specifically, the HDI consists of three indicators: life expectancy, adult literacy, and GDP per capita adjusted for purchasing power. These three indicators reflect people's longevity, knowledge, and living standards, respectively, and after specific calculation methods are applied, comprise a comprehensive index. Rather than discussing the specific design of the index and the rationality of the calculation, I focus on whether the range covered by the index can truly embody all aspects of human development. The HDI was not comprehensive as originally structured. Clearly, the UNDP also recognized defects in the HDI, because it later expanded the framework to reflect the conditions of human development in a more comprehensive way, enabling comparisons between different countries.

In 1995, the UNDP (1995) released another two indexes based on HDI: the Gender-related Development Index (GDI) and the Gender Empowerment Measure (GEM). GDI is calculated based on the HDI after adjusting for gender factors to reflect existing inequality between men and women in health, education, and living standards, while GEM focuses on three variables that reflect women's participation in political decision-making, access to professional opportunities, and earning power. In 2010, the UNDP (2010) further expanded the HDI and released the Inequality-adjusted Human Development Index (IHDI), Gender Inequality Index (GII), and Multidimensional Poverty Index (MPI). GII reflects existing inequality of women in reproductive health, empowerment, and the labor market, while MPI uses microdata from families to represent multiple dimensions of poverty at the population level, which can reflect the degree of poverty in a country.

Domestically, the Research Center for China's Modernization and Research Group for China's Modernization Strategies of Chinese Academy of Science (2010) published a report and proposed a new Human Development Index (HDIn) based on the three original dimensions of HDI, and two new dimensions, including the Internet coverage rate to reflect the degree of information sharing, and the disposal rate of domestic wastewater to reflect environmental quality.

If the state described by Marx is ideal for pursuing the goal of human development, then the current state of human development should be measured against that ideal state. Thus, the measurement index used for comparison should be in direct correspondence with the ideal. The HDI and its extended versions created by the UNDP, as well as the new Human Development Index created by the Chinese Academy of Social Sciences, are far from reflecting the objectives of all-around human development. One reason is that the design and application of a statistical index is inherently limited. Because of the need to collect relevant data and compare them internationally, data availability limits

the application of most similar indexes, which is understandable to some extent. Moreover, the UNDP may not have used the ideal state as its objective when it designed the HDI. The three dimensions covered by the HDI directly correspond to the three general dimensions of human development: living standards correspond to human needs; health, longevity, and education level correspond to human quality; and educational level corresponds to human ability to some extent, although a more comprehensive measure of the development of human ability is basically nonexistent.

Second, and more importantly, these indexes measure characteristics of humans as individuals, not characteristics of humans as a species. With each individual as an independent sample, both the average value and distribution of the larger sample of the group are of great significance. Due to data unavailability, the initial index designed by the UNDP did not take inequality into account; the index was updated later to more fully reflect the group development condition. Furthermore, due to personal individual development, differences exist among different individuals, which affect measurement values. At the macro level, taking income distribution as an example, unequal distribution within a moderate range has a certain rationality, but if the gap is too big, severe unfairness can lead to social instability. This basic principle applies to all the three dimensions of human development (i.e., needs, quality, and ability). But at the micro level, for more specified indexes, differences among individuals may have positive influences. For example, people's ability may vary in the field of art, which is beneficial to the development of art and individual creativity.

Generally speaking, individual human development tends to dominate species-level human development in current discourse, as evidenced in statements made by Marx and Engels (1995). Therefore, in the following sections, I shift the focus of my analysis toward aspects of individual human development.

3.3 The Human Development Environment

There exists a bidirectional cause-and-effect relationship between human development and the development environment. On one hand, human development is restricted by the environment; on the other, human behavior (especially as a species) changes the environment, even its natural tendencies. Nevertheless, development generally follows the respective objective laws of each environmental dimension, and humans are merely one of a vast number of species that live on this planet. Although humans have intellectual advantages over other species, it is very difficult to change the laws that govern this world in the long term, especially those of the ecological environment. For this reason, I first focus on the effect of the environment on human development before analyzing the effects of human intervention on the environment.

3.3.1 The Multiple Dimensions of Environment

The environment, which is comprised of more than just ecological factors, significantly impacts human development. Specifically, the *development environment* is commonly classified as including dimensions such as economy, society, culture, ecology, technology, and institutions.

If human development is regarded as the core of development, related research on the status of the development environment should use human development as both the starting point and the end result. That is, when any dimension of the environment is analyzed, researchers should aim to determine whether the status quo is good for human development or not and the effects changes will have on human development. Any analysis must consider potential changes in external conditions, determine whether human intervention is necessary, and assess potential results of intervention to ensure that specific interventions (e.g., policies) are based on the basic principle of supporting human development.

Take the institutional environment, for example. In *The Communist Manifesto*, Marx and Engels imagined an ideal world: "[in place of] the old bourgeois society where exists class and class antagonisms will be a consortium like this, where the free development of each individual is the condition of all people's free development" (Central Compilation and Translation Bureau 1995b: 294). Here, Marx and Engels emphasized the relationship between personal development and human (all people's) development, with the former as the necessary condition for the latter, as well as the free development of development itself. Whether or not human development has enough freedom depends mainly on the institutional environment. An inclusive institutional environment is apparently more conducive to people's free development, while an institutional environment that constrains people's behavior, even speech and thought, is not beneficial to the free development of human beings.

3.3.2 Structural Characteristics of Environment

A multidimensional environment has structural characteristics related to the position of each dimension comprising it. Different environmental dimensions should be both oriented toward achieving the core objective of human development and associated with the three dimensions of human development. Integrating the multiple dimensions of environment with the three dimensions of human development yields a matrix that represents the human development system, shown in Table 3.1. The different environmental dimensions have relatively more or less impact on human development. In Table 3.1, number of asterisks is used to show these differences. One, two, and three asterisks represent low, middle, and high impact, respectively. Although these judgments are highly subjective, they are inferred from evidence in the existing literature; further in-depth theoretical studies and corresponding empirical tests are needed for verification.

Table 3.1 The human development system

	Dimensions of human development		
Environmental dimensions	Needs	Quality	Ability
Economy	**	**	**
Society	**	***	**
Culture	***	***	**
Technology	*	**	*
Ecology	*	**	**
Institution	***	***	***

As shown in Table 3.1, based on the total number of asterisks across all three dimensions of human development, as per the relative importance the environmental dimensions in descending order are institution, culture, society, technology, economy, and ecology. Most people believe that human development is based primarily on economic development, and many theories confirm this belief. If this is true, the level of economic development should be the most important factor affecting human development. But such conclusions must be based on qualitative and, if possible, quantitative definitions of these environmental dimensions and the three dimensions of human development. Therefore, a clear description of the status of human development system is required.

3.4 Status Description of the Human Development System

To clearly describe the status or assess the development level of the human development system, I discuss the definition of the three dimensions of human development and the six dimensions of the development environment in detail. I also suggest specific quantitative indexes to assess the development status of certain dimensions, where applicable.

3.4.1 Status Description of Dimensions of Human Development

Because individual human beings collectively comprise the species, descriptions here are based on the development of human beings as individuals; if necessary, the related status of human beings as a group can be inferred.

3.4.1.1 Needs

According to Baidu Baike[1]:

> In the process of survival and development, an organism feels some kind of physical and psychological needs for objective things. Its internal insufficient or unbalanced status shows its dependence on the objective conditions for survival and development. Needs are important conditions for the survival and development of an organism, which reflects the needs of the organism for a stable internal environment or external living conditions.[2]

Different needs emerge at different stages and levels of human development. One broadly accepted theory explaining this phenomenon is Maslow's (1943) hierarchy of needs. More than 20 years after he originally proposed the theory, he further divided the highest-level need for self-actualization into two levels, creating an even higher-level need for self-transcendence. Maslow's complete hierarchy of needs is shown in Fig. 3.1. Among them, the lowest two levels—physiological needs and safety needs—correspond with Theory X (McGregor 1960) in management science; the three levels in the middle—needs for love and belonging, esteem, and self-actualization—correspond with Theory Y (McGregor 1960) and the highest level—needs for self-transcendence—correspond with Theory Z (Maslow 1969b).

In general, using the satisfaction of people's needs to reflect the level of human development is appropriate. There are obvious differences in the nature and characteristics of human needs at each level, which progress from lowest-order needs at the bottom of the pyramid to highest-order needs at the top of the pyramid. While Maslow's hierarchy reflects progress in the needs dimension of human development, it is worth emphasizing that an absolute correlation does not exist between the two. In real life, many individuals do not progress through the levels in order. For example,

Fig. 3.1 Maslow's hierarchy of needs

[1] Baidu Baike is a Chinese wiki encyclopedia formed by the search engine Baidu in 2006.

[2] http://baike.baidu.com/subview/215827/11108085.htm#viewPageContent, quoted from Guo (2005).

even without enough food and clothing, many prioritize needs for self-actualization; likewise, many have excessive food and clothing and no safety concerns, yet never progress to satisfying higher-order needs for esteem and self-actualization.

Controversies exist in academic circles as to whether or not Maslow actually separated needs for self-transcendence from needs for self-actualization. Maslow (1969a) differentiated *health-oriented self-actualization* (meaning self-actualization in the individual sense) from *transcendental self-actualization* (meaning self-actualization in the trans-individual sense). Those who have achieved transcendental self-actualization are more aware of existence in the universal sense, are more clearly dominated by transcendental motivations, have an understanding of the universe and life, and often have an awareness of plateau experiences and peak experiences. I believe that there are significant developmental differences between the health-oriented self-actualization and transcendental actualization. Therefore, it is more reasonable to separate it from self-actualization (which only focuses on personal value) and call it self-transcendence.

3.4.1.2 Quality

Cihai[3] defines quality as: (a) the original physiological characteristics of humans; (b) the original nature of things; (c) the basic conditions necessary to complete certain types of activities. While the first definition is associated with humans, it refers only to physiological aspects of the human experience, and thus is too narrow to clearly describe quality in the context of the human development system.

Zhang (2003) compared different definitions of the concept of quality using several authoritative sources and summarized three consensus aspects of quality: it is unique to organisms (i.e., humans); it refers to basic, stable, and implicit human characteristics; and it is affected by both nature (innate physiology) and nurture (including education). Based on these ideas, the authors provided the following definition of quality: "Organisms, on the basis of innate physiology and through interactions with the environment and education, form a relatively stable, basic, and implicit quality with unique functions through the practical and mental activities."

However, the above definition of quality lays too much emphasis on the physiological and psychological characteristics of human. I think that its more comprehensive definition should include at least human's quality at the cultural level. Therefore, we can refer to the definition given by Yan (1990: 113) that "the so-called quality is an 'alloy' of the inherent natural factors and postnatal social factors of human. That is to say, it is an organic combination of a series of people's natural characteristics, knowledge and skills, behaviors and habits, cultural cultivation, and quality features," as well as what is mentioned by Zhang and Feng (2000: 57) that "the structure of quality includes three dimensions of physiological, psychological, and cultural (including moral) quality." From the perspective that the ultimate goal of development is human development, I think that cultural quality should be taken as the core status among these three dimensions.

[3] *Cihai* is a large-scale Chinese encyclopedia.

Physiological quality is mainly associated with physical health. While all humans have innate genetic characteristics, the postnatal growth environment and physical exercises can significantly improve the physiological quality. As for psychological quality, Liu and Lei (2015: 96) concluded "the academic circle has so far failed to reach a consensus on basic theoretical issues about the concept and structure of psychological quality." Nevertheless, most generally accept Zhang and Feng's (2000) and Zhang's (2003) definition. Integrating diverse viewpoints and the theoretical results of several psychologists, Zhang (2003: 144) defined psychological quality as being "based on physiological conditions, and the internalization of externally-acquired stimuli into a psychological quality that is stable, basic, and implicit; having a basic, derivative and developmental function; and closely linking to adaptive and creative behavior." In other words, "psychological quality consists of cognitive characteristics, personality and adaptability".

Evaluating cultural quality is an even more complex and difficult task. Certainly, personal mastery of "cultural legacies, like science, arts, and ways of socializing" referred to by Marx can be used as a basic measurement index, but having knowledge does not mean a high degree of cultural cultivation. Overall, I believe that the mastery of human knowledge is neither a necessary nor a sufficient condition, while cultural cultivation is a key condition of quality. Since the ultimate goal of development is human development, cultural quality (vs. physiological and psychological quality) is the core determinant of quality.

It is also worth highlighting that the development of human quality is a process. While humans do inherit quality, its development is connected to the postnatal environment in which humans live, particularly the education they receive. Therefore, from birth to death (or at least prior to declines due to aging), quality should be constantly enhanced. However, the achievement of a specific quality level (i.e., by satisfying different levels of human needs on Maslow's hierarchy) is quite difficult to predict. As it relates to formulating a comprehensive index of human quality, however, a similar hierarchy should be used as a classification index for the purposes of describing the current status of quality within the human development system.

3.4.1.3 Ability

According to the *Chinese Dictionary*, ability refers to the condition, capability, and strength to manage a certain task. *Cihai* defines it as "the condition of mastering and applying knowledge and skills and a personal psychological characteristic that determines the efficiency of activities."

As for the relationship between ability and quality, different sources provide roughly the same elaboration. According to the psychology volume of the *Encyclopedia of China*:

> Quality is the natural prerequisite of ability. The physiological structure and functional characteristics of the human nervous system, sense organs, and locomotive organs, especially the microscopic features of the brain, are closely related to the formation and development of ability.

Another more authoritative dictionary, *The Dictionary of Psychology*, also points out that quality "is the natural prerequisite and basis for the development of ability." However, *Cihai* places more emphasis on the conditions for the formation and development of ability.

> Quality refers to the natural prerequisite of ability, and is closely related to the formation and development of ability. But the formation and development of ability mainly depend on the conditions of human social life, particularly those of education and long-term practices. In addition, ideals, beliefs, interests and personality are important conditions that affect the formation and development of ability.

Human beings are intelligent animals, so human intelligence is of core importance to human ability. However, there still exist different points of view about the definition, classification, and measurement of human intelligence. Spearman's (1904) two-factor theory of intelligence maintains that human intelligence can be divided into general (G) factors (which do not change, regardless of an individual's activities) and specific (S) factors (which change and are related to different abilities). Since then, other scholars have proposed different theories of human intelligence. Thurstone's (1934) theory of group factors classifies human mental abilities into language comprehension, the use of words, calculation, space perception, memory, perceptual speed, and reasoning. Gardner's (1983) theory of multiple intelligences divides human intelligence into verbal–linguistic, musical, logical–mathematical, visual–spatial, bodily–kinesthetic, intrapersonal, and interpersonal intelligences.

To assess ability, Spearman's two-factor theory might be too simple, while the comprehensive intelligence quotient (IQ) assessment index, which is currently universally adopted, clearly cannot rely on the simple division of G factors and S factors. But there are still scholars who criticize universally acknowledged testing methods, believing that intelligence tests are misused and do not accurately assess human ability. Creating an index that reflects a person's overall abilities in a scientific and comprehensive way remains a major research topic.

Since human development is the ultimate goal of development, general abilities corresponding to G factors from the two-factor theory of intelligence should be emphasized. Since human beings are individuals, their general abilities and special abilities will naturally vary due to differences in inherent quality. Since freedom of human development is emphasized by Marx and Engels (1995), personal choices should lead to large differences in personal development.

3.4.2 Dimensions of the Human Development Environment

The boundaries of the six dimensions of the human development environment are relative. This is especially true in regions where the process of modernization has been quite profound; some countries have entered the post-modern era with cross-border activities being mainstream. However, this does not mean that boundaries between these dimensions have disappeared. Thus, I provide definitions for environmental dimensions in a narrower sense.

3.4.2.1 Economy

The level of economic development is used to describe the human development environment purely from an economic perspective. Whether for a country or a region, the GDP per capita, a measure of purchasing power that is used to make international comparisons, is by far the most reasonable index and typically occupies a central position. Though from the perspective of sustainable development the Green GDP has received increasing attention, it generally has not replaced per capita GDP due to imperfect statistical index settings and difficulties related to data access.

3.4.2.2 Society

Society is formed by individuals living in various social relationships (i.e., among individuals, families, groups, and countries) in a specific environment. Social forms can be classified differently from different perspectives, based on which we can investigate the basic laws of social evolution. While communism should be the social form that is most conducive to human development, there are two problems. First, development is eternal and never stops; even if the ideal state of communism is achieved, human development will continue. The question of whether a higher social form exists remains to be answered. Second, although it can be said that in a higher social form, the level of human development is relatively high, a one-to-one correspondence does not exist between the level of human development and social form. In particular, different social forms may coexist at the same time. It is difficult to claim that the level of personal development in capitalist societies must be lower than that in socialist societies. In many cases, the concept of this social form has become a kind of label, which is used more for political purposes, and cannot truly reflect the degree and level of social development and progress.

From the perspective of the impact on human development, society here should be interpreted to mean civilization. As for civilization, one explanation refers to the sum of the wealth created by humans, especially spiritual wealth, such as literature, art, education, and science. Civilization covers the relationships between and among people, society, and nature. A narrower understanding refers to the spiritual civilization of humans at a particular place and time, such as the Mayans, the Ancient Egyptians, etc.

In this chapter, I adopt this narrower definition and limit connotations to social relationships. I use social civilization to refer to the state of social progress, which is mainly reflected in the progress of all aspects of social relations, including social customs, folk traditions, behaviors and manners, ethics, values, etc.

3.4.2.3 Culture

Culture refers to the comprehensive knowledge system created and accumulated by humans over the course of development. It is very difficult to provide a strict and precise definition of culture. Scholars in different fields have tried to define

it from their respective disciplines, but they still have not reached a consensus. Here, I provide a schematic explanation of the definition adopted above. First, knowledge includes all the human cognitions of the objective and subjective worlds, which comprise a system. Knowledge has many different categories, forms and mechanisms, and culture is the sum of all of these. Second, knowledge is intangible. Even if knowledge is materialized in physical form, it can still exist independently. Culture is also intangible and subordinate to the spiritual world of humans, although in many cases material mechanisms are essential to its existence.

Furthermore, the concepts of culture and civilization are different. In the definitions provided by some scholars, culture is an aspect of—and incorporated into—civilization (in a broad sense). While this incorporation is largely true, it is not an absolute. For example, some scholars define civilization as the collection of all the social and natural behaviors that separate humans from the savage state, including concepts, tools, languages, characters, beliefs, religion, laws, etc. Based on this definition, the word civilization itself is commendatory; yet in a general sense, the word culture should be neutral. In this chapter, culture covers a broader scope than the narrow interpretation of social civilization used for the environmental dimension of society.

3.4.2.4 Ecology

Ecology refers to the state of the survival and development of creatures in a certain natural environment. As the environment for human development, I use the dimension of ecology to refer to the state of various natural resources on earth that comprise the survival environment for humans. Therefore, ecology here mainly refers to the goodness of the environment for human survival.

An assessment of the quality of the ecological environment must be based on theories of ecology, environmental science, etc. and measure the entire ecological environment and various resources for human survival and development in a specific range of time and space. The international community has created some indexes to measure ecological quality. The industry standard in China, the *Technical Criterion for Eco-environmental Status Evaluation* issued by the State Environmental Protection Administration, was put into trial use on May 1, 2006. Environmental quality standards are used to assess water, air, soil, and biological quality; each category has set different levels of quality standards according to their different uses or control mechanisms. These standards vary by country or region, reflecting their different levels of development. To meet human survival and development needs, resources like energy, water, air, and land are indispensable and have important impact on human development. As a consequence, corresponding indexes are also needed to measure them. Various aspects of these assessment indexes can be used to create a comprehensive index system that will enable the impact of the entire ecological environment on human development to be studied.

3.4.2.5 Technology

Technological inventions and creations are the main drivers of human productivity and play a major role in the long-term evolution and progress of the economic, social, and especially the ecological environment. Technology here mainly refers to techniques, rather than science. Science belongs to the scope of basic theories, and as a result, should be included in the knowledge system which belongs to the dimension of culture. The reason why the word "technology" is used rather than "techniques" to describe this dimension is to avoid the latter being narrowly understood in the engineering sense.

3.4.2.6 Institutions

Institution refers to the system of human rules that govern the operating mechanisms of various social relationships and organizations. In institutional economics, the word "institution" refers to the game rules of society. In simpler terms, they are the constraints set by humans for interpersonal relationships. Institutions can be divided into three types: formal rules, informal rules, and rule enforcement mechanisms. Formal rules comprise the formal system, including laws and regulations, codes of conduct, and political, economic, and social contracts made by governments, enterprises, and various social organizations in accordance with certain purposes and procedures. Informal rules include values, ethics, morals, customs, habits, etc. Rule enforcement mechanisms are the relevant institutional arrangements that ensure the implementation of the rules.

In this chapter, informal rules belong to the scope of social civilization, so institutions here are interpreted quite narrowly, consisting only of formal systems and their enforcement mechanisms. Since there are no clear written records of informal rules in many cases, they might take on various forms within social relationships, making enforcement mechanisms unclear as well. Thus, social civilization is also included in the broad definition of systems.

3.4.3 Dimensional Interactions Within the Human Development System

The complete human development system includes the three dimensions of human development as the core, and the various environmental aspects of human development as external variables. This system is in constant evolution. Statically, the previously mentioned measurement indexes can offer an assessment of the system status for any period (in this case, the measurement of moment is meaningless); dynamically, the indexes can describe and depict the evolutionary path of the system.

However, many questions arise when contemplating assessment of the human development system. Do objective laws govern the evolution of the system? If so, what are these laws and how are they decided? On which benchmarks and values should system assessments be based? If certain values are adopted as benchmarks, the system status will appear distorted or imbalanced. Are interventions in the future evolution of the system warranted? If so, what are the goals and mechanisms of intervention and which ones will achieve the desired effect?

Based on the discussion thus far, some preliminary answers can be provided for some of the questions. The core and ultimate goal of development is human development. Qualitatively, if the current system status and its future evolutionary trends are not conducive to the realization of this goal, it can be said that the system status is distorted and imbalanced. Therefore, the goal of intervention is to return the system back to a normal status that is reasonable and conducive to the realization of the goal of human development. However, deciding how to intervene and how to assess the effects of interventions based on a clear description of the system status also requires deeper analysis of the system structure—that is, the key factors that affect the evolution of the system, as well as the relationships and interaction logics of these factors. Table 3.1 has shown the relative impacts of the six dimensions of the human development environment on the three dimensions of human development. Building on this foundation, it is necessary to analyze the mechanisms behind the correlations and functions of the six environmental dimensions as key factors of impact.

Based on my personal understanding of the human development system, in Table 3.2 I depict the interactions among various factors, with rows representing actions and columns representing effects. The number of asterisks shows the magnitude of the impact. As can be seen, most of interactions are not symmetrical. For example, society has a medium effect on culture, while culture has a high impact on society.

As shown in Table 3.2, institutions have a profound impact on all of the other dimensions, and thus deserve the most attention from researchers. The impact of culture is also important. Culture influences institutions, society, economy, ecology, and technology, with a medium impact on the latter three. While culture has a significant impact on economy, the reverse is not true. Moreover, quality of human development does not entirely depend on income. In other words, even if the per capita GDP is low, the cultural quality of its people might still be quite high. In a certain sense, we can regard institutions as an exogenous factor affecting the evolution of the system, which makes them an important policy tool.

Table 3.2 Mutual influences of various environmental dimensions of human development

Dimension	Economy	Society	Culture	Ecology	Technology	Institutions
Economy	–	**	*	***	**	*
Society	**	–	**	**	*	**
Culture	**	***	–	**	**	***
Ecology	**	*	–	–	*	–
Technology	**	*	*	***	–	–
Institutions	***	***	***	***	***	–

3.5 The Gap between the Target of Fair Development and Reality

3.5.1 Fair Development

Ding (2013: 35) defined fair development as:

> human development that strives to ensure distributive, procedural, and restorative fairness related to the opportunities, resources, and outputs of human development to the extent they are compatible in any particular application, between a benchmark entity and X, where X is a well-defined entity that either exists now or will exist Y years from now.

He further defined the meaning of the three aspects of fair development—distribution fairness, procedural fairness, and restorative fairness—referred to here as the *three fairness principles*.

> Distribution fairness refers to the fact that any X should receive a fair share of the opportunities, resources, and outputs of human development. Procedural fairness refers to the fact that opportunities, resources, and outputs of human development are allocated to any X using an unbiased method. Restorative fairness refers to the fact that any X should be held responsible to offset any advantages it has enjoyed due to unfairness in the distributive or procedural process. (Ding 2013: 36)

There are three dimensions of distribution: opportunities for human development, resources, and output. "Fair development is an ideal principle of human development" (Ding 2013: 36). The ultimate goal of development is human development, and fair development is related to the assessment of overall development processes and trends. Therefore, assessment should proceed from two perspectives: the static perspective, from which development in any given period is assessed based on its compliance with the three fairness principles; and the dynamic perspective, from which developmental trends (both past and future) are analyzed based on their compliance with the three fairness principles.

Ding proposed three standards for measuring fairness based on average, equality, or needs. However, he did not state which one is most appropriate. Generally speaking, output distribution is an easy way to measure distribution fairness. An average standard is based on all people receiving an equal share of human outputs. Equality is more complicated, and we can first exclude the option of needs-based distribution.

Needs-based distribution considers everyone's needs, which should not be confused with the economic concept of demand. If it is demand, price is an easy way to balance supply and demand and thus this would be the fairest distribution mechanism in a market economy system. However, the feasibility of needs-based distribution is problematic, because needs are not restricted by purchasing power, and thus cannot be quantified. Thus, the needs of given number of people cannot be accurately estimated, and a balance between supply and demand cannot be achieved with 100 % certainty.

Considering all these factors, fair distribution is the best choice. But when it comes to the methods of fair distribution, there are several possibilities: distribution based on an individual's actual contribution (i.e., the socialistic distribution principle); and distribution according to an individual's actual contribution and ability, and, in a more complicated version, taking into account real needs as well. Considering all of the limitations in the real world, including the difficulty in estimating one's real ability and needs, distribution according to contribution is generally the most reasonable and feasible method, even though accurately assessing one's contribution remains a problem. Given the extreme complexity of procedural justice, I do not discuss it further.

3.5.2 Static Perspective of Fair Development

Using the framework of the human development system presented in this chapter and fair development as the basic principle, the system can be assessed from a static perspective for a given period (i.e., 1 year). This assessment method covers a large range of factors yet falls short of being a comprehensive index system, so it is difficult to implement using present theories. Therefore, I try to use simple standards (i.e., the three fairness principles) to assess fair development and briefly analyze some representative topics to delineate the significance of the static perspective in practice.

3.5.2.1 Pareto Optimality

In economics, Pareto optimality (or Pareto efficiency) is applied to evaluate the status of resource (i.e., output or wealth) distribution from a static perspective. In this situation, no individual's status can be improved without negatively impacting another individual's status. Pareto optimality is a condition in which there is no room for Pareto improvement (i.e., at least one person's situation can be improved without negatively impacting another individual's status).

3.5.2.2 Equity Maximization

In a sense, Pareto optimality has nothing to do with actual "optimality" because an extremely unfair and extremely fair income distribution can both be conditions of Pareto optimality. Thus, this concept implies no value judgment or only in a very narrow sense. Therefore, Pareto optimality can be used to assess the status of the system, but can only show one direction. This makes it difficult to perceive the exact direction of improvement when Pareto optimality is not achieved and Pareto improvement is needed. In such situations, the equity maximization principle can be used as a tool.

Taking income distribution as an example, the Gini coefficient can help determine the equity of income or wealth distribution. In China, the Gini coefficient of income distribution is currently between 0.47 (according to official data) and 0.61 (according to unofficial data), which indicates a large income gap. If enough data were available to compute the Gini coefficient for wealth distribution, the number would be much larger. In this regard, there is still a long way to go for China to realize equity in income distribution, which is a potential area in which efforts could be made.

3.5.3 Dynamic Perspective of Fair Development

Theoretically, there are two dynamic analysis techniques: discrete analysis and continuous analysis. Here, I use discrete analysis to dynamically assess fair development. Intergenerational equity is an important concept in eco-economics and the theory of sustainable development and has great significance in studying fair development. I focus on resource allocation fairness and draw conclusions from two dimensions: opportunities and output.

In *Our Common Future*, sustainable development was defined as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs." (World Commission on Environment and Development 1987: 43) Intergenerational equity is expressed in this definition, but its meaning is not that explicit. Moreover, as Ding (2013) pointed out, the very meaning of "sustainable development" is elusive. In fact, the "ability of future generations to meet their own needs" can hardly be explained, either. First, the needs of future generations form the basis for all research. Second, how can contemporary people recognize the needs of "future generations"? Predicting future needs is a very difficult task indeed.

Thus, research on intergenerational equity provides an outlet for analysis. Three issues deserve particular attention: the exhaustion of resources that will be required by the next generation, the creation of environmental problems for the next generation, and unfairness in the acquisition and utilization of resources for the next generation. Correspondingly, those who study intergenerational equity mainly investigate the sustainability of life on earth, ecological processes and environmental quality, and a comfortable environment for human beings. Among these scholars, Weiss (1984) proposed the concept of *planetary trust*, which means that every generation is the trustee of the next generation's rights, and that all generations have equal rights to explore and use natural resources (i.e., duty principle, reasonable storage principle, etc.). Few can argue with these ideas. But, how should generational equity be judged, and based on which principle(s)?

Generational equity is associated with at least two complex problems. First, how should intergenerational negative externalities be measured? Second, will resources have the same value in the future that they do now? Should there be a discount? If so, how should the discount rate be set? Instead of probing into this issue, I present several basic principles for assessing fair development from a dynamic perspective.

3.5.3.1 Per Capita Measurement

Considering the current developmental stage reached by developed countries and the total amount of resources consumed in order to do so, comparing only the current resource consumptions of developing and developed countries is not fair. Moreover, on a per-capita basis, consumption in developed countries is much higher than in developing countries. Therefore, resource consumption should be assessed based on per-capita consumption.

3.5.3.2 Absolute Improvement

Regarding the world holistically and all human beings a single community, contemporary people must make full use of technological advancements to make continuous improvement. Our focus must be holistic. Based on this principle, the per-capita consumption of developing countries can grow, but must be counterbalanced by decreased consumption in developed countries.

3.5.3.3 Incremental Compensation

A dynamic process of human development will result in incremental improvements in opportunities, resources, and outputs. A system will never be perfect, so incremental adjustment provides a basic way to improve the system. Distribution of incremental improvements should be based on the status quo and adjustments should conform to the principle of maximum equity.

3.6 Policy Proposals for Dynamic Human Development

The evolution of the human development system is dynamic. In the past, people intervened quite frequently. Although the nature of the system itself will ultimately determine development trends for the system, human intervention can also cause the system to deviate from its original path, creating plenty of unfairness. Fair development requires the use of human intervention to decrease the amount of distortion and deviation in systematic development, and the fair development principle offers a basis for this intervention.

I believe that the ultimate goal of fair development is human development and that fairness should be embodied by the condition of the system during all stages of its evolution. There are three primary dimensions of human development (i.e., needs, quality, and ability) and six environmental dimensions (i.e., economy, society, culture, ecology, technology, and institutions) that jointly comprise the human development system. Based on the framework presented in this chapter, the possibility of quantitative and perhaps qualitative evaluation, the three fairness principles, and other specific principles, I assess the current state of the system to reveal appropriate areas for future human intervention.

There is still a long way to go to transform the interventions into real policy proposals. In my opinion, the significance of institutional improvement is fundamental and beneficial to eliminating distortion and deviation in perpetuity. Institutions affect the other five environmental dimensions and thus significantly affect the three dimensions of human development. This does not mean that the other five dimensions do not require human intervention. However, given uncertainties about the mode and effect of intervention, it is nearly impossible to deliver policy proposals with optimal or even highly beneficial effects. Moreover, the system is complex and constantly changing, so all present suggestions should be adjusted as the system evolves.

I discuss two specific topics at the micro level and attempt to propose respective policy changes to show that the advancement of fair development and human development does not necessarily wait for comprehensive, complex proposals. Once the principles and standards are established, it is possible to advance fair development and human development by making minor policy adjustments.

3.6.1 Reform the Education System

The educational system in China is examination-oriented, but opinions differ about its advantages and disadvantages. It is possible to comprehensively assess the system based on the three human development dimensions of need, quality, and ability, but the outcome inherently relies on the index system and the value system of the assessor. Judgments of advantages and disadvantages may differ for measurements from same index.

I believe that exam-oriented education can stimulate students to learn and consolidate knowledge, but undermines their ability to engage in independent, critical, and creative thinking, which are of vital importance for human development. Thus, the present educational system jeopardizes people's free development.

Take college enrollment, for example. The enrollment system has been reformed to allow independent enrollment in recent years, which has to some extent solved some of the problems of the old system. But it has not enabled two-way selection between colleges and students, which can provide the best opportunity for students to develop their skills and abilities. In developed countries, students can apply to more than one college at a time. The colleges evaluate students' previous academic performance and personal achievements (and sometimes, standardized test results) and offer students who meet their criteria the option to enroll. A single student may receive several admission notifications and choose the most appropriate college. In this way, students can have many choices and colleges can send out more offers than will be accepted, thereby effectively avoiding problems associated with insufficient enrollment.

In contrast, students in China have less choice. Regardless of the process, a student can receive only one acceptance notification. If a student is not satisfied with the "chosen" college, he or she has no choice but to re-enroll in high school or enter the workforce. This is ridiculous. Before acceptance notifications are sent, colleges

will do almost anything to attract high-quality candidates; yet after enrollment notifications are sent, colleges do an about-face and act quite domineeringly because students have no other choices. Sometimes, students are forced to transfer into a major that is of no interest to them. In the present system, students' access to education is not equal.

The inequity of educational system is also evidenced by the unfair distribution of enrollment quota. Apparently, students with *hukou* in large cities like Beijing and Shanghai are more likely to be accepted than students from other areas. This inequity significantly affects the enrollment system.

I recommend that China reform its higher education enrollment system to realize equity in education and provide students with adequate development opportunities. This will not only be beneficial for the development of students' careers and abilities, but will promote the improvement of human resources for all of society. Extending this reform to high schools and preliminary schools will also be essential for offering students more choices.

3.6.2 Implement a Waste Sorting Education Program

Waste sorting is a basic task in developing a recycling economy. Due to historical reasons and people's general lack of sense, China has not done a very good job at classifying garbage compared with developed countries. Even in relatively more developed cities like Beijing, Shanghai, Guangzhou, and Shenzhen, there are too many fine distinctions made between different types of waste and not all types are covered.

Waste sorting can enhance citizens' sense of environmental protection and sustainable development; however, it is not easy to change people's habits. Therefore, China should begin by providing waste sorting education to children in kindergartens and citizens in first-tier cities. Cultivating kids' habits may be an effective way to fundamentally change societal practices, which can have a far-reaching influence on later generations.

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Chapter 4
Four-Wheel Drive: Collaborative Governance by Government, Enterprises, Social Organizations, and Individuals

Kaiyan Shen and Hui Yu

Abstract Fair development is a basic objective of the modernization of national governance systems and governance capacity based on ensuring a fair starting point and distributive, procedural, and restorative fairness with the ultimate goal of producing fair outcomes. Relationships and collaborative interactions among the government, enterprises, social organizations, and individuals have a direct influence on how the national community operates, thus affecting the outcomes of fair development. We begin by delineating the responsibilities and functions of these four stakeholder groups in supporting fair development in China. Then, we describe how specific problems and bottlenecks associated with fair development shape relationships among them. We conclude by proposing a main direction for fair development in China as well as key strategies to address some of the most prominent problems. Implementing these strategies may help the government, enterprises, social organizations and individuals construct a productive system of co-governance based on effective market resource allocation.

4.1 Responsibilities and Functions of Four Stakeholder Groups in China's Fair Development[1]

4.1.1 Government

In modern countries, government (in any form) is typically the most powerful entity, as it maintains relationships with enterprises, social organizations, and individual citizens. In environments characterized by market competition and information asymmetry, market participants typically respond to uncertainty and risk by

[1] Ding (2013) defined fair development as a human development pattern that seeks to ensure, now or within a number of years, fair resource allocation, procedures and restoration (i.e., opportunities, resources and output efficiency) for an underdeveloped entity.

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engaging in benefit-seeking and opportunistic behaviors. Moreover, market mechanisms do not regulate the allocation of resources immediately; if a time lag is significant, then market mechanisms will fail and generate negative effects. Therefore, it is necessary for the government to exercise macro-control and make appropriate interventions to maintain normal market operations and social order by establishing a full-fledged market mechanism and sound laws and regulations. Moreover, the government must provide public services and public goods to reduce social gaps, arbitrate conflicts of interest between different groups, and create a basic fair development environment for all constituents.

4.1.2 Enterprises

Enterprises are the mainstay of market economic activity, and their existence stems from the scarcity of resources. Essentially, enterprises are resource allocation mechanisms with the goal of maximizing economic profit. While pursuing this goal, enterprises may engage in unfair competition, damage stakeholder interests, excessively develop and/or waste resources, and create environmental pollution and other problems that disrupt economic stability and hinder the sustainable economic and societal development. To guarantee fair and equitable development, enterprises should comply with the rules of fair competition, respect competitors' legitimate rights and interests, and consciously safeguard a stable environment for market competition. Moreover, they should consider consumers' needs by respecting consumer sovereignty, safeguarding their interests, and producing healthy and safe products that meet quality standards and satisfy consumers. In addition, they should consider the needs of business partners by effectively fulfilling contracts, conducting fair trade with integrity, and complying with rules. Enterprises should also fully respect employees, safeguard the legitimate income of employees by complying with tax laws, and support the construction of a clean and incorruptible government. Finally, enterprises have a duty to automatically control or eliminate externalities of corporate activities and to fulfill their responsibilities to protect resources and the environment.

4.1.3 Social Organizations

The market is a balanced reciprocity mechanism with multiple participants, in which the resource allocation process is open and voluntary. This applies not only to commodity trading, but also to the allocation of social services and public resources. Given diverse social interests and differentiated demands of the citizenry, there are times when the government and market are unable to adequately meet all needs. Thus, to ensure fair and equitable public access to resources, social

organizations must participate in resource allocation. Since social organizations are non-profit, voluntary, and autonomous, they can flexibly and rapidly compensate for public services deficiencies that are not met by the government or the market. The self-regulatory mechanism of autonomous social organizations can help ensure fair and orderly market competition. By performing a self-regulatory role for industry, developing industry standards, and mediating industrial disputes, autonomous social organizations could help safeguard the fundamental interests of enterprises and promote the sound development of industry. In addition, social organizations can act as a bottom-up public feedback channel to build a twin-track political pattern for two-way balanced communication between the government and the people.

4.1.4 Individuals

Individuals comprise the basic unit of society; therefore, fairness among individuals plays an important role in the fair, equitable, scientific, and reasonable operation of a social economy. In the process of protecting and enhancing their own rights, individuals have a primary responsibility to not endanger the interests of others and society as a whole, and to conscientiously fulfill various legal obligations.

Although individual constitutional rights have been recognized and guaranteed in modern societies, these statutory rights are not automatically implemented. The basic way to achieve personal interests is to actively participate in democratic politics and public policy. By participating in elections, discussions, hearings, appeals, and petitions, citizens actively participate in political life, which effectively limits governmental power and ensures balance. By participating in the public policy development process, citizens can detect errors and deviations and promptly correct decisions so as to ensure fairness.

4.2 Problems and Bottlenecks in China's Fair Development

4.2.1 Government: Suboptimal Market Resource Allocation

Although the economic system has been reformed, problems that remain at the government level impede the goal of market resource allocation in China. I describe three major problems in detail: administrative intervention, negligible marketization of production resources and excessive market segmentation, and a lack of effective implementation mechanisms.

4.2.1.1 Administrative Intervention

In a market economy in which both the visible and the invisible hands perform their respective duties, coordination is the key to the orderly operation of the economy and the ability of the other main stakeholders to ensure market viability. The visible hand of the government should intervene only when the market fails or performs extremely inefficiently; when they are absolutely necessary, intervention mechanisms should be highly focused. However, the government continues to engage in excessive market intervention. The government has too much approval authority over enterprise investment projects, and the approval process involves too many opaque, inefficient, and complicated procedures that take too long to complete. Furthermore, in some industries and fields, the government exercises too much discretion, which impedes the market's ability to effectively allocate resources in accordance with economic laws. Moreover, since market regulations are flexible, administrative intervention is currently being performed with a lack of transparency.

4.2.1.2 Negligible Marketization of Production Resources and Excessive Market Segmentation

In China, the marketization of production resources is relatively slow, far behind the marketization of commodities. The functioning of the capital, land, and labor markets is unsound and not standardized. Government still plays the key role in the allocation of scarce production resources such as capital and land. Selective allocation directly results in unfair opportunities for market stakeholders and interferes with the normal operation of the market economy, thereby seriously restricting the overall development of the national economy.

In addition, market rules are not uniform; departmental and local protectionism are common. Driven to protect their own interests, some local governments implement regional and departmental blockades, thereby dividing the market into separate regional or departmental markets. Such actions hamper the effectiveness and fairness of market resource allocation, harm the legitimate rights of consumers and the interests of market participants, hinder the formation of a unified national market, and to a certain extent, create a breeding ground for corruption.

4.2.1.3 Lack of Effective Implementation Mechanisms

In recent years, numerous rules and regulations related to the market economy, such as "the 36 rules about non-public economy" and "the new 36 rules" for the development of private enterprises, have been established in China, yet specific mechanisms that could support their actual implementation are lacking. This has resulted in "much cry and little wool". Several regulatory systems exist in name only; very few are performed.

4.2.2 Enterprises: Constraints to Fair Development

Although the development environment for enterprises is gradually being optimized, internal and external constraints to fair development remain.

4.2.2.1 Unfair External Environment for Competition

Since China implemented the reform and opened its markets to the West, the government has issued a series of encouraging, favorable policies and measures to create a relatively level-playing field. However, for all types of enterprises—large or small, state-owned or private, local or non-local—an unfair external development environment is still the norm. The market is not fully open for private enterprises, since a monopoly still exists. Many still adhere to a "despise the poor and curry favor with the rich" policy of discrimination. For instance, constrained by small size, a relatively weak capital chain, a lack of collateral, and other innate factors, private enterprises continue to encounter difficulties when dealing with large banks and financial institutions. In addition, the government is more inclined to invest in state-owned large and medium enterprises and has much more favorable problem-solving attitude toward large enterprises than small businesses. It is difficult for private enterprises, especially small enterprises, to access equal opportunities in the market. Unfair competition is likely to fulfill Gresham's Law or result in negative development. In addition, as a result of local protectionism, unequal competition between local businesses and non-local enterprises are common problems resulting in unfair development.

4.2.2.2 Unfair Enterprise Activities

Driven by the desire to fulfill their interests, some enterprises have engaged in improper activities (e.g., adding poison to milk, selling fake medicine, jeopardizing food safety, selling fake products as high-quality brand-name goods) that have generated significant losses and inflicted serious harm on individuals and society as a whole. Some enterprises engage in vicious competition to seek personal gain through improper means, for instance, by bribing officials to gain access to business opportunities and infringing on the intellectual property rights of other companies. Due to a lack of competitive pressure and intense pressure to survive, some monopoly industries find it difficult to provide satisfactory products and services. The lack of internal motivation to improve at the technical level impedes the optimal allocation of market resources. Moreover, some companies secretly discharge sewage and pollute the environment, or gain access to development opportunities by seizing or appropriating public environmental resources. These acts of misconduct seriously disturb market stability, impair the rights and interests of stakeholders, and restrict fair development.

4.2.3 Social Organizations: Weak Governance

Although the quality and efficiency of social organizations continue to improve, a more fair, open, and competitive policy environment is still needed to promote vitality in society. Plenty of social services organizations at all levels remain rather weak. A great number of social organizations are run by the government or have strong official support. For instance, trade chambers of commerce in various regions, charity organizations, and testing organizations have countless ties with administrative departments or are government spin-offs. Government-run organizations or organizations with official support have numerous resources. They are responsible for holding the government accountable and function as so-called alternative governments. Whether they serve as a bridge to government, a channel for developing public interest, or a supplier of public services, they are all inherently functionally deficient relative to grassroots social organizations. However, in terms of obtaining support, resources, etc., they have an advantage that grassroots social organizations do not have: unspecific and non-transparent rules and the absence of a regulatory authority, which impedes the unleashing of social power and initiatives.

Trade organizations are typically responsible for business accountability. Their external power often can force enterprises to maintain discipline. However, when the overall market system is not completely sound, some trade organizations protect enterprises' interests and neglect to manage, supervise, and disclose illegal behaviors, so that as autonomous organizations, their self-discipline mechanism is limited.

In addition, while the ability of social organizations to provide public services develops rapidly with governmental support, their ability to develop public interest comes to a standstill due to a lack of attention, which does not support the creation of a virtuous ruling pattern. Moreover, the disclosure of corruption in the Chinese Red Cross Foundation indicates problems with openness and transparency as well as standard operations in China's social organizations, which need stricter supervision.

4.2.4 Individuals: Disparate Resources and Influence

Although individuals' personal happiness and satisfaction have continuously improved, more efforts are still needed to promote rational mechanisms for income distribution, equal access to public services, dividends of political reform, and harmonious social development.

4.2.4.1 Substantial Income Distribution Gap

Ever since China implemented economic reform and opened its markets to the West, the gap between the rich and poor in China has been growing. Regional income disparity is substantial. Incomes in the southeastern coastal region are much

higher than those in the central and western regions. Likewise, the income gap between urban and rural residents is widening. Income disparity also exists among different industries and enterprise ownership structures. In general, a reasonable income gap supports economic efficiency and the accumulation of capital, which promotes economic growth. However, if the income gap becomes too great, economic efficiency will be diminished and economic development eventually will be hindered. Moreover, people's perceptions of social justice will be damaged.

4.2.4.2 Urban–Rural Dualization of Public Services

Due to the long-term existence of the urban–rural dual structure, the rational flow and optimized combination of resources in urban and rural areas are hindered, which results in a serious imbalance in urban and rural public resources. The imbalanced supply of basic public services between urban and rural areas in China seriously impedes current economic and social development. Specifically, the provision of public services is skewed overwhelmingly toward urban areas. Standards for urban and rural areas for basic public services such as education, medical treatment, and social security are vastly different. Furthermore, basic public services in rural areas are not only lower in quality, but also lower in quantity, with some areas receiving little (if any) coverage.

4.2.4.3 Migrant Workers

The process of reform has led to increased industrialization and urbanization and to the emergence of a new labor force comprised of migrant workers. By the end of 2014, the number of migrant workers in China had reached 274 million. This considerable number of migrant workers has made outstanding contributions to China's modernization. However, due to factors including the urban and rural household registration system, employment system, and distribution system, as well as the lack of a legal system to protect migrant workers' rights and interests and a lack of access to government services, this sizeable group is marginalized in urban society. They are unable to enjoy the same benefits as urban residents, and their legal rights and interests cannot be effectively guaranteed, which affects the realization of social fairness and justice.

4.2.4.4 Lack of Public Policy Involvement

In recent years, citizens' participation in public policy making has been gradually institutionalized, and more and more people are beginning to participate in the process. However, complicated and prominent problems remain, such as the public gathering incident in Xiamen against the PX project, which occurred in response to the selfishness of government decision-makers who failed to provide information

transparency and neglected stakeholders' interests. Citizens also are generally concerned about the mechanisms that control oil prices and monopolies that charge artificially high prices for Internet access. Despite widespread concerns, relevant policies that affect the vested interests of some powerful groups cannot be established since power is monopolized by the government. This phenomenon clearly runs counter to the public interest orientation of public policy. In addition, the public participates in policy making primarily through social organizations. However, social organizations in China are primarily government-sponsored, since civil social organizations are not well-developed. Therefore, even if the public has a strong demand to participate in public policy making, mechanisms that enable unobstructed lawful participation are relatively deficient.

4.3 Main Direction and Key Strategies for Fair Development

Fair development in China must be driven collaboratively by the government, enterprises, social organizations, and individuals; each of these stakeholder groups must assume their responsibilities and play their roles. As they interact productively, the four stakeholder groups can realize fair development through collaborative governance. To facilitate productive interaction, stakeholders must take action to address bottlenecks and problems. This section proposes a main direction for all stakeholders to drive fair development in China and specific strategies to address current bottlenecks and problems.

4.3.1 Main Direction for Fair Development

The main direction for fair development in China should be based on collaboration among the four stakeholder groups: the government, enterprises, social organizations, and individuals. To facilitate collaboration, stakeholder relationships should be rebuilt around market resource allocation and a virtuous interaction system must be established.

4.3.1.1 Rebuild Stakeholder Relationships Around Market Resource Allocation

Great changes have been made to build a foundation and environment for innovation and the economic transformation of society in China; likewise, government management and operations have been transformed. The *Decision of the Central Committee of the Communist Party of China on Some Major Issues Concerning Comprehensively Deepening the Reform* clearly states that economic reform must be expanded by allowing the market to allocate resources (CPC 2013a). China must

promote more efficient, equal, and sustainable economic development. Since the market resource allocation system is based on a top-down design, changes in the relationships among government, enterprises, social organizations, and individuals are inevitable.

On the one hand, government functions should shift from economic construction or resource mobilization to the creation and enforcement of laws and the provision of public services. Under this new type of relationship between the government and the market, the government will no longer engage in administrative interference, but provide a stable and fair competitive environment for market stakeholders by establishing a perfect market mechanism and creating sound laws and regulations. As a public administrator, the government will also provide comprehensive and high-quality public infrastructure as well as fair and equal public services for the citizenry.

On the other hand, market resource allocation strategies should be created based on requirements for the modernization of state governance and on the principle of systematic governance and co-governance of multiple stakeholders. The four stakeholder groups should work collaboratively as promoters and regulators of fair development. As the leading governance body, the government must insist on integrated governance by law from a single source. The government should work to improve laws and regulations for enterprises, social organizations, and individuals and provide a suitable competitive environment, guarantee public services, and foster justice and accountability. Likewise, enterprises should drive economic development for the government, social organizations, and individuals by ensuring fair development, protecting the environment, promoting the development of social organizations, and safeguarding the legal interests of stakeholders. Individuals and social organizations should foster communication between the government and other stakeholders, provide businesses with information, and safeguard legal interests.

4.3.1.2 Establish a Virtuous Interaction System among Governments, Enterprises, Society, and Individuals

In the process of co-governance, a virtuous interaction system must be established among the government, enterprises, social organizations, and individuals. The coordinative interactions among these four stakeholder groups directly influence all aspects of a nation's operations and development and the establishment of corresponding organizations and rules. To realize fair development, the four stakeholder groups should work collaboratively and maximize the effects of fair outcomes by establishing a virtuous interaction system.

First, the government, enterprises, social organizations, and individuals should be self-disciplined and self-governed to promote fair development. This means that these four stakeholder groups must assume their own responsibilities in promoting fair development at all times and without exception. Second, heteronomy of the four stakeholder groups promotes fair development. Through heteronomy, one stakeholder group can effectively supervise the other stakeholder groups, creating an external restraint for stakeholders when they fulfill their responsibilities. Third, an

operation mechanism of sound co-governance and virtuous interaction must be built in order to fundamentally guarantee the institutionalization and legalization of co-governance.

By establishing a virtuous interaction system, balance can be achieved among government management, social self-regulation, and residents' self-governance; between government self-discipline and social supervision in terms of usage of public rights; and between government management and the vitalization of other market stakeholders. Virtuous interactions between the government and enterprises, social organizations, and individuals; between enterprises and social organizations; and between social organizations and individuals comprise the core of the co-governance of fair development.

4.3.2 Key Strategies for Fair Development

Five key strategies will support collaboration among the four stakeholder groups and facilitate fair development in China: focus on perfecting the market economic system, create a more fair and equitable development environment, rationalize and improve income distribution, build a fair and harmonious social environment, and strengthen the legal foundation. I describe each of these strategies in detail in the sections that follow.

4.3.2.1 Focus on Perfecting the Market Economic System

In order to perfect the market economy, current administrative examination and approval processes must be further simplified. Power must be diffused to lower levels, and administrative intervention must be reduced. A comprehensive analysis of government affairs must be performed at all levels. Since market mechanisms increase efficiency and benefits without infringing upon social fairness and justice, the government should defer to the market whenever legally possible and minimize administration activities related to micro issues. Moreover, local protectionism and market segmentation must be eliminated in order to realize the free movement of goods and resources and enable market allocation forces to prevail. Finally, the construction of a unified and open market system can progress faster if mechanisms are in place to ensure fair competition. In accordance with the *Decision* (CPC 2013a), the government plans to:

- Establish fair and open market access rules, market competition rules, and market trading rules as prerequisites;
- Focus on perfecting market pricing mechanisms;
- Further reform the resources market, among which the construction and perfection of an integrated construction land market between urban and suburban regions and the financial market system are the top priorities;

- Expand technology reform, and release technology innovation potential; and
- Allow market mechanisms to operate on a larger scale and at a deeper level.

4.3.2.2 Create a More Fair and Equitable Development Environment

The goal of fair development is to stimulate market vitality and promote more efficient, fair, and sustainable economic and social development. Fair opportunities and open competition are indispensable conditions to creating a strong, stable market. To realize fair development and guarantee that all market participants enjoy "national treatment" and equal opportunities, the government must take measures to create a fair and equitable environment in various markets; narrow the policy gap between state-owned and private enterprises, large and small-and-medium enterprises, and privately-run, non-enterprise organizations and public institutions; and eliminate the influence of officials on government-operated social organizations.

Specifically, the government must stop providing differential treatment to different types of companies, break industry monopolies, and in accordance with the law, guarantee equal access to production resources, ensure fair participation in market competition, and provide equal protection for all enterprises, regardless of ownership structure. Furthermore, the government must guarantee equal access to the market and ensure fair, just, and open market transactions for all types of enterprises in accordance with the law. It also must guarantee free market entry and exit for all enterprises, regardless of ownership structure or size in all industries and fields, unless prohibited by official order. Moreover, the business strength and market competitiveness of enterprises must be used as selection criteria; enterprise ownership must be eliminated as a traditional classification standard. In other words, all kinds of enterprises must be treated equally, without discrimination, and the positive role of private enterprises must be recognized in activities involving economic restructuring, mergers, and reorganizations.

Secondly, a support system must be developed to address the diverse needs of social organizations. On the one hand, government administration should be separated from community management, and the independence of social organizations should be restored in the market. The government should release public space to support the growth of social organizations and promote the efficient transfer of public financial resources to them. Meanwhile, institutional constraints for social organizations that are highly involved in the distribution of public benefits should be relaxed. The government can provide a better development and policy environment and emphasize the construction and perfection of the regular distribution system for public benefits and a formal mechanism for transferring those duties to social organizations in order to actively support their development. In addition, the government should promote an institutional environment with fairness norms for the development of social organizations. Due to regulatory imperfections, oversight of social organizations has severely lagged behind the economic and social developmental reality. Therefore, the government should not only formulate programs and

preferential policies to strengthen social organizations, but also actively create a fair and standardized competitive environment.

4.3.2.3 Rationalize and Improve Income Distribution

In China, the income gap between the rich and the poor is a major social problem. Major gaps exist between urban and rural residents and between different regions. Excessive incomes in monopoly industries, official corruption, and high levels of gray income are also major problems that impede fair development. These issues persist because the government has not adequately addressed the relationship between fairness and efficiency in development, nor implemented the principle of distribution based on the contribution of production resources. In accordance with the Third Plenary Session of the 18th Central Committee of the CPC, the government has pledged to "form a reasonable and orderly pattern of income distribution;" in order to do so, the government shall "focus on better ensuring and improving people's livelihoods, promote social equity and justice, reform the income distribution system, and promote common prosperity" (CPC 2013b).

To rationalize and improve income distribution, the government will need to ensure fair market competition for resources, not only initially but throughout the production process, and perfect the market mechanisms for their distribution. It is important to eliminate industrial monopolies and regional blockades, promote fair competition and the free flow of resources, reform the household registration system, and narrow the aforementioned irrational income gap between urban and rural areas and among different regions and industries. Under the premise of a fair start and fair process, fair outcomes can be promoted through redistribution. The redistribution of income should be based on the overall interests of the community and be implemented by regulating high incomes through tax policy, improving social welfare for low-income individuals by increasing investment in basic public services and social security, and improving the quality of public goods. Citizens must have equal access to high-quality compulsory education, basic health care and public health services, public employment services, and basic social security, so as to achieve fair development results.

To protect the rights and interests of migrant workers, the government needs to collaborate with enterprises, communities, and the migrant workers themselves to establish a comprehensive and coordinated policy system to decrease the complexity of securing migrant workers' rights.

4.3.2.4 Build a Fair and Harmonious Social Environment

During the Third Plenary Session of the 18th Central Committee of the CPC, the government clarified its "focus on better ensuring and improving people's livelihoods, promoting social equity and justice and deepening social reform…and creating a vibrant, harmonious and orderly social environment" (CPC 2013b). Promoting

social fairness and justice results in a more equitable distribution of development outcomes to all people, helps solve the most practical issues of the greatest concern to most people, and helps better meet the needs of the citizenry. In addition, promoting vitality helps mobilize the enthusiasm of the masses to actively participate in social management.

A strong, modern social administration can help make fairness and justice a reality by recognizing the complementarity between the government administrative function and the self-governance function of society and the interaction between government management forces and social adjustment forces. Together, these facilitate the creation of scientific and effective mechanisms for coordinating interests, protecting rights, and mediating conflicts.

First, the government must improve the risk assessment system to ensure social stability in the wake of major decisions. Before making major policy decisions and implementing major projects, the government must perform social stability risk assessments. Furthermore, the government should improve the mechanism for mass participation in major public policy formulation, implementation, evaluation, and monitoring systems; promote openness in government affairs; and perfect the opinion gathering and hearing system for major public policies and projects. Citizens should have a formal mechanism by which they can rationally and legally express their interests and needs. Implementing civic education programs, strengthening legal publicity, and enhancing the legal consciousness of the citizenry would facilitate the implementation of such a mechanism.

Second, the government must further perfect the mediation system by improving the mechanisms related to the coordination of public interests, conflict mediation, and legal rights protection. The "multipartite mediation" system must be improved based on people's mediation and connected with administrative mediation and judicial mediation. In conflict-prone areas, the government must oversee and coordinate relevant departments and social organizations to establish professional and industrial mediation organizations and adequately address medical, labor, land expropriation, and demolition disputes, among others, which are related to people's livelihoods.

4.3.2.5 Strengthen the Legal Foundation

The most central function of law in the development of social justice is to provide a foundation of validity, legitimacy, and authority and to validate its role in guidance, coordination, and protection. A market economy is a rule-of-law economy; without a democratic and fair legal environment, a fair and honest market environment is not possible. Sound policies, laws, and regulations help lay the foundation for a fair and equitable environment for the healthy development of resources. These policies and regulations include intellectual property laws, antitrust laws, bankruptcy laws, labor laws, capital market regulation laws, policies on R&D and technology transfer, and so on. In this regard, the government needs to promote equitable development, strengthen legal supervision of various stakeholders in the process of economic

restructuring, and create a fair judicial environment in order to ensure the integrity of all parties and fairness in all market transactions. Furthermore, the government must take action to reduce widespread malfeasance and misfeasance in order to create a favorable environment for economic development. Relevant functional departments need to approach new situations and problems in the economic restructuring process with caution, provide legal support and judicial services with high efficiency, secure and promote sound enterprise development, and create a more hospitable environment from a legal and economic standpoint.

To strengthen China's legal foundation, the government should follow the guidelines suggested by the Fourth Plenary Session of the 18th Central Committee of the CPC and comprehensively implement the rule of law (CPC 2014). The government should tailor the constitution-centered socialist legal system to the Chinese context and strengthen its implementation. Further, the government should promote law-based administration, improve judicial credibility, and accelerate the construction of a law-based government that guarantees fair justice. Moreover, it is important to enhance the legal awareness of the citizenry and promote the construction of a legal society. Strengthening the creation of legal work teams and emphasizing and supporting the leadership of the CPC will facilitate the full implementation of the rule of law. Last but not the least, the government must accelerate the establishment of complete systems of laws and regulations and implement them with high efficiency, strict legal supervision, and a strong legal guarantee.

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Part II
Individual and Social Perspective

Chapter 5
Fairness in the Chinese People's Lives: Challenges and Policy Suggestions

Lixian Qian

Abstract Despite massive economic growth over the past three decades, China continues to face significant challenges associated with economic and societal development, many of which relate to increasing fairness. From the perspective of fair development, I provide an overview of fairness challenges related to Chinese citizens' everyday lives and suggestions in which policymakers can promote fairness. Specifically, I focus on three major areas—education, healthcare, and elderly care—which are sometimes called the "three new mountains" that Chinese citizens are currently struggling to climb. Based on an analysis of selected proposals from the national plenary sessions of the Chinese People's Political Consultative Conference (CPPCC) held between 2010 and 2015, I describe current fairness-related issues in education, healthcare, and elderly care in China and summarize policy proposals from CPPCC members aimed at promoting fairness.

5.1 Introduction

Since China implemented the reform and opened its markets to the West in the late 1970s, economic growth has skyrocketed; as a result, China is now the second-largest economy in the world. However, the nation continues to face significant development challenges, many of which relate to increasing fairness. In order to tackle the underlying problems associated with rapid economic growth, the Chinese Communist Party decided to focus on promoting a "harmonious society" (*hé xié shè huì*) during its central committee conference in October 2006. Many of the issues highlighted at the conference relate to the social unfairness that threatens China's continued development, such as:

> unbalanced socio-economic development between urban and rural areas and across different regions, pressures from various aspects of everyday life including employment, social security, income distribution, education, healthcare, housing and safety production, an imperfect democracy and legal system, and severe corruption in some fields. (Central Committee of Chinese Communist Party 2006)

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Fair development was proposed by Ding (2014) as an ideal human development principle. It is defined as "human development that strives to ensure distributive, procedural, and restorative fairness related to the opportunities, resources, and outputs of human development." (Ding 2014: 35). Essentially, there are three aspects of fairness: distribution fairness, which is the fair distribution of human development opportunities, resources, and outcomes; procedural fairness, which is the unbiased or fair method for allocating human development opportunities, resources, and outcomes; and restorative fairness, which is compensation to offset any unfair advantages (Ding 2014).

From the perspective of fair development, I present a descriptive overview of fairness-related challenges that affect people's daily lives and summarize solutions suggested by policymakers in proposals aimed at promoting fairness in China. I focus my analysis on three major areas—education, healthcare, and elderly care—which are sometimes called the "three new mountains" that the Chinese people are struggling to climb due to the pressure and unfairness that people feel in these areas (Sun 2014; Chen 2015).

I performed content analysis on selected proposals submitted to the annual plenary sessions of the Chinese People's Political Consultative Conference (CPPCC) held between 2010 and 2015. The CPPCC is a political advisory body in China and its national committee published 1446 selected proposals from the national plenary sessions held over the past 6 years online. Each proposal contains the following parts: proposal title, government department(s) responsible for evaluating suggestions, name(s) of the individual(s) or group(s) submitting the proposal, keywords, and detailed proposal contents. First, I analyzed keywords to screen out the proposals unrelated to the three topics that are the focus of this chapter; this resulted in a set of 150 education-related proposals, 138 healthcare-related proposals, and 76 elderly care-related proposals. Then I searched the proposal contents for keywords such as *fairness*, *equity*, *inequality*, and *balanced* to identify the subset of proposals with fairness-related content. Finally, I reviewed the proposal contents in detail in order to categorize major challenges and policy suggestions. In the following sections, I describe the key challenges and suggested solutions extracted from the selected CPPCC proposals in the areas of education, healthcare, and elderly care, respectively, before concluding with a brief summary.

5.2 Education

Throughout China's long history, values education and Confucian ideology have been the strongest influences shaping traditional Chinese education (Lee 2000). During the Tang Dynasty (618–906), the civil service examination (*kē jǔ*) was implemented in ancient China to recruit talented individuals as government officials; thus, this mechanism was viewed as the "ladder of success" (Elman 1991).

In modern China, education is positioned as the "cornerstone of national rejuvenation and social progress, and a fundamental way to improve citizens' quality and pro-

mote their all-around development" (The Central Government of China 2010). Therefore, China has been systematically pursuing education modernization along with economic growth. For example, China offers 9 years of free compulsory education; 100% of eligible children were enrolled primary and junior middle schools in 2013 (National Bureau of Statistics of China 2015), and the gross enrollment rates in senior middle schools or equivalent institutions[1] and higher education institutions reached 86.5% and 37.5%, respectively, in 2014 (Ministry of Education of China 2015).

According to China's National Plan for Medium- and Long-term Education Reform and Development (2010–2020), promoting education fairness is one of the nation's fundamental education policies (The Central Government of China 2010). The key point of education fairness is providing equal opportunities for all citizens to access education. The focus areas for promoting education fairness include "boosting coordinated development of compulsory education, and helping/supporting vulnerable groups" by "better allocating education resources to rural, remote, impoverished, areas and ethnic autonomous areas" (The Central Government of China 2010). Education fairness as defined by this national education policy largely corresponds to distributive fairness as defined by Ding (2014). It also indicates the key challenges to education fairness in China, which are particularly reflected in areas such as urban-rural inequality (Hannum 1999) and regional inequality (Hannum and Wang 2006; Zhang and Kanbur 2005).

During the national CPPCC plenary sessions over the past 6 years, CPPCC members have discussed the challenges associated with (distributive) education fairness and suggested ways to promote education fairness in China. In the subsections that follow, I describe these challenges and the solutions proposed by CPPCC members.

5.2.1 Key Challenges to Education Fairness

Some CPPCC members' proposals provided general descriptions of education fairness and its institutional causes. For instance, Chi (2010) highlighted issues related to unbalanced resource allocations in the hierarchical Chinese education system in his proposal submitted to the 3rd Plenary Session of the 11th CPPCC in 2010. Historically, the allocation of high quality resources has been prioritized to key schools in urban areas where children from the higher social classes are more likely to be enrolled. As a result, according to this proposal, the proportion of working class children in key senior middle schools dropped from 37.3% in 1978 to 3.3% in 2010, and the proportion of rural children dropped from 5.1 to 1.1% over the same period. Similarly, the number of students from rural areas attending leading universities has dropped since the 1990s.

Lin (2012) also discussed institutional foundations of education fairness in China in his proposal in the 1st Plenary Session of the 12th CPPCC in 2012. Specifically,

[1] Senior middle school or equivalent education includes normal high school, adult high school and secondary vocational schools.

he suggested that education fairness is closely linked with social fairness and that the level of education fairness reflects (regional) economic conditions. He further suggested that the key to promoting education fairness in China is to reduce the restrictive impacts of external factors, including those related to socioeconomic status, power, and geographic location, on education.

Other proposals from the national CPPCC plenary sessions concentrated on specific aspects of education fairness, such as the urban-rural gap, regional differences between economically developed and less developed areas, and discrimination against private institutions relative to the dominant state-run education institutions. In Table 5.1, I present a list of selected CPPCC proposals related to promoting education fairness.

5.2.1.1 Urban–Rural Gap

In China's household registry system (hukou), residents are normally classified into one of two main categories: urban or rural. It is extremely difficult for rural residents to change their hukou to urban ones. Urban residents have much better social welfare benefits than rural residents in China, partially due to uneven government expenditure. Education is no exception (Mok et al. 2009).

Promoting education fairness by reducing or eliminating the urban–rural education gap has received much attention during the CPPCC conferences. The Chinese Democratic League (2011a) submitted a general proposal to analyze the causes of the urban–rural education gap and made corresponding suggestions. Four institutional causes of the urban–rural gap include: (a) an unbalanced legal system and regulations, (b) an immature education management system, (c) a lack of government responsibility in achieving equality in basic education, and (d) traditional views and practices that value urban areas more than rural areas.

As summarized in Table 5.1, many have focused on compulsory education (including primary school and junior middle school) as a way to reduce the urban–rural education gap. Fundamentally, unfair resource distribution between urban and rural areas has resulted in the unbalanced development of compulsory education (China Association for Promoting Democracy 2013a). More specifically, the Chinese Democratic League (2010) argued that the main issues of rural compulsory education are: (a) an education budget that is insufficient to sustain and improve rural education; (b) increased distance between school and home for rural children; (c) children who have been left behind by parents who are working in urban areas; (d) limited primary and secondary education resources in rural areas (such as space, teaching staff, and curricula), and (e) the comparatively low level of rural teachers' remuneration and qualification recognition. Likewise, Shi et al. (2012) submitted a proposal on improving the remuneration of compulsory education teachers in rural and remote areas in order to stabilize the rural teaching staff team and enhance the quality of rural compulsory education. Likewise, Li (2015b) emphasized the importance of developing consistent standards of compulsory education, which can help address education unfairness in rural China. The standards suggested by Li (2015b)

Table 5.1 Selected CPPCC proposals related to promoting education fairness

CPPCC proposal	Types of education fairness issues	Level of education
Cao (2011)	Urban–rural, cross-region, within-region, within-school	Compulsory education
China Association for Promoting Democracy (2013a)	Urban–rural	Compulsory education in (rural) counties
Chinese Democratic League (2010)	Urban–rural	Compulsory education in rural areas
Chinese Democratic League (2011a)	Urban–rural	General urban–rural gap
Chinese Democratic League (2011b)	Urban–rural	Education of migrant workers' children
Chinese Democratic League (2013)	Cross-region	Pre-school education
China Democratic National Construction Association (2010)	Cross-region	Compulsory and vocational education in ethnic minority areas
China Zhi Gong Party (2013b)	State-run vs. private	All levels of private education
Feng (2013)	Urban–rural	Education of migrant workers' children
Hu (2011)	Urban–rural, between schools	Compulsory education
Jiu San Society (2014)	State-run vs. private	Higher education
Kang et al. (2015)	State-run vs. private	Higher education
Li (2012)	Cross-region; national vs. regional, research vs. teaching, state-run vs. private	Fairness in higher education
Li (2015b)	Urban–rural	Compulsory education
Liang (2014)	Cross-region	Teachers' education in poor regions
Liu (2012)	Within region	Primary and secondary school selection
Revolutionary Committee of the Chinese Kuomintang (2011b)	State-run vs. private education	Higher education
Revolutionary Committee of the Chinese Kuomintang (2014)	Urban–rural	Compulsory education of left-behind children
Shi et al. (2012)	Urban–rural; cross-region	Remuneration of compulsory education teachers
Sun (2013)	Cross-region	Compulsory education in ethnic minority areas
Wang (2014)	Urban–rural	Art education in rural schools (compulsory education level)

(continued)

Table 5.1 (continued)

CPPCC proposal	Types of education fairness issues	Level of education
Xia (2010)	Cross-region	Medical education in ethnic minority areas
Xie (2014)	Urban–rural	Education of migrant workers' children
Yang (2013)	State-run vs. private	All levels of private education
Zhu (2013)	Cross-region; state-run vs. private	Private universities in ethnic minority areas

cover a wide range of topics, related to school infrastructure, curricula, teaching staff quality and remuneration, as well as school catering, environment and hygiene, transportation, etc.

Another specific issue related to the urban–rural gap is the education of migrant workers' children (i.e., migrant children). Some migrant workers choose to bring their children to the cities where they work. According to Feng (2013), 60 % of migrant workers in Beijing, Shanghai, and Guangzhou bring their children with them. The total number of migrant children in China was 35.81 million in 2013; by 2015, this number had increased by 41.4 % (All-China Women's Federation 2013). Education for these migrant children presents a dilemma. On the one hand, it is difficult for them to be admitted to local state-run schools, due to restrictions on non-local hukou, expensive extra schooling fees, and/or limited capacities of local state-run schools (Chinese Democratic League 2011b; Xie 2014; Wong et al. 2007). On the other hand, although there are some dedicated schools for the children of migrant workers, they are usually developed independently without strong support from the local government, and thus the school conditions and education quality cannot be ensured (Chinese Democratic League 2011b). In addition, although these two issues related to the education of migrant workers' children exist mainly at the compulsory education level, post-compulsory education issues have emerged as these children have entered senior middle school; these challenges are going to become even bigger when migrant children attempt to take national university admission examinations (gao kao) due to their current residential ineligibility (Xie 2014).

Instead of studying in urban areas with parents, some children of migrant workers are left behind with relatives in rural areas and attend rural schools (Revolutionary Committee of the Chinese Kuomintang 2014; Chinese Democratic League 2010). *Left-behind* children are children with at least one parent working far away in an urban area (usually another province or region) (Duan and Yang 2008). In 2000, there were 19.8 million left-behind children in rural China; that figure increased sharply to 58.6 million in 2005 (Duan et al. 2013). Based on data from the latest census, there were 61.0 million left-behind children in rural areas in 2010 (Duan et al. 2013), comprising 38 % of all rural children and 22 % of all children in China (Revolutionary Committee of the Chinese Kuomintang 2014; All-China Women's Federation 2013).

In addition to the typical disadvantages of rural education discussed previously, the quality of education received by left-behind children and their level of academic achievement are more problematic, particularly when they are in their late teens (15–17 years old) and when their mothers work away from home (Duan et al. 2013). Furthermore, the education of left-behind children is restricted to classroom learning. Schools and communities are not paying enough attention to their psychological health, given that they are usually living with their grandparents (Revolutionary Committee of the Chinese Kuomintang 2014). By analyzing the latest census data, Duan et al. (2013) found that the underlying issue of intergenerational dependency is that grandparents in rural China typically have fairly low education levels. Since they are not able to provide any academic support to their grandchildren, the education and growth challenges faced by rural children increase.

5.2.1.2 Regional Differences

In addition to the urban–rural gap, differences across provinces or regions contribute to the lack of education fairness in China (Zhang and Kanbur 2005). While urban–rural education unfairness mainly relates to compulsory education, education unfairness due to regional differences permeates all levels of education, including preschools (Chinese Democratic League 2013), compulsory education in primary and secondary schools (Sun 2013; China Democratic National Construction Association 2010), vocational education (China Democratic National Construction Association 2010), and even higher education (Li 2012). One specific issue that is closely tied to regional differences is the education of ethnic minorities, who typically reside in less developed regions (China Democratic National Construction Association 2010; Xia 2010; Sun 2013; Zhu 2013); thus, I discuss this issue in this subsection.

Different levels of economic development and the unbalanced investments in education that result are mentioned frequently as regional causes of education unfairness. For example, public funding for compulsory education in Guizhou province (in southwestern China) was only 834.21 RMB per student in 2011, equal to 61.05 % of the national average and just 0.96 % of that in Beijing (Sun 2013). Furthermore, some remote areas have extremely underdeveloped infrastructure or school facilities. According to the China Democratic National Construction Association (2010), in 25 remote counties of Yunnan province, 15.5 % of school buildings were rated at the most dangerous level, and in remote counties of Guangxi (an autonomous region of China), 47 % of schools did not have proper public toilets and 37 % of schools did not have acceptable drinking water.

In addition to facility-related disadvantages, remote or poor regions also have difficulties recruiting and retaining teaching staff (Shi et al. 2012; Chinese Democratic League 2013; Liang 2014). Teaching education resources and training programs aimed at developing qualified local teachers are insufficient in poor regions, while non-state-employed teachers, who are more common in remote regions, do not receive the same remuneration as state-employed teachers. Furthermore, it is difficult to attract non-local teachers to teach in remote and poor areas for various reasons such as low remuneration and poor living conditions (Liang 2014).

5.2.1.3 State-Run vs. Private Schools

The third challenge to education fairness in China relates to the difference between state-run (public) schools and private (or non-state-run) schools. During the first three decades after the People's Republic of China was founded, all schools were completely run by the government. After the reform and the opening of China's markets to the West, private education and training were permitted in China. Private schools have been emerging since the early 1990s (Hannum 1999; Kwong 1997); according to Yang (2013), more than 130,000 private schools have been established, with 37.14 million enrolled students in 2011. China's *National Plan for Medium- and Long-term Education Reform and Development* also recognizes the importance of non-state-run education and urges the development of high-quality private schools (The Central Government of China 2010).

However, several obstacles potentially impact the health and sustainable development of private education, particularly in the higher education sector, as highlighted by the Revolutionary Committee of the Chinese Kuomintang (2011b) and the Jiu San Society (2011). The China Zhi Gong Party (2013b) summarized three general problems associated with private education in China. First, approved private schools do not have the same legal status as state-run schools. Currently, private schools are typically registered as private non-enterprise organizations *(mín bàn feī qǐ yè dān weì)*, while state-run schools are registered as public-sector organizations (*shì yè dān weì*). Since public sector entities normally enjoy favored status in China, huge differences exist between these two types of education providers in terms of policy benefits and regulations pertaining to a range of issues including taxes, government funding, admissions, school construction, and the social welfare of the teaching staff.

Second, private schools have limited schooling autonomy. Currently, the education management system has not been adapted to the private education context; policies related to admissions, tuition, and program development still follow those of state-run schools, which are highly regulated by the government. This essentially restricts educational innovation and reduces diversity in private education.

Third, non-degree education and training programs are not well-organized. There are more issues in the non-degree private training market, such as insufficient training qualifications and a shortage of qualified teachers, a lack of teaching space and facilities, and deceptive advertising, which may indirectly impact degree-awarding private education. Government regulations related to pre-approval and continuous monitoring are currently insufficient as well.

5.2.2 Proposed Solutions to Promote Education Fairness

CPPCC members have made several proposals aimed at solving education-related challenges and promoting education fairness in China. I summarize policy suggestions that are frequently proposed by CPPCC members in this subsection.

5.2.2.1 Increase Government Investment

First, many CPPCC members proposed that governments should leverage financial tools to promote fair education. It was commonly mentioned that more investments should be made in rural schools, less developed regions, and vulnerable groups to reduce educational gaps relative to their counterparts (Lin 2012; China Democratic National Construction Association 2010; Xia 2010; Hu 2011; Li 2012; Chinese Democratic League 2013; Wang 2014; Xie 2014). Furthermore, some members suggested improvements to the allocation mechanisms for education funds in order to increase fairness (Chinese Democratic League 2010; Sun 2013; Zhu 2013) and proposed ways to enable educational funds to be shared or transferred between different governments (Chinese Democratic League 2011b; Feng 2013; Jian 2011).

5.2.2.2 Improve the Legal System

Several CPPC proposals also highlighted the importance of improving the legal system and regulations in order to promote education fairness, for instance, by giving private- and state-run schools the exact same legal status (Revolutionary Committee of the Chinese Kuomintang 2011b; China Zhi Gong Party 2013b; Yang 2013; Kang et al. 2015) and improving the legal system to ensure equal benefits and quality of compulsory education in rural and urban areas (Chinese Democratic League 2011a; Revolutionary Committee of the Chinese Kuomintang 2014; Li 2015b).

5.2.2.3 Implement Institutional Reform

Many CPPCC members submitted proposals for institutional reform to address fairness challenges in education. For example, in order to reduce the disadvantaged status of private education, the Revolutionary Committee of the Chinese Kuomintang (2011b) suggested that the government establish a private education supervisory committee to monitor the operations of private schools and permit the ownership of independent colleges to change hands on the market. To alleviate urban–rural education unfairness, both the China Association for Promoting Democracy (2013a) and Li (2015b) proposed developing national standards for compulsory education. Feng (2013) suggested the implementation of education vouchers, the development of a migrant education program (MEP), and the use of compulsory education registration cards to ensure that all children have equal access to compulsory education. In addition, in reviewing overall education fairness in China, Lin (2012) highlighted the importance of improving transparency in education resource allocation and Jian (2011) advised the promotion of procedural fairness when approving, executing, and monitoring education policies.

5.2.2.4 Develop Schools and Teachers

At the school level, CPPCC members strongly advocated school collaboration or teacher exchange programs to reduce gaps between urban and rural schools (Cao 2011; Chinese Democratic League 2010), and between strong and weak schools (Jian 2011; Hu 2011; Liu 2012). Several CPPCC proposals included suggestions for comprehensive improvements to teaching staff management in rural, less developed regions, or in disadvantaged institutions, including attracting students to normal colleges (Liang 2014), recruiting teachers (Hu 2011; Chinese Democratic League 2011a), developing and training teaching staff (Chinese Democratic League 2010, 2013; Liang 2014; Jian 2011), and directly improving their remuneration (Cao 2011; Liu 2012; Shi et al. 2012; Sun 2013; Lin 2012).

5.3 Healthcare

Separate from the economic development trajectory, public health conditions improved significantly in China from 1950s to the 1970s, with average life expectancy increasing from 35 to 68 years and the infant mortality rate dropping from 25 to 4 deaths per 100 births (Ling et al. 2011; Hsiao 1995). Over the last three-plus decades, healthcare expenditures have increased dramatically in China, from 11 billion RMB in 1978 to 2.785 trillion RMB in 2012 and by 179 times per capita (National Health and Family Planning Commission of the People's Republic of China 2013). Despite vast investment, improvements in public health outcomes have been relatively small; moreover, these investments have resulted in significant regional and urban–rural inequality in China's healthcare system (Ling et al. 2011; Hougaard et al. 2011; Liu and Griffiths 2011; Zhang and Kanbur 2005).

The Chinese central government's *Opinions on Deepening Healthcare Reform*, released in April 2009, clearly state that one of the reform principles is to balance fairness and efficiency (Central Committee of Chinese Communist Party and The State Council of the People's Republic of China 2009). On one hand, governmental responsibilities related to policymaking, planning, financing, and supervising should be emphasized to promote healthcare fairness. On the other hand, market power should also be utilized to encourage orderly competition and enhance healthcare efficiency, service levels, and quality. Furthermore, the *Opinions* indicate that a major healthcare reform task is to promote fairness in basic public healthcare service. In recent CPPCC plenary sessions, CPPCC members have raised concerns about healthcare unfairness and proposed ways to counteract it. In Table 5.2, I present a list of selected CPPCC proposals aimed at promoting healthcare fairness in China.

In the following subsections, I discuss key challenges to healthcare fairness before summarizing the solutions suggested by CPPCC members.

Table 5.2 Selected CPPCC proposals on promoting healthcare fairness

CPPCC proposal	Types of healthcare fairness issues
Bao (2013)	Remote and rural health service
Chen (2011)	Overall fairness of public healthcare service
China Association for Promoting Democracy (2012)	Medical insurance reimbursement for medical expenses incurred away from home city
China Zhi Gong Party (2010)	Gap between big and small hospitals
China Zhi Gong Party (2011)	Community-level health service
Chinese Peasants and Workers Democratic Party (2014)	Rural health service
Du (2013)	Medical insurance of migrant workers
Gao et al. (2012)	Community-level health service
Gong (2011)	Disconnection between different types of medical insurance plans
Hong (2011)	Staff shortage in rural clinics
Jiu San Society (2010)	Overall fairness of public healthcare service
Jiu San Society (2013)	Rural health service
Li (2015a)	Talent shortage in local health service
Lin (2013)	Disconnection between different types of medical insurance plans
Liu (2014)	Medical insurance settlement for medical expenses incurred away from home city
Liu and Huang (2011)	Issues in the New Rural Cooperative Medical Scheme (NRCMS)
Mao (2015)	Community-level health service
Shang (2015)	Talent shortage in county-level hospitals
Wang (2010)	Rural health service
Wang (2013)	Disconnection between different types of medical insurance plans
Yang (2012)	Doctor shortage in rural health service
Yue (2015)	Talent shortage in local health service
Zhang (2011)	Staff shortage in rural clinics
Zhao (2013)	Disconnection between urban and rural medical insurance plans
Zhu (2011)	Rural health service

5.3.1 Key Challenges to Healthcare Fairness

Most challenges to healthcare fairness relate to the coexistence of three different public medical insurance plans and the underdevelopment of local healthcare services in both urban and rural areas.

5.3.1.1 Non-unified Medical Insurance System

China has a multi-level medical insurance system, as shown in Fig. 5.1 (Mao et al. 2011): the bottom level includes the Medical Assistant Scheme (MAS), which is targeted at urban and rural poor populations; the middle level includes insurance schemes for the majority of the population; and the top-level includes various optional medical insurance supplements. The medical insurance system in China includes three major types of medical insurance plans that target different profiles. In urban areas, working adults enroll in the Urban Employees' Basic Medical Insurance Scheme (UEBMIS), which is run based on joint contributions from employees and employers; other urban residents (such as urban students, children, and non-working urban residents) can voluntarily enroll in the Urban Resident Basic Medical Insurance Scheme (URBMIS) on a household-by-household basis (Hougaard et al. 2011; Mao et al. 2011). In rural China, farmers can choose to enroll the New Rural Cooperative Medical Scheme (NRCMS), which is a voluntary medical mutual-help scheme for farmers that is organized, guided, and supported by the government and financed through individual, collective, and government contributions; it mainly covers catastrophic health expenses using pooled funds (Mao et al. 2011: 188).

CPPCC members have noticed several emerging issues associated with these three major medical insurance schemes in China. First, different medical insurance schemes are managed by different governmental bodies, which results in duplicate administrative efforts, increases managerial costs, and reduces managerial efficiency. Specifically, UEBMIS and URBMIS are managed by the governmental departments of Human Resources and Social Security, while NRCMS is managed by the Health and Family

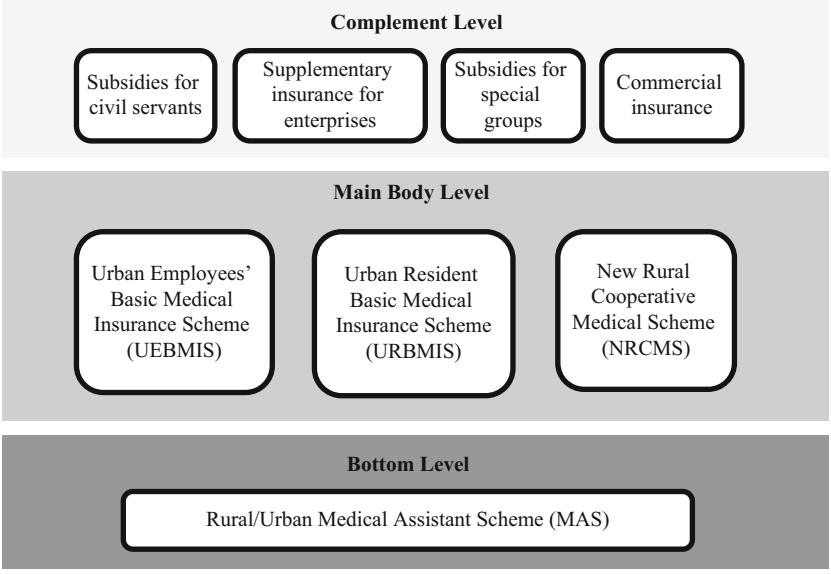

Fig. 5.1 Framework of China's medical insurance system (adapted from Mao et al. 2011)

Planning Commission, and MAS is run by the department of Civil Affairs (Lin 2013; Wang 2013; Zhao 2013; Gong 2011). Second, some citizens are enrolled in more than one healthcare plan due to the inconsistent management of different medical insurance schemes, which increases both personal and governmental expenses. For example, some migrant workers or rural students who are enrolled in NRCMS at home are also enrolled in URBMIS when working or studying in urban areas (Lin 2013; Zhao 2013). Third, different medical insurance schemes have different designs, which also results in unfair cost contributions and benefit coverage. The individual annual cost for URBMIS was 200 RMB in 2012, which was four times the cost for NRCMS (Wang 2013). Also, different medical insurance schemes provide inconsistent benefits in terms of hospital choices, medical coverage, and reimbursement rates; these differences are particularly prominent between urban and rural schemes (Zhao 2013; Lin 2013). For example, the NRCMS mainly covers expenses related to catastrophic illness while other expenses are covered by local policies (Liu and Huang 2011).

Another specific challenge associated with China's medical insurance system is regional disconnection, possibly due to the different roles of the three levels of government. The central government is mainly responsible for the overall design and formulation of policies related to medical insurance; provincial governments collect tax revenues and run the schemes within the provinces; and city governments provide services and manage related transactions (Hougaard et al. 2011). Under this system, residents typically are required to seek medical services at local hospitals; otherwise, patients must pay for non-local medical expenses out of pocket and submit claims for partial reimbursement in their local residential areas. According to Liu (2014), 5.1 million patients sought non-local medical services under UEBMIS and URBMIS in 2012, incurring 66.5 billion RMB in cross-regional medical expenses.

Thus, the main challenge for cross-regional medical service is how to reimburse these expenses smoothly and ideally in real time. Currently, several obstacles must be overcome in order to achieve this goal. First, medical insurance systems are implemented to adapt to local economic development levels, so insurance benefits differ across provinces. This directly delays the process of reimbursing medical expenses incurred by non-local patients. More generally, it is hard to balance the interests of provinces that experience patient outflows and inflows (Liu 2014; China Association for Promoting Democracy 2012). Second, medical insurance information systems are not well-connected yet. Most medical insurance schemes enroll citizens in a single city. Provincial level settlement systems do not yet exist in most provinces (Liu 2014), which further delays the real-time reimbursement of non-local medical expenses—not only across provinces, but also within provinces.

5.3.1.2 Unbalanced Healthcare Provision System

Healthcare service provision in China has been developed as two parallel, three-tiered hierarchical systems in rural and urban areas (Hsiao 1995; Tu 2014). In rural China, the three official tiers are village medical clinics, township health centers, and county hospitals (Chen 2009; Hsiao 1995). In urban areas, there are community medical clinics, district hospitals, and municipal hospitals (Tu 2014).

Although village medical clinics are expected to function as "health gatekeepers" (Chen 2009), they have not received sufficient public funding to sustain and expand their service functions (Jiu San Society 2013). Unbalanced resource distribution across different tiers in the healthcare hierarchy is thought to be the main problem; as a result, larger, higher-tier hospitals are always crowded with patients, while more accessible, lower-tier institutions do not have strong medical service capabilities (China Zhi Gong Party 2010).

The underdevelopment of rural health services has received much attention from CPPCC members. First, many CPPCC members have highlighted the shortage of capable medical staff at village medical clinics (Li 2015a; Yue 2015), which is even more severe in rural areas (Hong 2011; Yang 2012; Zhang 2011; Jiu San Society 2013; Zhu 2011; Wang 2010), making it hard for "health gatekeepers" to perform their local function. Second, due to limited governmental investment (Jiu San Society 2013; Chinese Peasants and Workers Democratic Party 2014), some village medical clinics do not have necessary infrastructure and equipment (Zhu 2011; Wang 2010). Third, managerial guidance and practice supervision have not been well-developed to support medical services in the lowest-tier institutions (Wang 2010; Jiu San Society 2013; Chinese Peasants and Workers Democratic Party 2014). Fourth, there are disadvantages in rural and remote areas related to the provision and distribution of essential medicine (Bao 2013).

Similarly, urban healthcare service at the community level (the lowest tier in the urban healthcare system) has ongoing issues such as insufficient investment, medical staff shortages (particularly GPs), limited availability and selection of essential medicines, and limited partnerships with upper-tier hospitals (China Zhi Gong Party 2011; Mao 2015; Gao et al. 2012).

5.3.2 Proposed Solutions to Promote Healthcare Fairness

CPPCC members have made a wide range of suggestions to address the challenges faced by China's healthcare system. Their proposals fall into five major categories and are summarized in this subsection.

5.3.2.1 Improve Long-Term Planning

After identifying challenges related to the lack of integration among China's various medical insurance schemes, Wang (2013), Chen (2011), and Liu (2014) highlighted the importance of top-down, long-term national planning to develop a fair and integrated healthcare system. Chen (2011) further pointed out that the national healthcare plan should maintain its authority with the support of financial and legal systems. More specifically, in order to accelerate the cross-regional settlement of medical insurance expenses, the China Association for Promoting Democracy

(2012) proposed that the central government release a national plan with clear guiding principles, key tasks, and a technical roadmap for integrating national medical insurance systems, as well as an implementation timeline for these activities.

Given that local healthcare institutions are supposed to function as "gatekeepers" in the system (Chen 2009), advance planning is thought to be critical for improving local healthcare networks in both urban and rural areas. For example, the Chinese Peasants and Workers Democratic Party (2014) and Mao (2015) highlighted the importance of planning for the establishment of branch township hospitals and community medical clinics in rural and urban areas, respectively. Furthermore, Bao (2013) suggested that multiple government departments should work together to scientifically develop a plan for the purchase and distribution of essential medicines in rural and remote areas.

5.3.2.2 Enhance the Unification of the Medical Insurance System

A second commonly proposed solution is to enhance the level of unification in China's medical insurance system. For example, Gong (2011) proposed developing a national system of personal medical insurance accounts and gradually integrating city-level with provincial and national medical insurance schemes. Similarly, Lin (2013) emphasized the importance of integrating different medical insurance schemes by sharing talents, resources, information, and funds. More specifically, both Wang (2013) and Zhao (2013) proposed consolidating the administrative roles of different medical insurance schemes into one governmental department, such as the health department.

Some CPPCC members also mentioned the importance of developing an integrated medical insurance information system to accelerate scheme unification (China Association for Promoting Democracy 2012; Liu 2014; Jiu San Society 2013). Others specifically suggested strengthening collaboration in the healthcare hierarchy and encouraging big urban hospitals to support small rural institutions (China Zhi Gong Party 2010; Shang 2015; Zhang 2011).

5.3.2.3 Strengthen Management and Regulation of the Healthcare System

Management is another area that requires urgent attention in China's healthcare system, particularly in local healthcare institutions. For example, several CPPCC proposals highlighted the importance of improving the operational management of local medical stations (Liu and Huang 2011; Bao 2013; Hong 2011; Mao 2015). More specifically, when discussing medical insurance for migrant workers and the NRCMS, respectively, Du (2013) and Liu and Huang (2011) advised that the reimbursement procedure for medical expenses should be simplified.

Another specific area of management that can be improved is the supervision and regulation of healthcare system operations. For example, Liu and Huang (2011)

suggested developing regulatory guidelines to improve the implementation of the NRCMS, and Yang (2012) suggested that strong regulations should be enforced to monitor the practices of rural doctors. More generally, the Jiu San Society (2010) proposed the establishment of a regulatory system to promote public health equalization, emphasizing that the regulatory system should effectively monitor healthcare system operations and the execution of related policies. In addition, Chen (2011) and the Jiu San Society (2010) suggested that performance reviews should be conducted to emphasize the accountability of governments and different levels of public health service providers.

5.3.2.4 Develop Medical Talent and Management

In order to promote healthcare fairness, many CPPCC proposals indicated that it is critical to develop and improve the management of medical talents in local medical institutions (Zhu 2011; Chinese Peasants and Workers Democratic Party 2014; Gao et al. 2012; Mao 2015; Jiu San Society 2013; Wang 2010). For example, in its proposal for improving the local healthcare service system, the Jiu San Society (2013) suggested four specific ways to motivate and stabilize rural medical staff. First, the performance review system should be improved and outstanding performers and those holding key positions should be compensated accordingly. Second, medical staff quotas should be improved to fairly include qualified rural doctors in the quota system.[2] Third, a pension system for rural doctors should be established to improve their social security. Fourth, training and professional development should be ensured for local medical staff to enhance their technical capabilities.

In addition, several other CPPCC members specifically addressed the shortage of talented local healthcare providers in their proposals (Hong 2011; Li 2015a; Shang 2015; Yang 2012; Yue 2015; Zhang 2011). They proposed similar solutions focused on providing more professional training, higher remuneration, and fair social/job identity to attract and develop medical staff at the local level.

5.3.2.5 Increase and Diversify Financial Investments

Several members also highlighted that financial investment in the healthcare sector should be increased, particularly at the local level (Chen 2011; China Zhi Gong Party 2011; Wang 2010; Zhu 2011). More specifically, financial investment in the healthcare sector should come from diverse sources, including funding from central and local governments, charitable donations, and more importantly, social investment, which could be encouraged through tax reduction policies.

[2] Some state-run organizations, such as schools and hospitals, are registered as public sector organizations, and there is a quota system for their employees within the quota to receive better benefits than others outside of the quota system.

5.4 Elderly Care

Elderly care is becoming increasingly challenging in China, which has the world's largest aging population. By 2010, China had 178 million people aged 60 years or older, which comprised 13.26 % of the total Chinese population (National Bureau of Statistics of China 2014). The size of the aging population in China is expected to continue increasing to 243 million in 2020, at which point it will comprise about 18 % of the total population (The State Council of the People's Republic of China 2011).

The traditional family-based elderly care model, in which the younger generation takes care of the older generation at home, is no longer sustainable in China. Largely due to the one-child policy implemented in the 1980s, Chinese families have transformed into a "four-two-one" structure across three generations, meaning each family typically has four grandparents, two parents, and one child; thus, more and more elderly Chinese are living alone (Song 2011; Wei 2011). It is crucial, therefore, to establish a socialized elderly care system in order to better leverage community and social resources to support elderly care needs (The State Council of the People's Republic of China 2011).

According to the national elderly care development plan (The State Council of the People's Republic of China 2011), the elderly care system in China mainly consists of three components with different roles. The first and most fundamental component is care provided to the elderly in their own homes, which mainly includes door-to-door services such as housekeeping, healthcare, rehabilitation, and spiritual support. The second component is community-based elderly care, which provides local elderly day care services as well as home-based care services. The third component is residential elderly care provided by nursing homes, which mainly target incapacitated and nearly incapacitated elderly patients with services such as basic life care, rehabilitation, and emergency rescue. Over the past 6 years, CPPCC members have identified several ongoing challenges related to elderly care and suggested corresponding solutions for the development of an elderly care system in China. Table 5.3 presents a list of selected CPPCC proposals related to promoting elderly care fairness.

5.4.1 Key Challenges to Elderly Care Fairness

Several key challenges have been highlighted frequently in CPPCC proposals regarding the development of a society-based elderly care system. It is worth noting that the challenges to elderly care fairness discussed in this section relate more to underdevelopment of the elderly care system, which is incompatible with China's rapid economic development.

First, the supporting environment for developing a socialized elderly care system has not been well-established yet. Early on, CPPCC members raised issues regarding the lack of a coordinated national plan (Wei 2011; Liu 2011b). After a national

Table 5.3 Selected CPPCC proposals on promoting elderly care fairness

CPPCC proposal	Types of elderly care
All-China Federation of Industry and Commerce (2012)	Socialized elderly care service
An (2013a)	Home/community-based elderly care
An (2013b)	Socialized elderly care service
China Association for Promoting Democracy (2013b)	Community-based elderly care
China Democratic National Construction Association (2012)	Elderly care in general
China Zhi Gong Party (2013a)	Socialized elderly care service
China Zhi Gong Party (2015)	Elderly care system in general
Chinese Democratic League (2015)	Socialized elderly care service
Ding (2011)	Rural elderly care
Li (2013)	Elderly care in general
Li (2011)	Short of elderly care organizations
Liu (2011a)	Short of elderly care organizations
Liu (2011b)	Socialized elderly care service
Mao (2013)	Home-based elderly care
Revolutionary Committee of the Chinese Kuomintang (2011a)	Community-based elderly care
Revolutionary Committee of the Chinese Kuomintang (2013)	Elderly care in general
Song (2011)	Home-based elderly care services
Wei (2011)	Elderly care in general
Wen (2013)	Rural elderly care
Wu (2012)	Elderly care in general
Xu et al. (2013)	Elderly care in general
Ye (2012)	Home-based elderly care services

plan was released in late 2011, CPPCC members noticed that the supporting environment and related implementation policies were not sufficiently developed to promote the elderly care system. For example, the China Association for Promoting Democracy (2013b) highlighted that non-profit organizations still encounter registration restrictions; thus, they are unmotivated to provide community-based services within the elderly care system. Moreover, An (2013b) mentioned that although governmental policies indicate that non-profit elderly care organizations can benefit from national subsidies, private organizations have difficulties obtaining access to the same benefits as public organizations, particularly with regard to land use permits and infrastructure construction. Without the appropriate supporting environment, the socialized elderly care system in China is still at a very early stage and systematic industrialization is a long way off (China Zhi Gong Party 2015; Wei 2011; Mao 2013; Li 2011). Furthermore, awareness of elderly care services and the environment required for their development are severely underdeveloped in rural China. Currently, there is no clear plan for rural elderly care services (Revolutionary Committee of the Chinese Kuomintang 2013; Xu et al. 2013) and elderly care resources are quite scarce in rural areas (China Zhi Gong Party 2015).

Insufficient investment is another frequently mentioned issue affecting China's elderly care system, the direct result of which is elderly care resource scarcity. The *National Elderly Care Development Plan (2011–2015)* suggests that resources for developing the elderly care system should come from multiple channels, with enterprises and non-profit organizations contributing the most by constructing and running elderly care facilities and governments providing basic public services (The State Council of the People's Republic of China 2011). While The All-China Federation of Industry and Commerce (2012) acknowledged that governmental investments in the elderly care system yield limited returns, the elderly care system has not yet successfully attracted sufficient social investments. For example, the China Association for Promoting Democracy (2013b) indicated that funding for community-based elderly care services mainly comes from district or even lower level governmental bodies, as well as contributions from social lotteries and donations. The China Zhi Gong Party (2015) further highlighted that government subsidies remain an important source of financing for the development of elderly care organizations, and more importantly, social funds have limited incentive to invest in the elderly care system. Given increasing operating costs, many existing elderly care organizations, particularly private institutions, continue to operate with deficits (Ye 2012; China Zhi Gong Party 2013a) and they cannot even afford to renovate facilities to meet seniors' current living requirements (An 2013b), let alone expand their service capabilities.

The third challenge of the elderly care system pertains to low levels of service capability and service quality. Elderly care organizations and nursing homes are relatively small and typically service elderly people with different needs (e.g., healthy and incapacitated residents) together, making it difficult to provide high quality elderly care services (China Zhi Gong Party 2015; An 2013b). With regard to community-based elderly care, appropriate facilities and spaces for elderly care services still are not widely available (Liu 2011b; All-China Federation of Industry and Commerce 2012). Where they are available, service functions are not yet fully developed; typical community-based elderly care services are limited to meal service, medical clinics, and gaming rooms (China Zhi Gong Party 2013a; China Association for Promoting Democracy 2013b). A major cause of low service quality is the current shortage of professional elderly care service staff. Most elderly care service staff, particularly those in private nursing homes, are migrant workers or previously laid-off enterprise workers who did not receive formal training prior to starting their jobs (Ye 2012; China Association for Promoting Democracy 2013b; An 2013b). Their services focus on basic housekeeping, because they do not have the knowledge and capabilities to provide professional elderly care services (China Zhi Gong Party 2013a, 2015).

5.4.2 Proposed Solutions to Increase Elderly Care Fairness

CPPCC members have proposed many solutions to address challenges associated with elderly care in China. Their proposals fall into three main categories and are discussed in detail in this subsection.

5.4.2.1 Plan the Elderly Care System Along with Socio-economic Development

Given the increasing social challenges associated with an aging population, many have suggested that plans for the elderly care system should be included in the national socio-economic plan (China Democratic National Construction Association 2012; Li 2011; Liu 2011b) in order to make developing the elderly care system a key agenda item for various levels of government. Without a macro-level plan, other initiatives such as attracting investment and training service staff cannot be implemented in a coordinated way. Based on the macro-level plan, various levels of government could develop execution plans with achievement objectives and key milestones (Wu 2012). Xu et al. (2013) also recommended including objectives associated with developing the elderly care system into the performance indicators of local governments.

Some other CPPCC proposals also put forward specific ideas aimed at improving planning for the elderly care system. For example, several members suggested linking a plan for elderly care system development with urban and community planning, since urban and community plans directly determine the location, availability, and size of elderly care facilities as well as the compatibility of elderly care spaces with the needs and lifestyles of elderly users (An 2013a; Revolutionary Committee of the Chinese Kuomintang 2013; Mao 2013).

5.4.2.2 Attract Social Investment and Diversify Elderly Care Services

Although a couple of CPPCC proposals still recommend increasing direct governmental investments in the elderly care system (Li 2011; Liu 2011a), more proposals recommend developing multiple financing channels for the elderly care system, with a particular emphasis on encouraging private or social capital investments (China Association for Promoting Democracy 2013b; Li 2011, 2013).

Wu (2012) proposed that the government should strategically deregulate the involvement of private organizations in the elderly care system, by allowing businesses that provide elderly care services to earn a profit. Furthermore, both the All-China Federation of Industry and Commerce (2012) and Wei (2011) suggested that there should be fair, standardized, and transparent policies for potential investments in the elderly care system. Specifically, non-state-owned organizations should be provided with more policy-based incentives (i.e., related to land use, space rental, and tax structure), to encourage social capital investment in the elderly care system (All-China Federation of Industry and Commerce 2012; An 2013b; China Zhi Gong Party 2013a, 2015).

In addition, elderly care providers should explore innovative operating models, such as allowing stated-owned nursing homes to be run by private organizations, elderly care services to be purchased by the government, and elderly care or nursing homes to be established through partnerships or joint ventures (Chinese Democratic League 2015; Li 2013; Wei 2011). Also, integration between elderly care and medical services can be promoted. Better healthcare services may be able to be provided to

those living in elderly care centers, and more spaces may be able to be created for the elderly care system by converting underutilized hospitals or medical institutions into elderly care centers (China Zhi Gong Party 2015; Chinese Democratic League 2015).

Diversified forms of elderly care services should also be made available in the elderly care system (China Zhi Gong Party 2013a). For example, Mao (2013) suggested three ways to diversify home-based elderly care services: involve volunteers or younger elderly people to help older elderly people in the same community, invite elderly people with same interests to live together, and fully utilize community-based day care centers. With regard to residential elderly care organizations, regional plans should include the development of centers, each with different levels of elderly care (China Democratic National Construction Association 2012), and their services should also be differentiated based on health conditions, affordability, and service requirements (China Zhi Gong Party 2015).

5.4.2.3 Enhance the Quality of Elderly Care

To address concerns about the service quality of elderly care, CPPCC members have suggested several approaches. First, service and facility standards should be established and the standards should cover market entry, service quality, service charges, facility requirements, etc. (All-China Federation of Industry and Commerce 2012; China Association for Promoting Democracy 2013b). Second, an industry association should be formed within the elderly care system that could not only enforce self-regulation, but also facilitate exchange and cooperation among elderly care providers (Li 2013; Liu 2011a). Third, governments have a responsibility to regulate service quality within the elderly care system by properly implementing performance-based mechanisms. For example, good service providers can be rewarded with government subsidies to encourage them to maintain and further enhance service quality, while those providers with many complaints can be removed from the list of recommended service suppliers (China Zhi Gong Party 2015). Last but not the least, service staff training is an important way to enhance elderly care service quality (China Zhi Gong Party 2013a). The All-China Federation of Industry and Commerce (2012) suggested implementing national professional qualifications for elderly care service. To become qualified, service staff should participate in a wide range of professional training activities covering basic elderly care skills, psychological patterns of the elderly, communication skills with elderly as well as ethical education (Mao 2013).

5.5 Summary

Fair development was recently proposed by Ding (2014) as a better human development principle than sustainable development. Increasingly, academic researchers and policymakers are discussing ways to promote social fairness in China. This chapter contributes to these discussions by providing practical evidence from a policy advisory committee concerning the promotion of social fairness in China.

Education, healthcare, and elderly care are three areas that are currently receiving intense public attention in China. I have presented a descriptive overview of the challenges associated with each of these three areas as well as proposed policies to promote fairness in the Chinese people's lives. Similar to Zhang and Kanbur (2005) findings, this investigation reveals that spatial inequality (i.e., urban–rural disparity and regional differences) continues to be the most significant challenge to social fairness in education, healthcare, and elderly care. Urban–rural disparity is largely caused by the prioritization of socio-economic development in urban areas at the expense of development in rural areas. The other spatial issue is regional differences, largely due to significant economic development gaps between different regions in China, which directly impacts the quantity and quality of public services (e.g., education and healthcare) provided in each area. Another commonly mentioned challenge is the shortage of professional staff, including teachers in rural and less developed regions, capable medical staff at local medical clinics, and professional elderly care service staff.

In addition to these general challenges that apply to all three areas, each area has unique challenges that must be overcome. In the education context, private schools funded by social capital do not have the same legal identity as their state-run counterparts, and thus do not have fair access to policy benefits. With regard to healthcare, structural inconsistencies exist between different medical insurance schemes and different levels of healthcare service provision. For elderly care, the entire system must shift from a family-based to a society-based service system, and the elderly care system remains underdeveloped, even in urban areas.

In order to address these major challenges, a number of policies have been proposed by CPPCC members during annual plenary sessions. Overall, many members have proposed promoting investment fairness in all three areas, either by increasing governmental education investments in rural or poor regions, or by providing policy incentives to attract social investment and diversify sources of funding. Furthermore, human resources are thought to be a key factor in promoting social fairness. Thus, another common suggestion focuses on prioritizing the development of professional service staff, including teachers in rural or less developed regions, medical service staff at the local level, and elderly care staff in general, in order to ensure the fair provision of these public services in terms of both quantity and quality. In addition, advance planning is important in order to ensure social fairness. The healthcare system should be better planned to unify different medical insurance schemes and integrate different levels of medical service provision; it is even more critical to carefully plan the implementation of a macro-level elderly care system in a coordinated way. Last but not the least, members have proposed improving the legal system and strengthening regulation as ways to promote social fairness.

Overall, public awareness about social fairness is growing in China, particularly in areas that affect people's everyday lives. Among the three different types of fairness defined by Ding (2014), the concerns of members of the advisory body and policymakers are focused mainly on issues of distributive fairness. Procedural fairness has only been highlighted on a couple of occasions in discussions about the transparency of resource allocation and policy execution, and restorative fairness has not yet been introduced in policy proposals in a meaningful way. While significant

progress has been made, the journey ahead is long in China—not only for policy advisors and policymakers, but for all members of society—as awareness about social fairness continues to develop and the Chinese people strive to make fair development a reality.

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Chapter 6
An Evaluation of Fairness in China's Current Social Welfare System

Jiangming Ji

Abstract In this chapter, I review and reflect on the role of the social welfare system in the context of economic development. I begin by providing an overview of the development and reform of the social welfare system in various regions around the globe. Then, I focus on the development and reform of the social welfare system in the context of economic development in China. Specifically, I evaluate the fairness of the current social welfare development of China in four aspects, including the social security system development in rural areas, the coverage for migrant workers and marginalized groups, income redistribution mechanisms, and education and employment discrimination. Finally, I propose basic principles and safeguards that can ensure the sustainable development of the system from a social fairness perspective. The four principles are combining fairness and efficiency, ensuring the sustainability, prioritizing employment, and being led by the government and assisted by society, and several safeguards include increasing investments to education, establishing a comprehensive tax regulation system, eliminating disparate treatment of different social groups, and providing equal coverage of social security system in both urban and rural areas.

6.1 Development of the Social Welfare System Around the World

Ideas and practices related to human social welfare emerged in ancient times. In order to ease social conflicts, the rulers of ancient Egypt, Mesopotamia, and ancient Greece engaged in social welfare practices to help the poor and weak. During the Xia, Shang, and Zhou Dynasties, officials provided funding for starvation relief. With industrialization and the development of the modern market economy, problems of massive migration, unemployment and poverty emerged, and industrialized nations had no choice but to take action in order to maintain social stability. Thus, social welfare systems in the modern sense came into being.

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In the United Kingdom, the first *Pool Law*, the earliest legislation to guarantee basic living standards, was issued in 1601; for the first time, poverty relief was officially endorsed by state-level legislation. In 1843, the United Kingdom approved *The Pool Law Amendment Act*. Germany issued the *Imperial Edict* to set up a sound social security system in November 1881, provided outlines for its development, and established a medical insurance system, pensions for the elderly and unemployment relief mechanisms. Afterwards, Germany passed the *Sickness Insurance Act*, the *Employment Injury Insurance Act*, and the *Old-Age, Disabled, and Death Insurance Act*. In 1911, the above three sets of regulations were combined into the *Social Insurance Code*, an unprecedented piece of legislation, and realized the transformation of social welfare policies from simply helping the poor to emphasizing labor security (Mu 2007).

After World War II, Western governments viewed social welfare systems as long-term strategic measures to stabilize their economies and society. In July 1948, the United Kingdom announced it had built the first "cradle-to-grave" welfare system. Subsequently, developed countries in Western and Northern Europe, North America, Oceania, and Asia declared one after another that they would adopt general welfare policies, which contributed to some extent to the development of the global economy and society. Since the 1970s, social welfare expenditures have skyrocketed in systems funded by subsidies and taxes in order to provide extensive benefits and protection. As a result, serious problems have emerged, including a weakening of the power of the market economy; severe financial burdens in the West; a failure to mitigate income inequality,[1] and the unequal participant rights and obligations.

6.2 Social Welfare Reform Around the World

Given dramatic economic development and changes to the social structure, nations all over the world have reformed their social welfare systems. In the subsections that follow, I briefly describe reform efforts in various regions around the globe.

6.2.1 Reform in Western Countries

Since the 1980s, the aging population and economic globalization have created dual pressure on welfare systems in Western countries. Given widespread domestic fiscal burdens and relatively high unemployment rates, Western countries tended to gravitate toward liberalization- and privatization-oriented solutions, and initiated parametric and structural reforms to reduce welfare costs and lower benefit standards. Thatcherism in the United Kingdom and Reaganomics in the United States were two engines that drove welfare reform around the world.

[1] Nations encountered many obstacles during the implementation of social welfare programs (e.g., difficulty in collecting social security insurance taxes).

6.2.1.1 Nordic Countries: Employment Promotion

The unemployment rate in Nordic countries has remained high for quite a long time. In the 1990s, Sweden suffered its most severe economic recession since the 1930s; from 1992 to 1996, the unemployment rate of Swedish young people aged 18–24 years was close to 20%. In Denmark, the proportion of the population relying on "income maintenance" increased sharply, creating unprecedented challenges for state welfare institutions. Given the strong relationship between the unemployment rate and unemployment support payments, Nordic countries focused reforms on decreasing unemployment by developing active labor market policies and welfare-to-work programs, and "replacing negative with positive payment measures," and "swapping rights for obligations" (Whitaker and Federico 2003: 41). Since the 1990s, the core content and countermeasures of Denmark's unemployment insurance system reform have been geared toward reducing the amount and duration of benefits and restricting eligibility criteria. Post-reformation, the Nordic welfare state not only secured a basic level of social well-being for citizens, but also improved their economic well-being by using social welfare to motivate economic development and corporate competition.

6.2.1.2 Western European Countries: Financial Sustainability of Social Security

Historically, old-age pension programs have constituted the largest and most complex component of social welfare institutions in Western European countries. Because they are based on deferred payment, pension programs are susceptible to the effects of an aging population, making them the most difficult aspect of social welfare to reform. The traditional pay-as-you-go system developed over a period of 100 years is now facing its most serious challenges since the 1970s. Nearly all developed countries face the awkward predicament of program deficits, and the heavier the burden on governments, the louder the calls for reform. The goal was to rearrange some specific policies without modifying the existing format, in the hope of raising revenues, reducing spending and easing the financial crisis. This can generally be accomplished in several ways: raise the retirement age for pension eligibility; prolong the working and contributing years to qualify for a full pension; increase contribution rates; and fine-tune the calculation method and reduce the future benefit.

6.2.1.3 The United States

The U.S. Congress approved the *Social Security Act* in 1935, and gradually expanded coverage over the next half-century, laying the foundation for a unified social welfare system in the United States. The US unemployment rate soared after the 1973 oil crisis, and stood at over 7% when Reagan took office in 1981. Under the Reagan administration, the US government prioritized extensive tax reductions; unlike European countries, the United States used budget deficits to tackle unemployment.

Social welfare reform began with "the Reagan Revolution," based on tax cuts that decreased government revenues by an amount equal to 4 % of GDP, while the budget deficit quadrupled by the same amount (over USD 200 billion). Despite these massive deficits, the Reagan Revolution was deemed a success as the economy recovered in 1983–1984 and the unemployment rate fell to late-1970s levels.

The second reform, implemented in 1996 under the Clinton administration, overhauled the nation's main welfare program, Aid to Families with Dependent Children (AFDC). After a massive investigation, Congress passed the *Personal Responsibility and Working Opportunity Reconciliation Act*, which fundamentally changed the primary system and formula for social relief, and replaced AFDC with Temporary Assistance for Needy Families.

George W. Bush attempted a third reform effort from 2001 to 2005; he vigorously promoted employment training reform and intended to reform the social security system, or the Old-Age, Survivor, and Disability Insurance (OASDI) program. He encountered a storm of opposition from many sectors of society, and his reform efforts eventually failed.

6.2.1.4 Canada

After the United Kingdom issued the Beveridge Report in 1942, Canada followed suit and produced the Marsh Report (Beveridge 2015). After the 1973 oil crisis, the social welfare system deteriorated. In the mid-1970s, a country that had once enjoyed full employment became plagued by a high unemployment rate, and welfare expenditures skyrocketed. In 1984, the new Canadian government proposed social welfare reform based on diverting scarce resources to where they were most needed. The reform proposal reflected a shift from universal to selective coverage. The new government wanted to cut welfare spending and eliminate universal coverage in order to further reduce the deficit. However, reform efforts had vanished into thin air by 1986. Compared with the United States, the welfare system of Canada was adjusted much less, reflecting a stable-transitional style.

6.2.2 Reform in Eastern European Countries in Transition

Since World War II, Eastern European countries have been in a constant state of political and economic transition. Due to continuous economic declines, inflation, unemployment, and a rapidly aging population, governments could no longer afford to provide social insurance funding. These countries therefore had to build independently funded social welfare systems, and eliminate "indiscriminate egalitarianism." Between 1995 and 2000, many Eastern European countries, including Latvia, Poland, Hungary, and Bulgaria adopted the "three-pillar" model[2] recommended by the World Bank when reforming their old-age pension systems.

[2] In 1994, World Bank proposed a "three-pillar" old-age pension system with three parts, including compulsory public pension, mandatory individual account funds, and voluntary occupational pension.

6.2.3 Reform in Latin American Countries

Most of the 33 countries in Latin America adopted the typical European model of social welfare; therefore, they have struggled under a heavy financial burden for decades. However, Chile implemented reforms that would make it a world pioneer in the privatization of social welfare systems. "The Chile model" turned out to be an important pillar of Latin American reform.

Chile's major social insurance reform took the form of the privatization of old-age pension funds. In the early 1980s, the Coup Junta amended Chile's Constitution to restrict the social welfare function of the government and transfer it to the private sector. Since 1981, Chileans have participated in a new type of old-age pension system whereby a private pension fund management company manages funds in individual accounts, including basic personal accounts (to which 10% of taxable income is contributed) and supplementary personal accounts to augment basic pension savings. Individuals are fully responsible for paying fund management premiums and employers are not required to contribute to pension funds. These reforms reduced governmental burden to a modest level, and significantly increased the operational benefit of pension funds. Over ten countries, including Peru, Colombia, Argentina, Uruguay, and Mexico followed suit, reflecting the success of what is now called the "privatization model of Latin America."

6.2.4 Reform in East Asia

6.2.4.1 Japan

During "the lost decade" of the 1990s, Japan's economy became sluggish, unemployment rates skyrocketed, and due to rapid growth, the initial institutional merit of social welfare languished in Japan. "The lost decade" witnessed the fastest-ever growth in welfare spending, even faster than in Europe and North America. Since the 1990s, Japan has implemented welfare reforms centered on reducing payments to beneficiaries and raising the contribution rate into the program. It also increased the role of the private market and delegated more responsibility and power to local governments.

6.2.4.2 Korea, Singapore, Taiwan, and Hong Kong

Social welfare in Korea has two main components: a medical insurance system and a pension system. Although the *Medical Insurance Act* was passed in 1963, it was not implemented until 1977 (and then only partially) due to a lack of support, financial capacity, and development; it was not fully implemented until 1989. When it implemented the national pension system in 1988, the Korean government had the goal of maintaining a low contribution rate and a high benefit payment rate, but it turned out to be a financial burden as deficit problems continued. Therefore, Korea had to implement pension reforms in 1998 and 2007 to adjust the contribution rate and benefit level.

The Singapore Central Provident Fund, Singapore's signature social welfare reform, was established in 1995 and has become an integrated, multifunctional social insurance system with pension, housing and medical benefits representing a half-century of evolution. Moreover, through financial support it established a series of social welfare programs to improve the living status of low-income people through housing subsidies, financial support, education grants, medical subsidies, employment services, childcare subsidies, and transportation allowances.

The social welfare system in Taiwan was built during the 1950s with initial coverage for military personnel, civil servants, teachers, and other specific groups. Until the 1990s, the insurance system continued to be divided based on four groups of laborers, military personnel, civil servants, and faculties in private schools, but the trend toward unifying the system is irreversible. National Health Insurance was fully implemented in 1995, with coverage for all Taiwanese citizens. Participation is compulsory for all citizens, who pay relatively low premiums. In addition, Taiwan has established systems for social relief, social welfare, employment consultancy, and vocational training.

The social welfare system in Hong Kong comprises four parts: (a) social insurance, which includes various social welfare programs (e.g., income security) funded through government taxation; (b) voluntary occupational welfare programs provided by employers; (c) various welfare facilities and services provided by public (government) departments and civic groups; and (d) a basic old-age pension system established in 2000 (Chetty and Looney 2006).

6.3 Economic and Social Development in China

Over the last 30-plus years since China implemented the reform and opened its markets to the West, the economy has grown rapidly and dramatic changes have transformed the institutional environment as well as the economic structure. In terms of GDP, the proportion attributed to primary industry consecutively decreased, from 28 % in 1978 to 11.3 % in 2008 while the proportion attributed to tertiary industry increased steadily from 23.9 to 40.1 % over the same period. The employment structure transformed in accordance with the industrial structure: from 1978 to 2008, the share of employment in primary industries dropped by nearly 30 %, while employment in secondary and tertiary industries both increased, with a 20 % increase in tertiary industries. However, compared with the industrial structure of GDP, more change in the employment structure was needed because the share of employment in primary industry continued to outweigh its share of GDP. Adjustments to the industrial employment structure would continue with expectations for a drop in both the absolute number and relative share of employees.

However, a widening income gap reflected the growing polarization of Chinese society during the same period: between 1979 and 2008, the Gini coefficient increased from 0.24 to 0.39 in rural areas, while in urban areas, it skyrocketed from 0.16 to 0.37. With regard to the nationwide income gap, the Gini coefficient was about 0.3 in 1978, increased to about 0.45 in 2002 and reached 0.48 in 2008 (Li and Wang 2010). When China first implemented the reform and opened up its markets, it adopted an

egalitarian distribution system under a planned economy; the Gini coefficient was very low, but the small income gap did not justify the rationalization of the income distribution system. Economic reform was an important initiative in order to change the egalitarian distribution system, and it was inevitable to have the income gap as the result of reform. However, it is widely recognized that the current growing income gap has led to the emergence of a series of social problems.

Additionally, societal development has lagged behind economic development. Although great achievements have been made in eliminating absolute poverty in China, poverty in urban and rural areas has not been completely resolved. According to international poverty standards, the number of Chinese people living in poverty remains considerable (Liu 2006b). In 2005, the World Bank estimated that there were 80 million people living below the dollar-a-day poverty threshold in China's rural areas, four times the number released in official data. Adopting the 2-dollars-a-day standard adopted by many middle-income countries, the number of people living in poverty could be as high as 200 million in rural areas and 30 million in urban areas. Second, China has the largest number of disabled people in the world. There were 82.96 million disabled people in China in 2006, comprising 6.34 % of the country's population. Although the living standards and social welfare of disabled people have improved significantly, members of this specific social group require more physical and psychological care and help, making it difficult to meet their needs. Third, the population of rural migrant workers and temporary employees is increasing. Although these workers benefit from the economic growth in cities, they are largely excluded from city public services due to rampant urban–rural discrimination. Finally, although the incomes for rural residents have increased significantly each year, they still lack access to adequate social services beyond free compulsory primary education. Most rural residents are provided with low-level rural cooperative medical care, receive the minimum substance allowance, and lack of basic social insurance. The relative delay in rural social development is responsible for these public service inadequacies; thus, the social development demands of rural residents are far from being met.

6.4 Development and Reform of the Social Welfare System in China

China's social welfare system has a nearly 70-year history, which can be divided into three major phases: the 1950s to the mid-1990s, the mid-1990s to 2003, and 2003 to the present.

6.4.1 Stage 1: 1950s to the Mid-1990s

The first stage of the social welfare system began with the implementation of labor insurance regulations in the early 1950s. In the planned economy system, formal workers (i.e., state employees) received comprehensive, low-level services, including

retirement pensions, medical expense reimbursement, inexpensive or free childcare and kindergarten, low-rent housing, staff winter heating subsidies, staff visit subsidies, transportation allowances, access to various cultural entertainment facilities, and even nursing home care. The state also provided affordable, low-level medical care and education systems, and special welfare services for the elderly, young, sick, disabled, and other special groups (e.g., social welfare institutions, nursing homes, orphanages). In contrast, social welfare services were quite limited for informal workers (i.e., non-state employees) and farmers. Families generally supported each other in rural areas, and villagers took collective responsibility for childless old people to enjoyed "five guarantees.[3]"

In order to guarantee a basic living standard, the government implemented a low-cost, hidden subsidy and rationing policy to ensure that each urban household could obtain certain necessities. Given the social and economic background at that time, these welfare systems played an important role in maintaining social stability. However, it was not flawless, as the dual problems of discrimination and egalitarianism existed. On the one hand, because the system limited coverage to formal employees, a large number of informal employees (particularly farmers) were unfairly deprived of these benefits. On the other hand, "big-pot" egalitarianism led to a lack of motivation among the people who received benefits and created the problem of individual over-reliance on the government. More importantly, this mechanism was not sustainable as the population multiplied because it was a high-cost, low-coverage system.

6.4.2 Stage 2: Mid-1990s to 2003

The second stage lasted from the mid-1990s to around 2003. Social welfare reform in this period was characterized by exploration, with a focus on "one center, two guarantees and three security lines." "One center" referred to building reemployment centers for laid-off workers and helping them with basic living expenses and social insurance fees, and providing reemployment training and position recommendations. The "two guarantees" referred to the promise that basic living subsidies and retirement pensions would be paid on time and in full. The "three security lines" referred to basic living subsidies, unemployment benefits, and subsistence allowances for urban residents.

Beginning in 1998, the pace of social welfare reform accelerated to meet the demand generated by the market economy. The government established a social insurance system that was "independent from enterprises and public institutions, with diversification of funding resources, standardization of insurance systems and socialization of management and service" (Xiong 2001); these became the major objectives of national and social development and related policies. After several

[3] "Five guarantees" refer to the childless old people are guaranteed food, clothing, medical care, housing, and burial expenses.

years of experimentation, the framework for the social welfare system began to take shape, with major components of insurance for the elderly, medical insurance, unemployment insurance, labor injury insurance, and maternity insurance, as well as a system of subsistence allowances for residents.

The transition of welfare responsibility from enterprises to society is reflected in three major changes: the change from business insurance to social insurance; the shift in responsibility from enterprises alone to the state, companies, and individuals; and the transition from enterprise welfare programs for retirees to the socialization of elderly care management and services. Many new problems also emerged during this transition, including difficulties associated with access to education (e.g., high tuition), medical treatment, and housing (due to skyrocketing real estate prices in urban areas). While pursuing the objective of economic development, societal development was neglected. This is reflected in the reforms of the period, which overemphasized the establishment of a traditional insurance system, while ignoring the consequences of inadequate insurance in financially underdeveloped areas and among the poor in society.

6.4.3 Stage 3: 2003 to Present

The third stage began in 2003. The Chinese government's "people-centered" scientific development proposal ushered in a new era in which a social welfare system would be constructed in order to comprehensively improve the people's well-being.

In 2003, the State Council implemented a new rural cooperative medical care system to mitigate high costs and difficulties encountered by rural residents in accessing medical care. Public finance investments provided 4/5 of the funding for the rural medical insurance plan. In 2007, the *Guiding Opinions of the State Council about Pilots of Basic Medical Insurance for Urban Residents* included plans for a 3-year nationwide program extending medical coverage to unemployed urban residents. At that time, relevant departments of the State Council jointly issued guiding opinions on the implementation of rural and urban medical assistance, thereby systematically covering all residents from urban and rural areas.

A pilot program aimed at improving the urban social security system extended to 13 provinces in 2007, and by 2008, 17 provinces had created a unified planning system for a provincial-level old-age pension system. Social insurance for migrant workers was gradually rolled out, a pension system for elderly rural residents was implemented in some areas, and a subsidy system for elderly residents with no income was launched in Beijing, Shanghai, and other cities. With the implementation of the Subsistence Allowances System for Rural Residents by the State Council, a minimum living standard was finally secured in all rural areas. In January 2009, a pilot program was established for the reform of the old-age pension system in public institutions in five provinces and cities.

In the education sector, the State Council made decisions aimed at increasing participation in compulsory education in the Midwest, and implemented the "two exemptions and one subsidy" policy that gave poor children free tuition, free textbooks, and subsidies for boarding fees. This policy ensured compulsory education for all students and was fully funded by public financing.

In 2007, in the *Suggestions of the State Council on Resolving Difficulties on Urban Low-income Families in Housing*, the State Council proposed to build a low-rent housing system, improve and standardize an economically affordable housing system, gradually enhance housing conditions for financially constrained groups, and construct a multi-level housing system. At the end of 2007, the Ministry of Construction issued the *Measures for the Guarantee of Low-rent Housing* and the Ministry of Finance unveiled the *Measures for Special Funds for Low-rent Housing Guarantees*, which established channels and sources of funding for stable, affordable housing.

Over the past 70 years, the Chinese social welfare system was created, evolved in response to dramatic economic changes, and now has entered a new stage of reform and development. Most notably, China's social welfare programs now provide benefits to all citizens (Mu 2001); coverage has been extended from formal (state) employees to informal employees and even to the unemployed.

6.5 An Evaluation of the Fairness of China's Current Social Welfare System

As the market economy has strengthened and reformation of state-owned enterprises has deepened, China's social welfare system has benefitted from innovation at the institutional and system levels. However, despite great progress, social justice problems have emerged.

6.5.1 System Development Lagged Behind in Rural Areas

The construction of the social security system has severely lagged behind in rural areas. Initially, China built separate social security systems in cities and rural areas, which led to huge disparities. As it took shape, the social welfare system mainly covered cities, and urban residents received most of the benefits. Thus, the urban social welfare system is well established in China and includes old-age pensions, medical insurance, labor injury insurance, maternity insurance, social relief, and subsistence allowances. These benefits provide urban residents not only with stable institutional protection, but also with a higher level of social security than rural residents. In contrast, the construction of the social welfare system in rural areas continues to lag far behind cities; until quite recently, old-age pensions had not been

fully implemented, and pilot medical and maternity insurance programs had been implemented only in a few locations (Yang 2004). This urban-rural division violated the justice principle underlying the social welfare system. Access to benefits was determined largely by where a person had been born. This system not only failed to support social justice, but also aggravated the urban–rural gap, in direct conflict with the intentions of the social welfare system.

6.5.2 *Inadequate Coverage for Migrant Workers and Marginalized Groups*

The social security system has not been well-designed for migrant workers and other marginalized groups. Migrant workers, a product of the socialist market economy, have contributed greatly to China's economic development and urban construction. However, under the current dual economic structure, migrant workers from rural areas have no official status in cities; since they are not completely farmers or workers, they have been marginalized in the social welfare system. The *Regulations of Subsistence Allowance for Urban Residents* stipulate that urban residents in nonagricultural households with per capita incomes lower than the local minimum living standard are eligible for basic financial help from the local government; this effectively excludes migrant workers from the system. Yet in reality, migrant workers have become an integral part of cities with the deepening of market-oriented reforms. It is a great injustice that many farmers have uprooted themselves and moved to the cities, and are primarily engaged in low-reward but high-risk work, while being deprived of basic social security. Moreover, migrant workers are more likely to be exposed to risks such as unemployment, labor injuries, and medical incidents than urban residents, yet are less able to handle such hardships and thus need more help from the social welfare system. There is thus a desperate need to construct a welfare system based on social equity.

6.5.3 *Weak, Ill-Functioning Income Redistribution Mechanisms*

Income distribution adjustments have been weak, and the redistribution mechanisms do not function well. One important function of a social welfare system is to narrow the gap between the rich and poor through income distribution, and address social injustice to promote economic development. However, in practice, regulations associated with the current social welfare system are weak and income redistribution mechanisms are ill-functioning, yielding only marginal adjustments (Yang and Hou 2009). The present social welfare system has not only failed in its regulatory role of redistribution, but even worse, has enlarged the gap between the rich and

poor (Liu 2006a). These failures even extend to the social welfare system for urban residents, which covers only governmental administrations and state-owned institutions, while some self-employed, private, and foreign-funded enterprises are marginalized, and in some cases explicitly excluded. Social welfare benefits vary widely among various sectors and ownership structures; typically, employees at more productive enterprises and institutions receive higher salaries and social welfare benefits. Currently, employees in monopolized sectors with big brands often enjoy much higher salaries, which combined with social welfare benefits, create a more prominent gap with employees in other sectors.

6.5.4 Education and Employment Discrimination

Education and employment discrimination exists in labor policies and in the social welfare system. While it is true that the modern theory of human capital is based on creating an economic surplus, according to a survey conducted by development economists (Li 1995), human capital is the tool for understanding income distribution in developing countries; moreover, education, training, and other human resource investments are main determinants of personal wealth and income distribution. In the medium- and long term, people with higher levels of education are more likely to earn higher salaries, marry latter, have fewer children, and spend more on their children's education and health. In the short term, better education is associated with better care for children and enables women to return to the labor market more quickly, which helps poor families increase their incomes (Liu 2003). Second, the discrimination in present labor policies and in the social welfare system is reflected in terms of disparate treatment outside of the system, less coverage, and a lack of efficiency in reform (Zhu and Luo 2008). The minimum wage was considered to be instrumental for income redistribution and income security for the poorest workers, but due to high standards, it did not function well.

6.6 Principles for the Sustainable Development of the Social Welfare System

6.6.1 Combine Fairness and Efficiency, with an Emphasis on Fairness

The primary objective of the construction of a social welfare system is to ensure a minimum standard of living for all, reduce polarization in industrialization, and improve social justice and stability. It is important to share welfare benefits and eliminate inequities caused by discrimination based on household registration, gender, occupation, and social status. The system should provide education and other

opportunities to children from poor families, and put an end to the intergenerational cycle of poverty. While emphasizing the fairness of social welfare, attention should be paid to its efficiency in order to maintain developmental vigor and enable the social welfare system to effectively advance the sustainable development of economy in the long term (Castelló and Doménech 2002).

6.6.2 *Ensure the Sustainability of Social Welfare Development*

Since construction of China's social welfare system is just beginning, and all aspects of systems and mechanisms are not yet complete, ill-functioning systems must be improved and over the long term, trends related to urbanization and the aging population must be considered from a funding perspective in order to realize sustainable development. Implementation of programs that are wanted by the people should be accelerated, and a moderate level of benefits should be provided after careful consideration of economic and financial factors and the establishment of long-term mechanisms for sustainable development.

6.6.3 *Prioritize Employment*

Population and employment are basic problems that have plagued China's economic and social development for long time. Employment is the best way to avoid poverty and eliminate individual reliance on the government and provides the strongest form of social security. Therefore, it is rational to prioritize employment as one of the basic principles of social welfare policies. The government should fully expand available positions, encourage self-employment, and provide vocational training to young people of working age (especially migrant workers) to enhance their skills and entrepreneurship capabilities.

6.6.4 *Led by the Government and Assisted by Society*

The social welfare system is fundamentally initiated by the government, which is supposed to play a leading role in building the system, proactively promote legislation, increase revenues and provide more public services. The government also ensures the optimal performance of the market and the mobilization of social resources to collectively promote the construction of the social welfare system. Paid social insurance and free welfare programs contribute equally to creating the responsibility mechanism shared by government, institutions, and individuals.

6.7 Safeguards for the Sustainable Development of the Social Welfare System

Several safeguards also should be implemented to ensure the sustainable development of the social welfare system.

6.7.1 Increase Investments in Education to Promote Equity and the Development of Human Capital

Human capital is instrumental for improving socioeconomic status and income distribution. Obviously, people with more productive potential are able to compete for better positions, which contributes to the income gap. Since education level is a measure of a person's productive potential, the government should increase investments in basic education, which serves as a quasi-public good, and actively strive to enhance education quality throughout the population, giving full play to human capital as a mechanism for narrowing the income gap. Specifically, the government should: (a) increase investments in basic education in rural areas and Midwestern China; (b) establish strong financial assistance programs for education, including student loans, scholarships and stipends, and work-study options; and (c) strengthen vocational and reemployment training for laid-off workers.

6.7.2 Establish a Comprehensive Tax Regulation System

In addition to optimizing the structure of tax systems and utilizing the value added tax, consumption tax, business tax, and other taxes, the government should stipulate a higher tax rate for monopoly industries and products that generate high profits to alleviate profit disparities among different industries. Moreover, the government should impose a resources tax and urban land use tax on enterprises that benefit from objective natural conditions to adjust differential profits to a reasonable level. By imposing a corporate income tax, the government can eliminate the effects of policies, monopolies, and other factors to calibrate the distributable profits of industries or enterprises.

When optimizing the tax structure for individuals, it is unacceptable to use income tax as the sole mechanism to adjust income distribution. On the contrary, a tax regulation system should integrate multiple taxes covering the use of individual income. Personal income is used for consumption, investment, savings, and real estate activities, and eventually, is passed down in the form of inheritance. Imposing personal consumption taxes on specific items, property taxes, and inheritance taxes along with income taxes will create a complete system for regulating income distribution.

6.7.3 Eliminate Disparate Treatment of Different Social Groups

Since China implemented economic reform and opened up its markets, social fairness has deteriorated, despite the achievement of economic efficiency (Zhao 2005). The gaps between urban and rural areas, different regions, groups, and personal incomes have widened to an unprecedented extent, with the potential to expand even further. In the past, relevant departments were inclined focus primarily on adjusting the income gap, yet the consumption gap is actually the largest, followed by income disparity, and wealth polarity. Therefore, government should make consumption disparity its top gap adjustment priority.

The irrationality or incompleteness of the social welfare system in China has also led to counterproductive adjustments to benefits (Zhao 2005), which have resulted in unfair treatment of different industries, thereby broadening income divergence. Enterprises and institutions adopt two different operating mechanisms that create social welfare disparities. First, low-income individuals are denied social welfare benefits because they cannot afford to pay for coverage. Second, employees of non-state-owned enterprises in urban areas less likely to have access to social welfare benefits, while some workers in township enterprises and private companies are excluded entirely from the social welfare system. All of these problems reveal that the present social welfare system is deficient and poorly designed in China and has even given rise to conflicts and confrontation among beneficiary groups.

It is therefore necessary to consider the system holistically to ensure that the social welfare system is free of defects, security projects are seamlessly coordinated, and the rights and interests of all beneficiary groups are well balanced. Ratios taken or shared by all levels of government should be clearly stipulated, and then stabilized and standardized. By implementing a tax distribution system, the central government could gradually transfer some of social welfare expenditures to city-level governments and synthetically increase medical care reimbursements and subsistence allowances for rural areas and other weak social welfare programs, thereby enhancing overall public welfare service capacity among all levels of government.

6.7.4 Provide Equal Coverage for All

In recent years, the Chinese government has attached great importance to the construction of the social welfare system, gradually implementing an old-age pension system, medical care, support for unemployment, labor injuries and maternity, and subsistence allowances for urban residents, albeit with limited coverage. In order to ensure that everyone has access to social welfare benefits, a single comprehensive social welfare system for both urban and rural residents must be built. With a focus on social equity, public financial resources can gradually be distributed to all members of society in both urban and rural areas. Accomplishing this goal will require moderate

increases in public welfare spending, balancing the distribution of public goods and resources in different areas and industries among all societal members, and guaranteeing that people with different incomes have equal access to benefits. These efforts will ensure that all people in China enjoy their rights to food, education, medical care, and old-age pensions, as well as the fruits of social and economic development.

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Chapter 7
The Evaluation of Fair Wealth

Ming Ji and Min Ding

Wealth is a sophisticated thing in China, there is still a long way to go before it can be properly understood.

—Mr. Shum Chiu Hung, Times Property

To realize fair wealth, it is important to have role models, to have rules and institutions, but the most important thing is to have a cultivated ecosystem.

—Professor Siqing Peng, Guanghua School of Management, Peking University

An entrepreneur who is capable of sustainable growth must have a vision beyond just making money; social responsibility should be his higher pursuit.

—Lan Li, Development Research Center of the State Council

Abstract Although wealth itself is neutral, the creation and usage of wealth is very much entangled with various social values. With the introduction of the concept of *fair wealth*, we now have a completely new perspective on how wealth should be evaluated. In this chapter, we present a well-structured indicator system to assess fairness-related aspects of a company. The assessment includes transparency as a basic requirement and fairness level as an advanced requirement. Eventually, the result will be used to calibrate the wealth of the richest Chinese based on their shares in various companies so that their organizational management practices will be influenced in a fairer direction.

Due to the fact that the evaluation system is still under construction, this chapter can only reflect the current status and will be unavoidably different from the final system.

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7.1 Significance of the Evaluation of Fair Wealth

The history of so-called wealth can be traced back to very early periods of human social activity in both China and the Western world. Although it is now well accepted by the general public that wealth itself is neutral, disputes around the creation, distribution, and reinvestment of wealth remain very hot topics. This is especially true in China, where after 30 years of rapid economic development thanks to the reform and opening policy, the entire society is deeply entangled with wealth more than ever before. Unfortunately, due to a lack of academic and rational guidance, the Chinese people very often tend to have passionate yet paradoxical opinions regarding wealth. Chinese attitudes and behaviors related to wealth span a wide spectrum (e.g., money worship versus hatred of the rich, addiction to luxury brands versus consumption of fake goods, and making long-term value investments versus playing the casino-like stock market) all of which reveal the wealth-related troubles that China is currently facing. Despite significant efforts toward improvement, no significant progress has been made. The concepts of *fair development* (Ding 2014) and *fair wealth* (Ding 2015) have created a brand new perspective from which to tackle the situation.

Fair wealth is wealth created by commercial activities that are perceived to be fair to all entities involved on the supply and demand sides: humans, animals, and the environment in general (Ding 2015). It is the commercial application of fair development, and it binds the two very important concepts of fairness and wealth together. Fair wealth was the main theme of the Ideal China Forum held at Fudan University in 2015, and participants agreed that the concept opens up a truly inspiring new direction.

By introducing the fairness perspective, fair wealth provides a potential solution for the current difficulties. First, it changes the neutral characteristic of wealth by applying fairness to it. And by doing so, it can help redirect the pursuit of wealth from simply chasing *more* wealth toward chasing *fairer* wealth. Furthermore, due to the systematic structure as well as its simplicity, fair wealth is a highly feasible framework. As a system, fair wealth has very strong academic foundation and structure, which provides sufficient space and support for high level design and planning. As a concept, fair wealth is not only robust, but simple and straightforward, making it much easier for members of the general public to understand than other theories such as sustainable development or corporate social responsibility. Likewise, combining two hot topics of fairness and wealth further supports overall fairness among members of the general public and provides an excellent entry point for future promotion of the complete fair development framework.

7.2 The Evaluation of Fair Wealth

Given the name of the concept, it is clear that an evaluation system needs to consider two major aspects: fairness level and the amount of wealth. But before discussing these two aspects further, it is necessary to first define whose wealth is being evaluated. Wealth can be owned by entities at various levels, ranging from individuals to companies and even to human society. However, to maximize the pursuit of fair wealth and the awareness of fairness, the most appropriate choice at this moment is to target the richest members of society. Evaluating their companies can yield information that can be used to calibrate their wealth.

Measuring the amount of wealth is relatively straightforward. The exact amount of wealth is not the concern here. A well-known and accepted existing ranking would fully serve the purpose; even the numbers stated in such rankings are not precise. Rather, rankings are used as a reference point to reflect changes after the wealth is reevaluated from a fairness perspective.

The other aspect, the assessment of fairness level, is actually decided by the internal rationale of the relationship between fairness and wealth. It can be elaborated with two fundamental insights, described in detail in the subsections that follow.

7.2.1 Fairness Is the Cornerstone for Wealth Created by a Company

The public normally tends to judge the wealth created by a company based on factors such as human resources, technologies, and suppliers. While such interpretations are meaningful, the true cornerstone for any company's wealth lies beyond these tactical factors and is profoundly important. This cornerstone is fairness. People are actually aware of the importance of fairness, but very often only when a company's fairness level sinks below the threshold of acceptability. With the evaluation system, these intermittent, discrete reactions to fairness violations can be largely avoided. Continuous monitoring helps both the public and companies by avoiding accidents that very often lead to significant damage for both sides.

7.2.2 Members of the General Public Are Partially Efficient in Using Fairness to Evaluate Wealth

Inefficiencies are mainly due to the lack of transparency and the lack of vision regarding fairness. Without proper information disclosure, it is obviously impossible to establish any proper linkage between fairness level and wealth; thus, transparency is very important. Furthermore, even when information is transparent, it is crucial that the general public has a correct understanding of fairness. This requires

both academic efforts to generate insights and critical thinking by members of the general public to avoid herding.

Three guiding principles can be derived from these two fundamental insights:

1. Assess only from the fairness perspective;
2. Transparency first;
3. Guide the vision of fairness.

The first principle is established based on the first insight while the other two principles are more related to the second insight. Guided by these three principles, the evaluation system will be able to not only generate momentum for society to move further along the path of fair development, but also help to remove obstacles along the way.

We have constructed an indicator system based on the three principles to support the evaluation of fair wealth. We further elaborate this system separately in the next section due to its complexity.

7.3 Indicator System

7.3.1 Structure of the System

The most relevant principle for defining the structure of the system is the first one: Assess only from the fairness perspective. Based on this principle, we have created a three-layer structure to reflect fairness level.

The first layer is the *dimensions* layer. It is a subset of the nine dimensions elaborated in Chap. 16, "The Nine Dimensions of Fair Development Aspirations in China," with its scope focused on the business domain. The second layer is the *aspects* layer. It further extends the corresponding dimension and groups the indicators in the third layer. It also reveals the relevance between fairness in general and company operations. Finally, the third layer comprises *indicators* that are the real measures of fairness. Their selection and measurement are discussed in the next subsection.

Table 7.1 shows dimensions and their corresponding aspects to illustrate a high level overview of the indicator system. As stated in the footnote at the beginning of the chapter, this only reflects the current status and is subject to future changes.

7.3.2 Selecting and Creating the Indicators

Indicators can be either selected or created in order to measure corresponding defined aspects. The majority of indicators will be selected instead of created for two reasons. First, there are abundant candidate indicators from various sources, including but not limited to corporate annual reports, GRI G4 standards (Global

Table 7.1 Indicator system

Dimensions	Aspects
Cherished commons	• Environmental friendly
	• Technology evolution
Welcomed strangers	• Employee protection
	• Decent benefits
	• Customer first
	• Responsible cooperation
	• Local betterment
Well-rounded adults	• Sufficient education
	• Lead society
Protected weak	• Charity and philanthropy
	• Equal opportunities
Upward mobility	• Training and education
	• Room to grow
Essential ethics	• Compliance and integrity

Reporting Initiative 2013) and CASS CSR report guidelines (Research Center for Corporate Social Responsibility of Chinese Academy of Social Science 2014). Abundant resources such as these generate sufficient and appropriate indicators of fairness. Second, selecting indicators from existing sources significantly reduces overhead costs. Overlapping with existing systems not only simplifies corporate reporting efforts but also creates synergies with existing systems. When selecting an indicator, the most important criterion is the linkage with its parent aspect. This guarantees correspondence between the indicators and the dimensions, which satisfies the first guiding principle.

Although the benefits of selecting indicators from existing sources are clear, it is crucial that when necessary, new indicators be created to better serve the purpose of evaluating fair wealth. This is crucial because fair wealth evaluation can reveal novel insights that may be able to be properly captured by any existing systems. Last, but not least, only quantitative indicators should be used to enable objective assessment and comparison.

7.3.3 Measuring the Indicators

Each indicator is measured based on a company's public information. The measurement is separated into two different levels: transparency and fairness. Before further elaborating these two levels, a very important measurement philosophy must be clarified: any quantitative result is better than no data. This means that even a company that discloses very bad performance will have a higher score than companies that do not disclose this indicator. Such a rule reflects the resolution of the evaluation system to promote transparency in the business context.

Table 7.2 Indicator scoring mechanism

No disclosure
Qualitative or example-based disclosure
Partial or imprecise disclosure
Full disclosure
Full disclosure with above average performance
Full disclosure with outstanding performance

The first level measurement of an indicator is transparency. Due to the fact that only quantitative indicators are used, transparency measurements can be further divided into different sub-levels, each with their own scores.

The second level measurement of an indicator is fairness, which is added to the transparency measurement. When quantitative data are acquired, they will be assessed from a fairness perspective. It is especially important to mention that this type of assessment is intended to provide a guiding vision for fairness, which means it will often be progressive and demanding. On the other hand, to avoid unfairness in the measurement itself, any controversial indicators of fairness revealed by the survey results will be excluded, which means full transparency will be sufficient for such indicators. The threshold for separating these different fairness levels will be generated with a combination of survey results, partially from experts and partially from senior executives from various companies. To also reflect the different nature of doing business in different industries, each industry should have a different threshold in order to ensure that the final score is comparable across all the industries for a certain indicator. In Table 7.2, we show the rank order for the indicator scoring mechanism, from low to high.

7.3.4 Calculating the Result

With the scoring mechanism clarified, the remaining task is to synthesize a single index from indicator level scores for each company. We describe the steps for calculating this single index in the subsections that follow.

7.3.4.1 Deciding the Weight of Each Dimension

A total of 100 points should be distributed among the six dimensions to reflect their different weights. The distribution should be decided by an average result of a survey that represents a representative cross-section of the public. The decision should be made with proper context information available, which means detailed

explanations and corresponding aspects of each dimension should be presented as supporting information when people respond to the survey.

7.3.4.2 Deciding the Weight of Each Aspect Under a Certain Dimension

After (and only after) the dimension-level distribution is created, the weight of each aspect under each dimension will be decided. Similar to the process used for deciding the weight of each dimension, all aspects under a certain dimension will split a total of 100 points. The same respondents should be surveyed to create this level's distribution.

7.3.4.3 Calculating the Fair Index

Surveys will not be used to decide the weights of indicators. All indicators will equally split their parent aspect's weight. Based on this, the formula to calculate the score A of a certain aspect is:

$$A = \frac{\sum I}{n}$$

where n is the total number of indicators for that aspect and I is each indicator's score.

Once all the scores of aspects under a certain dimension are calculated, the following formula is used to calculate that dimension's score, D:

$$D = \frac{\sum \left(W_{\mathrm{A}} \times A \right)}{x}$$

where x is the total number of aspects under that dimension, W_{A} is the weight of each aspect, and

$$\sum W_{\mathrm{a}} = 100.$$

The final fair index F of a certain company can then be calculated as:

$$F = \frac{\sum \left(W_{\mathrm{D}} \times D \right)}{y}$$

where y is the total number of dimensions, W_{D} is the weight of each dimension, and

$$\sum W_{\mathrm{D}} = 100.$$

7.4 Calibrating Wealth Using the Fair Index

7.4.1 Qualification Rule

Before a rich person becomes eligible for the fair wealth ranking, he or she must pass the qualification check. The check will be performed by the advisory board of the fair wealth ranking. Any major breach of laws, major scandals, and public issues could lead to the failure of this process. The qualification check ensures that all people who eventually are ranked will be above reproach regarding fairness.

7.4.2 Applying the Fair Index

In any existing wealth ranking system, it is standard to decompose a person's wealth based on source. The largest portion is normally contributed by his or her ownership share in companies. Based on the share percentage and market value (estimated market value if the company is not public), it is easy to calculate a person's wealth from company ownership. This is a standard and well-accepted method for assessing rich people's wealth, and information can be acquired from public channels. It provides a clear path for using the fair index to calibrate individuals' wealth. Such a process can be described by the following formula:

$$\mathrm{FW} = \sum f_1\left(\mathrm{FV}, P\right) + \mathrm{PW}$$

$$\mathrm{FV} = f_2\left(\mathrm{MV}, F\right)$$

where MV is the market value of a certain company, F is the fair index of a company, calculated according to the procedures described in the previous section; FV is the fair value of a company, calculated from the market value and the fair index; P is the percentage share in a specific company; and PW is private wealth such as real estate or art.

Once wealth is recalculated, it will lead to a different ranking result than the original reference rankings of the richest Chinese. This is called the *fair wealth ranking*.

7.4.3 Case Analysis

Since most components of fair wealth evaluation are clear, it is possible to provide examples of how the whole process is going to work. In the examples, we use fictional companies and individuals and fabricated numbers for the fair index and market value measurements; we also simplify the calculations for f_1 and f_2 to multiplication. In Table 7.3, we present an overview of the case analysis.

Table 7.3 Case analysis

Name	Company	Company market value (in billions)	Company fair index	Company fair value (in billions)	Share in company (%)	Original wealth (in billions)	Fair wealth (in billions)
Jones	Unite Buy	42	0.69	28.98	60	56	35.25
	Iron Wing	77	0.58	44.66	40		
Smith	Smith Food	35	0.84	29.40	50	46	37.22
	Speed Transport	57	0.79	45.03	50		

In the table, we present fabricated data for two fictional rich people, Jones and Smith, and their companies. It is clear that due to the higher market value of the companies owned, Jones's original wealth is 10 billion more than Smith. However, Smith's two companies have higher fairness assessment scores, which lead to high company fair values, and ultimately, more fair wealth for the individual. The result from a fair wealth point of view shows that Smith has roughly 2 billion more in fair wealth than Jones and will enjoy a higher rank in the fair wealth ranking.

7.5 References and Comparisons

The evaluation system comprises two parts based on wealth and the fair index. The wealth part is based on existing wealth rankings such as Forbes Billionaires or Hurun, and thus does not merit further discussion here.

The fair index part is based on multiple reference systems, including the Dow Jones Sustainability Index (DJSI) (RobecoSAM 2015), the GRI G4 (Global Reporting Initiative 2013), Doing Business (DB) (World Bank 2014), the Foundation Transparency Index (FTI) (China Foundation Center 2015), and the CASS CSR Guide (Research Center for Corporate Social Responsibility of Chinese Academy of Social Science 2014) as the basic portfolio to create a solid foundation. Some of these evaluation systems (i.e., GRI, CASS) do not generate final rankings; they only serve as structured information consolidation and evaluation systems. The others (i.e., FTI, DB, DJSI) have built rating or scoring systems on top of indicators to create final indexes similar to the fair wealth evaluation system.

After analyzing these systems, we made a further extension to investigate some evaluation systems with completely different targets to create a more robust system. These include two very interesting areas: (a) livable city rankings, such as Monocle's Quality of Life Survey, The EIU's Livability Ranking, Mercer's Quality of Living Ranking, and China Livable City Evaluation Standards; and (b) business school rankings such as Bloomberg's Best Business Schools and the FT Global MBA Program Ranking. Both are very well structured and insightful ranking systems which could potentially improve the scope and robustness of the fair wealth ranking system.

7.6 Outlook

7.6.1 New Applications

One potential direction is to extend this evaluation system to the regional level. Zooming in on each province or city can further strengthen the link between this evaluation system and the general public. It also provides more opportunities for the richest Chinese to engage in self-reflection and evaluation and join the movement of supporting fair development in China. Of course, extending the system in this way implies authorizing a third-party to use this evaluation system, considering the potential work load.

Another potential direction is to include more types of wealth owners. For example, a city's wealth can also be very attractive. In China, fairness assessments at the city level are particularly interesting, and a trial in one specific city in China is currently on the agenda.

7.6.2 Big Data and Opinion Mining

The current evaluation is fully based on objective information. However, it is also very important to examine the perceptual perspective to further enrich the evaluation system. New technologies that harness the power of big data and opinion mining will further guarantee the fairness of the evaluation system and generate more valuable insights during the evaluation process.

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Part III
Organizational Perspective

Chapter 8
Corporate Social Responsibility

Xuanwei Cao

Abstract Simply put, the core issue of corporate social responsibility (CSR) is the relationship between corporations and society. CSR theories and practices are developed around two basic questions: What role should corporations play in society? To whom should corporate managers be accountable? Globalization promoted the expansion of corporate influence—especially negative influence on the foundations of human societal development, including social equity and justice, sustainable ecological carrying capacity, and diversified values and cultures. The economic crisis triggered criticism of the capitalist system and debate about its reform that also cast doubt on the value of CSR and its future relevance. Reform begins with a profound rethinking and redefining of an enterprise's purpose and organizational philosophy. Only after serious consideration of its relationship with nature and society can corporations reform their business models and create value by solving key social and environmental problems through innovation. The most effective way to promote innovative CSR development is through collaboration among corporations, the government, nongovernmental organizations, research institutions, and the public. In order to maintain internal consistency with the theoretical framework of fair development, I do not explore specific CSR issues in detail in this chapter; rather, I discuss the nature and purpose of corporations, present current trends in CSR research and practice, and present representative cases of CSR development in China. Building on this foundation, I propose a CSR development model based on active public–private partnership to help corporations continuously develop innovative CSR practices and eventually achieve fair development.

Keywords Corporation Social Responsibility (CSR) • Criticism • Value

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8.1 The Relationship Between Corporations and Society

Theories and practices related to corporate social responsibility (CSR) are developed around two basic questions: What role should corporations play in society? To whom should corporate managers be accountable? In the past, corporations were viewed as having a singular purpose: to maximize profits. Thus, corporate managers were viewed as being accountable only to shareholders and responsible for delivering a return on their investments. Today, however, corporations are no longer perceived as mere tools for creating profits and wealth for their owners, but also as tools for facilitating the fair development of society, the economy, and the environment. As a result, managers must now take the interests of all stakeholders into consideration. If modern corporations ignore their social responsibility and fail to consider the legitimate interests of stakeholders affected by their actions, their long-term survival and sustainable development will be difficult.

A group of legal experts negated the legal basis for shareholder capitalism, which prompted ongoing reflection on the relationship between corporations and society. Lynn Stout, a professor at Cornell Law School, unequivocally indicated in her influential work *The Shareholder Value Myth* (Stout 2012) that from a legal point of view, shareholders do not really own corporations; thus, maximizing shareholder value is not the statutory responsibility of managers. Her research completely subverted the modern business management model based on traditional shareholder value maximization. She further emphasized that managers who pursue the goal of maximizing shareholder value substantially harm the interests of investors, corporations, and the public. This goal leads to the creation of operating standards that give shareholders more power, such as pay-for-performance compensation schemes. Those who adopt an ideology of maximizing shareholder value are shortsighted and opportunistic, and disregard business ethics and other people's interests. This kind of thinking causes managers to sacrifice long-term performance in exchange for short-term profits, neglect the interests of employees, customers, and the community, and engage in ruthless and irresponsible social behaviors. In countless examples, ranging from the twentieth century Nike sweatshops to the 2010 "Poison Apple" packers, and from the 1970s Chevron oil spill to the 2011 BP Gulf of Mexico oil spill, the capitalist system centered on shareholder value has created numerous severe social, environmental, and economic development problems. These problems originate with corporate decision makers who fail to consider a wider range of stakeholders that influence and are influenced by corporate operations, including internal staff, external customers and suppliers, and the surrounding natural environment.

Modern corporate capital comes not only from shareholders, but also from employees, suppliers, creditors, and customers, who provide both financial and human capital. In modern society, corporations are expanding based on *social license to operate*. Corporations that violate social mainstream values or operate counter to prevailing public opinion and expectations are not granted social license to operate, and encounter societal and sometimes legal resistance, making it difficult for them to succeed.

8.2 The Conceptual Development of CSR Over Time

Corporate social responsibility has been widely discussed as an important issue since the 1930s. Early discussions about CSR were initially focused on the relationships among corporations, government, the law and society, and explored its philosophical underpinnings (Dempsey 1949) from the perspectives of market exchange justice, government distributive justice, the general justice of the legal framework and ethics, and social justice. Later, scholars turned their attention to production and management activities and focused in on entrepreneurs and managers through the lens of *trusteeship*, stressing that entrepreneurs and corporate managers, as trustees of the public interest, must combine individual ethics with corporate responsibilities (Heald 1988).

When Friedman (1970) published an article in the *New York Times* claiming that CSR is a "fundamental subversive" to the real responsibility of corporations (which is to increase profitability and shareholder value), he ignited an ongoing debate about CSR that continues to this day. Until the 2008 financial crisis, authors who published in a number of mainstream economics journals such as *The Economist* continued to express doubts about the legitimacy of CSR; although they criticized aspects of capitalism, they maintained their faith in the system, especially free market capitalism, claiming that "capitalism is wicked but redeemable."[1] As scholars continued to criticize the capitalist system and debate about how it should be reformed, the definition and scope of CSR continued to evolve.

In recent years, as the governments of Western capitalist countries have sought to reconcile conflicts between economic and social development, corporations, and representatives from all sectors of society have engaged in extensive discussions and debate on the future and boundaries of capitalism. In *Conscious Capitalism*, Mackey and Sisodia (2013) presented thoughts on the nature of interdependent human relationships in society, and suggested that the relationships between enterprises and stakeholders should be based on maximizing long-term economic value creation by taking into account all costs (including external costs) and stakeholder interests. In *Sustainable Capitalism*, Gore and Blood (2012) emphasized the disadvantages of chasing short-term interests in the traditional mode of shareholder value maximization, and advocated paying more attention to providing practical solutions to problems and challenges in the development of human society, thereby realizing long-term value creation in the process.

Recently, CEOs have begun to redefine capitalism (Beinhocker and Hanauer 2014); many are rediscovering the essence of capitalism and exploring the nature of the relationship between corporations and society. Some believe that we should abandon the social development model centered on consumerism, and define social prosperity as the accumulated solutions to problems in the development of human society (Beinhocker and Hanauer 2014). Those who hold this view believe that corporations should reframe their purpose as solving social problems, rather than

[1] http://www.economist.com/node/3555272

creating value for shareholders; to some extent, this jeopardizes the very foundation of current operating principles and the legitimacy of the maximization of shareholder value as a business goal. To a great extent, these reflections and discussions have justified the development of CSR and enhanced corporate managers' understanding and practice of it; meanwhile, a new CSR vision continues to expand, exploring the coexistence of enterprise and society, as well as enterprise and the environment under the new development mode.

Since 2011, Western countries began to use the term "creating shared value" in place of corporate social responsibility. As Harvard University professor Michael Porter put it, "creating shared value is becoming the next phase of capitalism in its evolution; this will inevitably redefine the boundaries of capitalism" (Porter and Kramer 2011:7). Conceptually, creating shared value stresses the unity of enterprise and the social, the consistency of business objectives and social development goals, and the dependence of corporate business development on a healthy and well-functioning community. By integrating social issues into their core business strategies, enterprises achieve economic benefits; at the same time, solving social problems creates shared value.

Since the essence of CSR has been redefined and expanded based on creating shared value, some scholars have proposed the CSR 3.0 concept based on network value. This concept is a departure from CSR 2.0, which stresses the consistency between economic targets and social targets, is more focused on solutions to environment, social, and governance (ESG) problems, emphasizes consistency between CSR performance and enterprise strategy, and is implemented throughout the value chains and social networks of enterprises. Both concepts highlight the importance of CSR in business strategy and emphasize collaboration with different partners in value chains and social networks in order to achieve the goal of creating shared value.

According to recent research,[2] sustainability-oriented innovation (SOI) requires enterprises to reflect on and consciously reform their organizational philosophies and values. Only then can they create innovative products and services to meet specific objectives and support social and environmental values while producing economic returns. In a recent article, Tata et al. (2013: 95) suggested that when enterprises reach a consensus on "promoting social goals firstly, and considering profit secondly," and encourage employees to "do the right thing," their collective efforts will lead to better financial performance.

Development of the CSR concept also promotes the transformation of the relationship between enterprises and society. In 2010, B Lab, a US-based organization, began to offer B Corporation certification[3] to help enterprises actively fulfill their social responsibilities. In order to become a certified B Corp, an enterprise must not impair society, the environment, and other public interests while making profits. Some states then chose to take this certification to the next level, by enabling companies to

[2] http://sloanreview.mit.edu/article/sustainability-oriented-innovation-the-more-the-merrier/?utm_source=WhatCounts%2c+Publicaster+Edition&utm_medium=email&utm_campaign=SU+1%2f12%2f16+-+SOI+networks+blogpost&utm_content=Read+the+new+article

[3] https://www.bcorporation.net/

officially register as benefit corporations. Unlike traditional corporations, benefit corporations are required by law to consider their stakeholders when making decisions, to better define corporate objectives, and to focus on creating value for society. This status provides effective legal protection for nonfinancial stakeholders such as employees, communities, and the environment from the effects of corporate decisions. In April 2010, Maryland became the first state to pass a bill granting legal status to benefit corporations, and 11 others followed. This has sparked a series of discussions on giving legal recognition to impact-driven companies. Unlike other states that offer the option to register as a benefit corporation, the state of Washington now offers the option to register as a social purpose corporation (SPC): an enterprise that pursues social and environmental goals to the greatest extent while seeking financial returns.

In broad terms, the ongoing development of theories and practices of contemporary corporations has effectively relocated the boundary between corporate activities and society, promoted social responsibility, facilitated the application of innovative concepts into business activities, and driven the integration of corporate social responsibility and business strategy. Redefining capitalism entails reflecting deeply about why and how enterprises are run, and for whom. Legendary figures in the modern business world have transformed the philosophy of business operations by making it their mission to serve the community, adequately protect employees' lives, welfare and development, and contribute to solving social problems through innovation. Reflecting this transformation, Konosuke Matsushita views corporations as "social instruments" (Sato 1997) These new ways of thinking and operating reveal that only by creating shared value (i.e., considering the needs of various stakeholders, and integrating and coordinating the interests of enterprises, communities, and the government) can enterprises create a better business ecosystem and achieve the goal of sustainable development.

8.3 Criticism of CSR

In October 2014, the Sustainable Science Conference was held in Copenhagen, where Chairman of the World Business Council for Sustainable Development (WBCSD), Peter Bakker solemnly proclaimed, "CSR is dead."[4] Around the world, many governments, enterprises, and civic organizations continue to actively promote CSR development. Yet, an unavoidable and important question is: To what extent have CSR activities yielded meaningful results that have substantially supported societal development? In some regions and enterprises, CSR is used as a superficial tool to project the appearance of "responsibility" without making many practical changes. This begs the question: Should we make serious changes to our modes of economic and social operation, or remain complacent and continue to accept the promotion of corporate social responsibility as an image management tool?

[4] http://www.greenbiz.com/article/csr-dead-now-what

I argue that we must shift our focus from promoting CSR to promoting enterprise transformation toward a more sustainability-oriented innovation mode. Nestlé, Unilever, and other leading global enterprises no longer participate in CSR projects; instead, they deeply integrate the ideas and actions of sustainable development into every aspect of business activities. These enterprises do not assign specific executives or departments to sustainability issues, but use sustainability as an overall guideline to drive true transformation and develop in an innovative, sustainable, and responsible direction.

Thus, in the strictest interpretation, the pioneering practice of CSR is indeed dead. However, the CSR platform remains a useful tool for exploring a holistic picture of future reform that can help enterprises, the government, and the public achieve a new level of consciousness, and engage in valuable activities with a more forward-looking perspective. For enterprises (entrepreneurs), this requires a fundamental shift in thinking to redefine the purpose of enterprise. Only after seriously considering their relationships with nature and society can enterprises transform their operational modes from profit creation to value creation and achieve true sustainable development.

In February 2015, Rangan et al. (2015) published an article in *Harvard Business Review* about the truth of CSR. Professors at Harvard Business School tracked 142 Harvard students who had participated in CSR Executive Education over the previous 4 years and found that many enterprises only had a broad understanding of CSR and had implemented and developed CSR activities centered only on general goals; moreover, their programs were hampered due to a lack of coordination and few logical connections between different programs. Furthermore, the researchers found that CEO participation in the launching and operating of CSR programs is not enough. To generate more positive social and environmental influence, enterprises must develop a series of CSR strategies, which must be a part of the executive's work. In this regard, enterprises are advised to take several action steps. First, they must sort out existing CSR programs and review the consistency between their operational objectives and their value. Second, the value of CSR programs should be evaluated from three perspectives—charity, improvement to operational efficiency, and business mode reform—and criteria should be developed to evaluate whether or not a specific program is successful. Third, the three different CSR program areas must be coordinated. Finally, a multidisciplinary management team should be created to implement CSR strategies.

8.4 Basic Development of CSR in China

Although China has experienced rapid economic growth since the government implemented the reform and opened its markets to the West in 1978, it has also incurred heavy social and environmental debts. Problems, including environmental pollution, resource depletion and workers' rights violations, have emerged as a consequence of rapid and extensive economic development. Many are searching for

solutions that will both maintain growth and "pay off" these debts; for this reason, corporate social responsibility has received a tremendous amount of attention in China. After joining the World Trade Organization in December 2001, China's export trade experienced dramatic growth, and the country's economic development is now tied more closely to that of the rest of the world. As cooperation with foreign enterprises has increased, Chinese companies have become embedded in global value chains. Constrained by various factory inspections, testing and certification processes required by foreign partners, Chinese firms have come to recognize the importance of corporate social responsibility. In addition, people's sense of citizenship, rights awareness, environmental awareness, civic participation, and demands for fair and equitable development have increased, creating increasingly high expectations for responsible behavior on the part of enterprises.

The year 2006 is commonly referred to as the "first year of CSR in China" (Author year). Since then, CSR in China has entered a period of rapid development. In January 2006, the *Company Law of the Peoples Republic of China* was amended to include the economic market and the public as external stakeholders in addition to shareholders. CSR thus became a legal obligation; it was no longer an optional behavior for a company, but a responsibility that had to be recognized and fulfilled. The CSR Guidelines for Central Enterprises issued by State-owned Assets Supervision and Administration Commission of the State Council (SASAC) in 2008 clarified that CSR activities should include eight aspect of legal operation, improvements in product quality and service level, etc. to facilitate CSR management and disclosure processes. In March 2011, the Chinese government officially released its *Five-Year Plan for National Economic and Social Development* with a clear emphasis on the green and low-carbon technology development, energy and emissions reduction, building resource conservation, and environmentally friendly production and consumption as driving forces to speed up the transformation of economic development, enhance sustainable development capacity, and strengthen the ecological environment. Local governments are also actively encouraging and promoting corporate social responsibility by strengthening laws and regulations, crafting announcements, opinions, methods, standards, and guidelines, and creating favorable environments and conditions to facilitate responsible behavior. More and more local governments have come to realize that integrating social responsibility and sustainable development into local governance policies and practices improves regional competitiveness, not only from an economic perspective, but also from a social and ecological perspective by fostering harmonious labor relations, promoting social fairness, narrowing the gap between urban and rural areas, improving the environment, etc.

CSR has attracted the attention of many local governments, and in some areas it has been incorporated as an important part of the regional development strategy. However, to some extent, the widespread adoption of CSR has been driven by the immense power of the central government. Since it is no longer voluntary, some companies have not figured out the fundamental purpose of CSR and how to implement it effectively. In addition, the lack of an overall CSR strategy and action plan at the national level has led to the creation of different policies and measures in

different areas, with varying degrees of effectiveness. Furthermore, in the course of promoting the development of CSR practices in various regions, some areas promote CSR development as a means of addressing social disharmony, while others focus on it as a means of promoting enterprise competitiveness or volunteerism. Thus, some local CSR initiatives are led by economic promotion agencies, some are led by the Party's propaganda department, and some are led by a dedicated working group or committee. Due to a lack of professional knowledge and skills and failure to cooperate with third-party social organizations, CSR activities driven by these departments are a mere formality and do very little to help enterprises take positive action to tackle the really important issues.

Over the last 30 years of rapid economic and social development, entrepreneurs have become inseparable from the Chinese economy. Yet, entrepreneurial pursuits and business purposes are changing; few continue to stereotype businesspeople as profiteers who fail to engage in social responsibility and spiritual pursuits. In fact, many entrepreneurs in China strive for social justice and consider improving the well-being of others to be their greatest joy in life. After experiencing the ramifications of capitalism's "original sin," some successful entrepreneurs no longer merely seek to maximize their material and economic interests. Their understanding of the purpose of enterprise has gradually shifted toward promoting social prosperity, taking positive action to solve specific social problems, and voicing the interests of other social groups. This purpose aligns with the traditional Chinese values of "self-cultivation, family harmony, country management, and world peace" and the Confucian principle of "help others and achieve oneself," which adhere to the notion that promoting public social interests is the way to achieve the greatest success. The same reflection has also been brought to the forefront in other parts of the world. For instance, Tata et al. (2013) pointed out that the world urgently needs enterprises with higher goals than maximizing profits. In the long run, the best way to maximize profits is to not make it a business priority. The ex-CEO of the Tata Group insightfully described the purpose of enterprise as "a spiritual and moral call to action; it is what a person or company stands for" (Tata et al. 2013: 95).

A recent study revealed that the percentage of political appointments in China (i.e., deputy positions in the NPC and CPPCC) held by private entrepreneurs grew from 23 % in 1995 to 40 % in 2012, with most of that growth occurring after 2000. Research results show that in the value system of the Confucian culture, successful entrepreneurs seek to go beyond the self in order to serve a wider range of people and view the promotion of social harmony and social and public interests as their ultimate success. Entrepreneurs who get involved in politics and obtain political titles are well positioned to better serve their communities (Li and Liang 2015). Under the influence of traditional Chinese culture, it is likely that more entrepreneurs will recognize and reposition their business purposes, view caring for society and solving social problems as their responsibility, and incorporate social and environmental development goals into business development goals. As more entrepreneurs actively involve themselves in serving and advancing the public interest, the number of entrepreneurs active in social, economic, environmental, and other fields will increase. These people, referred to by scholars as *eco-entrepreneurs* (Schaltegger

2005), *social entrepreneurs* (Milbrandt 2007), and *sustainable entrepreneurs* (Schaltegger and Wagner 2011; Wagner 2012), will be leaders and value creators who are committed to addressing social, economic, and environmental problems and challenges in the process of social development of China, and to actively seeking innovative solutions and long-term business opportunities.

8.5 Environmental Issues: Major CSR Challenges Faced by Current Chinese Enterprises

Environmental pollution in China has been recognized as a very serious social problem.[5] According to the EPI (Environmental Performance Index)[6] issued by the Yale Center for Environmental Law and Policy in 2014, China ranked 118th among all 178 countries, falling from 94th in the 2006 ranking.

Under severe resource constraints and environmental pressure, enterprises must drastically change their business operations and fundamentally shift their business management paradigms from seeking survival to seeking development, from denotative expansion to connotative growth, from pursuit of profit maximization to pursuit of unified enterprise and social value, from cost control to management innovation, from competition to cooperation. Enterprises must meet the economic, social, and environmental standards of the triple bottom line and adopt more reasonable and lawful approaches to managing resources and balancing the needs of all stakeholders; profits should never be built by ignoring laws and destroying the environment at the expense of future generations. Enterprises should engage with their communities and forge stronger links between current profit and long-term profits, economic benefits, and social benefits, as they strive to achieve sustainable development goals. CSR is a key to unifying an enterprise's sustainable development with social, economic, and environmental sustainable development; without CSR, there would be no sustainable future for business and society.

In its *Vision 2050* report, the World Business Council for Sustainable Development[7] (2010: 5) noted:

> [Since] in today's world, population growth, improvement of living standards and rural to urban migration and other factors have made the world increasingly nervous, competition will focus on who can provide solutions to this problem. The current "green contest" is under way, and some leading economies and government are looking forward to the change.

In this "green contest" led by main European economic bodies, enterprises are being encouraged to commit to sustainable development. This commitment entails consciously addressing negative externalities of the production and business process (e.g., environmental pollution) to foster sustainable economic development and

[5] http://www.doc88.com/p-01843878668.html

[6] http://epi.yale.edu/epi

[7] http://www.wbcsd.org/vision2050.aspx

yield both social and environmental benefits. This is where CSR efforts should now be focused.

Although China has made remarkable progress in the field of renewable energy in recent years, in practice, many Chinese enterprises (especially small and medium-sized enterprises) to a large extent have not overcome the misconception that economic development and environmental protection are in direct opposition, let alone environmental innovation. A great number of CSR activities related to environmental protection are restricted to slogans and superficial symbolic activities, such as garbage removal and planting trees in public places. Many enterprises have negative attitudes and use evasive means to cope with environmental problems in their business processes due to a lack of positive and proactive system management tools.

Enterprises encounter three major challenges to environmental CSR activities. First, there is a lack of motivation to fulfill their environmental responsibilities. From a global perspective, consciously fulfilling corporate environmental responsibility reflects a more advanced stage of CSR development. At present, many enterprises in China are at less advanced stages of CSR development where charity and donation are the primary activities; thus, a large gap in environmental responsibility remains. Significant efforts are required to standardize, constrain, and guide all aspects of CSR activities related to the environment. Second, there is no standardized management system for sustainable development in enterprises. An established and standardized management system is indispensable for the implementation and execution of corporate environmental and social responsibility. Many companies lack basic internal management systems, let alone systems for identifying, monitoring, and addressing environmental risks and impacts generated by the production and business activities of all enterprises and suppliers in their value chains. Third, China lacks a sound environmental information disclosure and enforcement mechanism. For a long time, corporations did not disclose environmental information, and the lack of an enforcement mechanism results in a disregard of corporate environmental responsibility. The lack of a publicly supervised environmental justice (environmental litigation) mechanism and the acquiescence of local government decision makers to actions that violate environmental fairness weaken environmental CSR initiatives.

8.6 A Case: CSR Development in Suzhou Industrial Park

In this section, I present the results of a research study I performed between June and September of 2014 based on data collected from members of the Suzhou Industrial Park CSR Union. The results reflect the current state of CSR development in China. The Suzhou Industrial Park CSR Union was officially established in May 2010, and is directed by the Suzhou Industrial Park Publicity Office, together with the Economic Trade Development Council (a foreign association), the Labor and Social Security Council, the Personnel Bureau (a union federation), the Social Service Council, the Environmental Protection Council, the Safety Supervision Authority, and the Business Administration Council (a private enterprise

association). Members include foreign-funded enterprises, private enterprises, and state-owned enterprises located in Suzhou Industrial Park. By the end of 2014, CSR Union membership had grown from just over 50 to 246.

I collected quantitative and qualitative data via questionnaires, focus group discussions and interviews from 97 foreign companies, 48 state-owned enterprises, and 61 private enterprises with support from the CSR Alliance of Suzhou Industrial Park. Manufacturing enterprises comprised 46 % of the total sample, followed by construction (8 %), financing (6 %), leasing (6 %), and business services (6 %). There were some discrete small start-ups with rare essential CSR practices in the rest of samples. Specifically, I focused on identifying CSR motive (*intention*), which CSR issues enterprises integrate into their businesses (*integration*), and the extent of CSR implementation in enterprises (*implementation*).

In terms of CSR motive, the results reveal that the vast majority of executives (81.2 %) thought that being engaged in CSR activities could contribute to building a good public image. While most executives felt that social responsibility does not conflict with the pursuit of profit, and they also said that in early stages or during difficult times, they would be unwilling to engage in social responsibility practices. The results also reveal that the three types of enterprises (foreign-owned, private, and state-owned) have similar CSR motives: to enhance corporate image, to shape a positive enterprise culture, and to strengthen employee cohesion. Foreign companies placed relatively more emphasis on creating a positive corporate culture, while private enterprises and state-owned enterprises focused more on improving their corporate images.

The three types of enterprises all felt that abiding by the law in business operations is the top priority and serves as the cornerstone of business and corporate social responsibility. However, the second and third priorities differed among the three types of enterprises. Foreign-owned companies focused more on environmental protection, state-owned enterprises focused more on productivity improvement and creating a good profit, and private enterprises generally believed that guaranteeing product quality and safety is more important. In terms of CSR integration, most of the enterprises (45 %) used environmental indicators to measure the extent of CSR; another 19 % and 15 % of the enterprises used employee rights and development indicators and supply chain management indicators, respectively. To implement CSR, most enterprises (59 %) hired part-time personnel on a long-term basis to perform CSR-related work; 25 % of enterprises built temporary internal project teams to perform the work, while just 16 % hired full-time professionals to work on CSR activities. This suggests that the implementation of CSR in enterprises is not strategic, nor systematic.

The results reflect how CSR development in many parts of China is still at the primary stage. Although active promotion by local governments is an important guarantee for promoting the continued development and improvement of CSR initiatives, overall regional development of CSR still lacks the strategic direction and clear goals that are pervasive in the European Union.[8] At the enterprise level, many

[8] http://ec.europa.eu/enterprise/policies/sustainable-business/files/csr/new-csr/act_en.pdf

companies still hold rather broad understandings of CSR; a lack of coordination and consistency with between strategic objectives and CSR projects wastes project resources, limits the potential positive social and environmental impacts of CSR initiatives, and hinders cooperation with other enterprises and third-party social organizations.

8.7 Thoughts on CSR Management Practices

The research findings from Suzhou Industrial Park show that CSR implementation has not yet been included in strategic planning in most Chinese enterprises. To this end, we offer the following framework of ideas, hoping to elevate corporate CSR efforts to a systems level of thinking with a focus on the social impacts of these activities (Fig. 8.1).

First, at the strategic level, business decision makers need to ask some fundamental questions such as: Why run a business? What is the ultimate goal for a business? What impact should a business have on society? Successful green enterprises and prominent entrepreneurs have deeply explored these fundamental issues, and their beliefs are firm. Since "an enterprise is a public institution,"[9] enterprises must meet societal needs, and actively work to address challenges in human and social development. Ultimately, CSR activities must be focused on the major challenges faced by human society and harness the potential of enterprises' unique strengths and advantages.

Second, enterprise decision makers and managers should engage in systems-level thinking; focus on the organic integration of social responsibility and enterprise

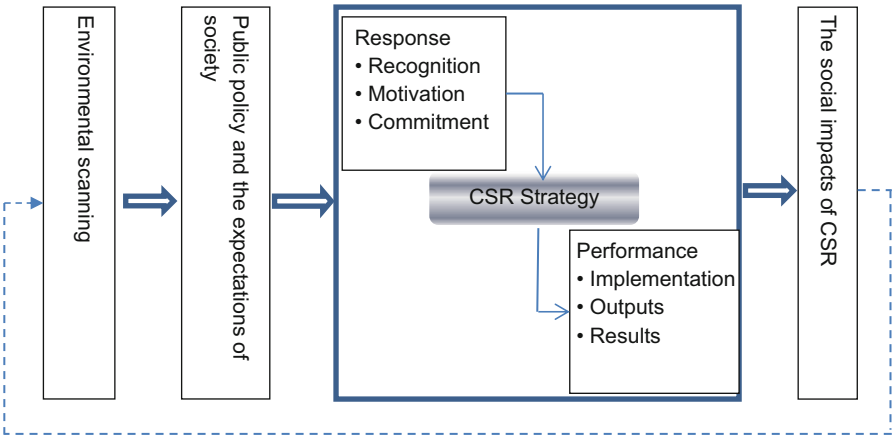

Fig. 8.1 A strategic framework for CSR implementation

[9] http://www.panasonic.com/global/corporate/management/code-of-conduct/chapter-1.html

innovation, competitiveness, and sustainability; strictly avoid engaging in CSR just for the sake of doing it; and avoid passive social responsibility. It is necessary for enterprises to carry out social responsibility in an innovative way to enhance their innovation capacity, competitiveness, and sustainable development capacity and to jointly create social benefits and economic benefits.

Moreover, enterprise business managers must act urgently to solve potential future challenges to social sustainable development, think actively about how to integrate and implement CSR to create positive social and environmental effects and sustainable development, actively attempt to increase the sustainability of their enterprise business environments, communities, and regions, and eventually help other enterprises to build sustainable competitiveness based on responsibility.

With regard to enterprise management content and processes, enterprises can further analyze the value chain to decompose and construct issues that can be addressed through CSR initiatives. The results of the research study performed in Suzhou Industrial Park, point to several recommendations. First, managers should establish a strategic direction and CSR content and explicitly link the two. Second, companies need to learn how to identify stakeholders, map the stakeholders, initiate dialogue mechanisms among stakeholders, and constantly improve stakeholder management skills and systems.

Again, it is necessary to systematically make decisions about CSR initiatives and partners based on the value chain of business activities prior to implementation. For example, enterprises need to think about links between CSR and enterprise risk management, supply chain management, human resource development and encouragement, production and management efficiency and effectiveness, corporate reputation and customer relationship management, resource and energy use, and protection of the natural environment. Moreover, enterprises must determine: (a) how to integrate resources and cooperate with different partners in the value chain and social networks to explore new and innovative business models in order to create more value; and (b) how to evaluate corporate social responsibility activities, and their social and/or environmental impacts.

8.8 Cross-Border Cooperation: The Cornerstone of CSR Innovation

To meet social needs and address pressing social and environmental challenges, enterprises must break old patterns of CSR, and motivate different stakeholders to participate in innovation. Based on current development trends and CSR practices, cross-border operations of enterprises, governments, NGOs, research institutions, and the public have become the most effective way of promoting innovative CSR development.[10]

[10] Forbes. CSR Means True Partnerships. http://www.forbes.com/sites/csr/2011/07/30/csr-means-true-partnerships/

The Economist Intelligence Unit (2010) conducted a questionnaire survey of 660 global executives; the results show that enterprises have become increasingly aware of the importance of cooperation with other stakeholders. Among the executives surveyed, 27 % considered NGOs to be the stakeholder group with the most impact on enterprises. Enterprises with different stakeholder groups are also increasingly in states of cooperation rather than confrontation, reflecting the integration of enterprises' strategic goals with the objectives of social development. For example, GE regularly communicates with relevant NGOs, environmental groups and other civil social groups to discuss better ways for GE to tackle problems related to poverty, climate change, and human rights.

Public–private partnership (PPP) is considered to be a special type of stakeholder communication, which is also within the scope of CSR activities. In the 1970s, PPPs developed rapidly in various fields, and made great contributions to our understanding of the role of enterprises in society. PPPs are considered to be relatively long-lasting cooperative relationships between public and private actors who engage in the joint development of products and services and share resources, risks, and costs (van Ham and Koppenjan 2001).

Although they differ from general PPPs (e.g., those created to construct facilities), public policy PPPs are created by government entities, private enterprises, and social organizations to launch, promote, and implement activities and projects designed to address public interests. For example, government entities and social organizations jointly promote information sharing mechanisms; social organizations voluntarily launch projects to promote public interest and obtain public support and authorization; private enterprises fund public investment projects, etc. All of these are examples of PPPs. The United Nations High-Level Panel[11] placed special emphasis on the key role of private sector and other forms of partnerships in enhancing the effectiveness of the global development agenda. PPPs enable a wealth of different perspectives and successful practices to be shared. Through the PPP mechanism, private enterprises can perform CSR activities with governments and other agencies in innovative ways, so as to participate in the global development agenda to make effective contributions to address social, environmental, and economic challenges in regional development.

Cooperating through PPPs creates a win-win situation that could yield benefits for both sides, such as the accumulation of resources and local mobilization. For example, by working with the World Wildlife Fund (WWF), Coca-Cola involved itself more actively in the management of water resources in its operating region and on a global scale, and implemented stringent water conservation measures at its production plant. Through cooperation, the WWF was able to attract more companies to engage in water protection and management actions, while Coca-Cola was able to better integrate its business with social development goals, which is conducive to the sustainable development of the enterprise. Using PPP mechanisms can also enhance recognition of social issues, enabling other institutions to use their knowledge, experience, and channels to efficiently identify and discover solutions to social problems.

[11] http://www.post2015hlp.org/

In addition, PPPs can serve as an effective channel of communication and information dissemination to promote collaboration between the public and private sectors in order to find innovative solutions and create shared value.

By adopting a PPP approach, enterprises can transform social problems (challenges) into opportunities for innovation in the process of CSR implementation, and achieve economic efficiency through social innovation. CSR innovation can also help address basic needs in the bottom-of-the-pyramid (BOP) market. Throughout this process, social entrepreneurs will emerge. Government departments should actively cooperate with these entrepreneurs and offer them support. CSR innovation can also be used to help cope with environmental challenges. The emerging concepts of eco-innovation, green innovation, and eco-entrepreneurs are all the latest reflections of the positive roles that entrepreneurs and private enterprises can play in solving environmental problems. Sustainable entrepreneurs prioritize strategic goals that could promote social development. They responsibly take a more long-term view of their businesses and their relationships with other enterprises, society, and the natural environment to achieve the unification of economic, social, and environmental objectives, thereby realizing a profound transformation of their business models. These entrepreneurs have great potential to contribute to solving social and environmental problems by providing the public with innovative and sustainable products and services (Schaltegger and Wagner 2011).

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Chapter 9
The Social Enterprise Movement

Wei Zhang

Abstract This chapter is based on qualitative data (i.e., personal communications, interviews, observations, and documents such as white papers, reports, books, training materials, etc.) collected over a 2-year period from over 100 stakeholders involved in the social enterprise movement in China. I describe the development of social enterprises as a global phenomenon before providing an in-depth account of the development of the social enterprise movement in China, explain various structures and characteristics that are unique to the Chinese context, and then identify current challenges and opportunities for Chinese social enterprises. I propose that the social enterprise movement can be defined as the search for better solutions to the constantly changing needs of society that achieve a balance between efficiency and fairness. This reflects a new entrepreneurial innovation trend in which commercial enterprises are addressing social needs motivated by the development of modern politics, economy, science and technology, and humanity. Given these synergies, I argue that the social enterprise movement is more precisely defined as the social entrepreneurial movement for innovation.

9.1 The Social Enterprise Movement: A Global Phenomenon

A social enterprise is a hybrid organization that integrates aspects of the social and economic sectors by striving to achieve social objectives through commercial endeavors. The origin of the global social enterprise movement is rooted in some of the earliest organizational forms such as mutual aid organizations, cooperatives, and community enterprises. In 1844, in Rochdale in the northwestern United Kingdom, 28 textile workers formed the world's first modern cooperative; by the end of the nineteenth century, the cooperative movement had become a global phenomenon, especially in Europe. In the 1960s, the movement expanded with the establishment of community development corporations (CDCs) in the United States. The movement gained momentum in the 1970s, with the rise of micro-credit organizations in

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developing countries. In Bangladesh, Muhammad Yunus founded Grameen Bank to provide small loans to poor women; since then, micro-banks based on this model have been established in nearly every country worldwide and have become an important symbol of the prosperity of the social enterprise movement. In the late 1990s, European and American countries continued to reduce funding for nonprofit organizations; consequently, more nonprofit organizations tried to obtain income through commercial channels, which accelerated the development of social enterprises (Copenhagen Business School 2013; Wang 2012b; YouChange Foundation 2013).

The evolution of social enterprises has been driven primarily by the commercialization of the nonprofit sector and the socialization of the business sector. From the perspective of historical development, the former is a more prominent factor, since nonprofit organizations now commonly adopt market-oriented means to fulfill their missions to address social problems. Social enterprises provide benefits to many other types of organizations: they help nonprofit organizations and public agencies strengthen their sustainable development capabilities (especially those related to funding and innovation) (Alter 2007) and relieve pressure on governments related to social administration by providing external solutions to social problems, thereby decreasing expenditures. In the mid-1990s, the social enterprise movement took off in China, driven by similar forces.

The social enterprise concept was first proposed in 1978 by Freer Spreckeley to describe workers and their community cooperatives. In 1982, Beechwood College in the UK developed a social audit model; the concept attracted significant attention as a new means of resolving social problems (Sha 2013). The UK Department of Trade and Industry (DTI), the EMES International Research Network in Europe, and the Social Enterprise Alliance in North America followed with their own definitions and classifications of social enterprise. In Europe, social enterprise is considered to be a part of the "social economy," with the main objective of improving social welfare and an emphasis on the administrative and collective purposes of organizations. In the United States, social enterprise is a part of the "market economy" and generally refers to nonprofit organizations involved in business activities.[1] At the end of the twentieth century, after comprehensive consideration and compromise, the Organization for Economic Co-operation and Development (OECD) defined social enterprise as:

> any private activity conducted in the public interest, organised with an entrepreneurial strategy but whose main purpose is not the maximisation of profit but the attainment of certain economic and social goals, and which has a capacity of bringing innovative solutions to the problems of social exclusion and unemployment.[2]

Over the last 30 years, the social enterprise movement has become a global phenomenon and has attracted increasing attention from governments, public interest organizations, businesses, venture capitalists, scholars, and the media, among others. Social enterprises are often referred to as social-purpose enterprises—not for profit, nor for charity, but for social purposes, guided by values with the aim of influencing the market. Although scholars (e.g., Alter 2007; Dees 1996) have classified their various

[1] US nonprofits are not required to conform to a formal business structure.

[2] http://www.oecd.org/gov/budgeting/47814764.pdf

organizational forms, social enterprises all have one thing in common: they promote individual development through business, with clear social missions and innovations. Over the last 10 years, the social enterprise movement has manifested in many different forms around the world, making holistic comparisons difficult, if not impossible. Thus, specific aspects of social enterprise (e.g., people, process, organization, investment, economic sector, etc.) are typically discussed and analyzed (Bacq and Janssen 2011).

Some of the most well-known social enterprises include: Grameen Bank in Bangladesh, founded in 1983 to provide micro-loans to poor women; *The Big Issue* magazine, founded in 1991 in the UK to support unemployed and homeless people; and Dialogue in the Dark, an art exhibition created in 1988 in Germany in which blind people give tours to sighted people in absolute darkness to raise awareness and provide jobs for people with disabilities. In Table 9.1, I present a list of some of the most influential organizations worldwide that support social enterprise based on an analysis of organizational websites and press releases.

Table 9.1 Influential organizations that support social enterprise

Date founded	Region	Founder	Name of organization (website)	Description
1980	United States	Bill Drayton	Asoka Foundation (www.ashoka.org)	World's largest network of social innovators and social entrepreneurs
1996	Europe	European universities	EMES International Research Network (www.emes.net)	Performs social enterprise-related research
1997	United States	Jerr Boschee Jed Emerson Gary Mulhair John Riggan Billy Shore Richard Steckel	Social Enterprise Alliance (www.socialenterprise.us)	Champions the development of social enterprise in the United States
1998	Switzerland	Klaus Schwab Hilde Schwab	Schwab Foundation for Social Entrepreneurship (www.schwabfound.org)	Advances social entrepreneurship by creating a global network of social entrepreneurs
1999	United States	Jeff Skoll	Skoll Foundation (www.skoll.org)	Connects and invests in global social entrepreneurs and social innovators
2012	UK	Cabinet Office Ronald Cohen Nick O'Donohoe	Big Society Capital (www.bigsocietycapital.com)	An independent financial institution that provides charities and social enterprises with affordable financing opportunities

The rest of this chapter is organized as follows. In Sect. 9.2, I review the history and development of social enterprises in China. In Sect. 9.3, I draw on qualitative data (e.g., interviews, observations, documents) collected over a 2-year period from over 100 stakeholders in the social enterprise movement in China to describe the experiences of social entrepreneurs as they navigate complexities situated at the intersection of government, business, and society. In Sects. 9.4 and 9.5, I discuss challenges and opportunities associated with the social enterprise movement, respectively. Finally, in Sect. 9.6, I discuss the unique significance of the social enterprise movement in China and propose that it is more precisely defined as the social entrepreneurial movement for innovation.

9.2 The Development of the Social Enterprise Movement in China

The social enterprise movement has emerged and become increasingly popular in China over the last 10 years. The introduction of the social enterprise concept is mainly attributed to the advocacy of leading public welfare institutions and social innovation centers, promotion in the media, the exchange of ideas at several national and international conferences, and the translation of books on the topic into Chinese. It is fair to say that participation by the government and law enforcement has lagged significantly behind. Academic research also remains scarce, and the involvement of business elites and professionals remains negligible.

9.2.1 The Introduction of the Concept of Social Enterprise in China

The concept of social enterprise was introduced in China by Professor Liu (2004) of Peking University, who translated a research report on social enterprise published by the OECD. Two years later, Hu (2006) published an essay entitled, "What is Social Entrepreneurship?" in the second issue of *Comparative Economic and Social Systems*, a domestic journal that closely follows international academic trends. The essay was one of the earliest publications in the social enterprise literature. At that time, Chinese scholars shared a similar basic definition of social enterprise with an emphasis on hybridism and sustainability and published articles primarily in domestic academic journals related to the administrative management of nonprofit organizations.

In June 2011, the Beijing Municipal CPC Committee published the first government report in China to mention the concept of social enterprise. The report explicitly initiated an exploration of effective ways to attract resources and social capital investments in public services and to actively foster the development of social enterprise and the social services sector. Since then, other local governments have

followed suit, advocating that social enterprises should play an important role. Meanwhile, the official website of the Social Network of the Ministry of Civil Affairs[3] published an official interpretation of the concept of social enterprise based largely on a definition and standards proposed by Wang (2012d) in an article in a domestic journal. In China, the most representative current definition of social enterprise is based on the *China Social Enterprise and Impact Investment Report* (Zhou et al. 2013), an output of the 2013 Bo'ao Forum for Asia. The report separates social enterprises into three general categories, presented in Table 9.2. In China, there is no legal identification or government regulation for social enterprises so far. The organizations and entrepreneurs involved in social enterprise movement (take business approach to achieve social purpose) I discussed in this chapter are taking the legal form as commonweal organization (both government-supported or informal grassroots ones) or commercial firms (but claim mainly aim to social purpose). On the other hand, social enterprise movement in China brings the new spring of China third sector (esp. the commonweal industry) development. Therefore, I present the coevolving histories of social enterprise movement and commonweal industry development in China in the following sections of this chapter, which are different from in the West where the third sector has developed more maturely and goes ahead of social enterprises.

Table 9.2 Three categories of social enterprises

Category	Actors	Primary activities	Social enterprise definition
A: Broad definition	Investors, educators, entrepreneurs	• Promote the influx of private capital and the broad dissemination and popularity of the social enterprise concept • Encourage the practices of social entrepreneurs	For-profit enterprises that exist to create social benefits
B: Strict definition	Government agencies, third-party assessment organizations	• Help formulate policies and regulations to support social enterprise • Promote the effective management and supervision of social enterprise	Enterprises that distribute most of their profits to support public welfare
C: Special definition	Government institutions and social organizations	• Retain the distinctive Chinese system structure • Promote the transformation of public nonprofit organizations into social enterprises	Privately owned, nonprofit organizations that solicit donations to support public welfare

Note: This table is based on definitions published in the *China Social Enterprise and Impact Investment Report* (Zhou et al. 2013)

[3] http://www.chinanpo.gov.cn

9.2.2 Institutional Support and Media Promotion

In November 2004, the Global Collaboration Society invited English entrepreneurs to participate in a 9-day program in which they would visit cities across China. Sponsored by the British Consulate in Shanghai and supported by the NPO Information Center, the society organized the Sino-British Social Entrepreneur/NPO seminar in Beijing. In 2005, Ding Yuanzhu and Dong Jiong published articles in *China Economic Herald* and *China's Insurance Quote* in which they introduced practices of foreign enterprises and explored strategic plans for social enterprise development in China (Ding 2005; Dong 2005). Since then, *China Society Journal*, *Comparative Economic and Social Systems*, and *21st Century Business Review* have become the main outlets for promoting the concept of social enterprise in China (Sha 2013).

In 2006, the introduction of the Chinese version of Bornstein's (2006) book *How to Change the World* (translated by Juliet Wu), and *The Rise of Social Entrepreneurs* (Leadbeater 1997/2006), coupled with the speech[4] made by Nobel Peace Prize winner Muhammad Yunus, founder of Grameen Bank, made the concept of social enterprises popular in China. In October 2006, the Central Translation Bureau Center for Comparative Political and Economic Studies, the United Kingdom Cultural Association, and the Young Foundation co-organized a seminar in Beijing entitled Social Innovation and Construction of an Innovative Country. Later, discussions about Chinese and foreign innovation activities appeared in a translated version of Morgan's (2006) article, *Social Silicon Valley: The Occurrence and Development of Social Innovation*, as well as his definition of social innovation.

In May 2007, the Skoll Center for Social Entrepreneurship, the Zhejiang University Innovation Institute, and Asia Innovation College cohosted the Skoll World Forum on Social Entrepreneurship in Hangzhou, attracting 200 participants from 14 countries and 17 provinces in China. As the first forum in China on social enterprise and social innovation, the purpose was to build a bridge between Asia and the West on the topic of social entrepreneurship. Introducing the concept of venture philanthropy, Lenovo funded a plan to support the establishment and development of start-ups and small businesses and to help them increase their collective capacity and extend their volunteer networks. Lenovo began a trial implementation at the end of 2007 by sponsoring 16 nongovernmental public welfare organizations with nearly 3 million RMB in venture capital, which aroused great public interest.

During the disaster relief effort after the Wenchuan earthquake in 2008 and the period of reconstruction that followed, grassroots (i.e., nongovernmental) welfare (changed to be "commonweal") organizations emerged in China. Since then, grassroots commonweal organizations and NGOs and their volunteers have attracted significant attention from the media and the public. Although many view the year 2008 as the beginning of social commonweal, civic activism, and volunteer activities in China (Xu 2008; Zhu and Chen 2009), as early as 1993, Economist Mao Yushi had established the Longshuitou Village Poverty Alleviation Foundation, and later Du

[4] http://www.nobelprize.org/nobel_prizes/peace/laureates/2006/yunus-lecture-en.html

Xiaoshan, father of micro-credit in China, established a poverty alleviation cooperative in Yi County, Hebei Province. In 2009, Jet Li's One Foundation and Jack Ma's Alibaba announced that they would donate capital to finance projects in China through Grameen Bank. In November 2010, Grameen Bank, the One Foundation, and Alibaba jointly founded the Songpan Grameen micro-credit company (Wang 2015). Although Songpan Grameen had officially completed the required registration procedures, the joint venture was defunct by the end of 2012. The Grameen model experienced twists and turns in China, and few successful cases were publicized.

In 2010, funded by the China Social Entrepreneur Foundation, the Social Innovation Research Center and the Compilation and Translation Bureau of the CPC Central Committee published the *Bluebook of Social Innovation*, intending to publish annual reports of social innovation development in China moving forward. In June 2011, a collection of YouChange social innovation and social enterprise translations contributed to the social innovation comparative studies literature; this research contribution was the result of a project jointly supported by Comparative Political and Economic Center of the Compilation and Translation Bureau of the CPC Central Committee and the China Social Enterprise Foundation Center. The series includes four books: *Philanthropic Capitalism* (Bishop and Green 2009/2011), *Entrepreneurship in the Social Sector* (Skillern et al. 2007/2011), *Strategic Tools for Social Entrepreneurs* (Dees et al. 2002/2011), and *The Search of Social Entrepreneurship* (Light 2005/2011).

Driven by multiple forces, social enterprise studies have expanded dramatically since 2008, as evidenced by the number of high quality research publications. In December 2008, the Ministry of Civil Affairs and the United Kingdom Cultural Association co-organized a Social Organization and Social Innovation seminar and solicited essays and reports related to the theme of social enterprise and innovation. In September 2009, the Davos World Economic Forum in Dalian specifically organized a meeting to discuss discoveries and breakthroughs related to social innovation, offering the public a chance to obtain a preliminary understanding of social enterprises. That same year, Jin (2009), an associate professor at Peking University's law school, documented the rise of social enterprises across the globe and specifically noted that social enterprises would not change their original profit or nonprofit attributes as they transformed their company identities. In the analysis, Professor Jin discussed legal regulations and special provisions for the establishment of social enterprises.

A number of academic training programs also have been established in recent years. Initially established at the Shanghai University of Finance and Economics in 2008, the Social Enterprise Research Center was the first in China to study social enterprises and social investments; numerous outstanding entrepreneurial cases were born, and preliminary theoretical studies on social enterprise and social impact investment were conducted there.

In 2009, the UK Education Advisory Service (UKEAS) launched a long-term training program in China, inviting influential industry leaders to explore social enterprises in the UK. In 2010 alone, it recruited 210 participants in five Chinese cities. So far, over 800 direct beneficiaries have attended the training program. According to the interviews, the British Council was widely recognized by Chinese

entrepreneurs for the high quality of the training and subsequent impacts. Many grassroots entrepreneurs mentioned that the program had substantially influenced their mindsets and abilities. Similarly, in 2009, in collaboration with the YouChange Foundation, Peking University launched a credit course in social entrepreneurship and social innovation practice and implemented the Startup Coffee Project.[5]

On June 21, 2010, the One Foundation Philanthropy Research Institute of Beijing Normal University was officially established. (In January 2012, it was renamed the China Philanthropy Research Institute of Beijing Normal University.) It was the first research center co-established by a university and a charitable organization to study commonweal theory, cultivate commonweal talents, and provide consulting services on commonweal policies. The philanthropy institute also began to enroll students and prepare teaching materials for an Executive Master's degree in Public Administration (EMPA). Likewise, in 2012, Shanghai University of Finance and Economics launched MBA courses on social entrepreneurship, offering business elites a platform for fully understanding opportunities and trends in social entrepreneurship and investment. Meanwhile, the NGO center established by Wang Ming added social enterprise to its research list. The Net Ease MOOC platform, the largest local MOOC platform in China, launched a 50-episode course on commonweal, and one episode specifically introduced the concept of social enterprise. The Mars Spark Program launched by the Shenzhen Centre for CSR Promotion (CSRDC) and the Shenzhen Charity Association was called the Huangpu Military Academy[6] of social innovation and modern charity.

Although many formal academic training programs have been created and implemented, research on the social enterprise movement within the Chinese academy remains scarce. Only a few scholars have explored the topic from the angle of public management and nonprofit institutional management. In addition, these scholars have seldom introduced related topics during classroom instruction. Generally, business schools in mainland China have paid little attention to the concept. No specific curriculum has been developed to explore social enterprise, and no articles have been published in A-level international journals. In essence, the definition of social enterprise created at the Bo'ao Forum is based on the collective ideas of practitioners, revealing the general lack of attention to this topic from the Chinese academic community.

Although media promotion and education training programs have benefited social enterprises greatly, the credit of the entire category has been challenged due

[5] Startup Cafe introduces social entrepreneurship to university students and advocates care for innovative solutions to social problems. It consists of three main programs: (1) a training program for university teachers; (2) a massive online credit course on social entrepreneurship; and (3) a seed funding program to encourage and support social enterprise practice of student teams. http://www.youcheng.org/plus/list.php?tid=237.

[6] The Huangpu Military Academy: one of the four military academies in the world, lies on Changzhou Island in Huangpu. In May 1924, Sun Yat-sen first established the Huangpu Military Academy with the help of the Communist Party of China and the Soviet Union in order to train military officials for revolution. It turned out to be a great success with many famous generals from both the Communist Party and the Kuomintang receiving their training there.

to some crisis such as the Guo Meimei incident.[7] People became sensitive and suspicious when finding the combination of philanthropy and commerce. During interviews, employees at charity shops in Shanghai confirmed that 2008 was a peak period, but business turned sluggish after the Red Cross scandal.

Since high levels of trust are required, philanthropy field with little social trust capital actually hinders the development of social enterprises, both politically and socially. Some commonweal organizations structured as social enterprises are reluctant to be identified as such for fear that people will not recognize them as charities. Even business elites conceded that they were not willing to label their enterprises as social enterprises for fear that the label would cause misunderstanding and hamper future commercial promotion. They pointed out that social enterprises are, first and foremost, enterprises. Thus, the primary objective for any social enterprise is to survive in the market.

Meanwhile, social media platforms such as BBS, Weibo, and WeChat have made it relatively easy for the public to hold such organizations accountable for their actions. Criticisms of social organizations are increasing in volume and harshness, embodying the crisis of social and cultural development. In 2011, for example, the Survey and Data Center at Renmin University of China, the Statistics School of the Capital University of Economics and Business, and the Statistics School of the Central University of Finance and Economics jointly conducted an opinion survey about social trust among mainland consumers, which indicated that the trust crisis was most severe on the political, economic, and social levels, and distrust among individuals was prevalent.

In 2012, big scale social enterprises conferences were emerging, triggering discussions about social impact investments. In 2012, the 18th Session of the National People's Congress Party Report included the idea of strengthening social construction and advancing social reforms. Meanwhile, after the Guo Meimei scandal, the charity community overhauled its strategy to focus on cross-border cooperation and strategic alliances, and young generation of commonweal leaders stood out (Yang 2014). In March 2015, Li Keqiang twice mentioned the idea of public entrepreneurship as an overall innovation strategy in the annual government work report. He pointed out that public entrepreneurship and improvement of public products and services would serve as dual engines to upgrade China's economy. This idea can be traced to the opening ceremony speech of the Davos Summer Forum in September 2014. From 2014 to 2015, governments at all levels advocated that university graduates engage in innovative activities and encouraged young people to start their own businesses in their hometowns.

This focus on entrepreneurship and innovation created an advantageous environment for the social enterprise movement in China. This is evidenced by the response

[7] Red Cross scandal (Guo Meimei incident): China's Red Cross Society came under fire after a credibility scandal erupted on the Internet. Netizens were infuriated when a 20-year-old woman named Guo Meimei, who claimed on Sina Weibo (the Chinese version of Twitter) to be the general manager of a company called Red Cross Commerce, boasted about her luxurious lifestyle. http://www.chinadaily.com.cn/opinion/2011-07/15/content_12912148.htm.

to the Lushan earthquake in 2013; unlike the Wenchuan earthquake in 2008 (in which rescue efforts were led primarily by the government), nongovernmental commonweal organizations comprised the main rescue force. The Ya'an earthquake relief efforts also were more professional and Internet-based than those associated with the Wenchuan earthquake. From 2008 to 2012, the number of Sichuan social organizations increased by 14.7%, from 28,345 to 32,524; in 2012, they employed about 400,000 people. The online charitable donation platform also matured and developed during this period. According to incomplete statistics from the Research Report on China's Online Donations (Gu et al. 2013), by the end of September 10, 2013, over RMB 520 million had been raised via online donation platforms. Funds raised via Alibaba, Tencent, Sina, and Alipay totaled RMB 100 million, making them the main online donation platforms in China. Tencent alone had over 16 million donators. Thanks to the Internet, more young people engaged in donation-related activities and became volunteers and social entrepreneurs. It also inspired a trend of Internet commonweal and models such as crowdsourcing and crowdfunding.

Thus, the year 2013 was deemed the dawn of the era of commonweal with all citizens' participation in philanthropic community. Commonweal no longer constituted unilateral giving from the upper class to the lower class. Rather, it meant the exchange of gifts among all citizens with equal rights. Driven by grassroots organizations engaged in bottom-up activities, philanthropy began to take on the air of rationality and assume a contractual spirit. Advocated by Zhen Weining, the founder of Shenzhen Canyou Group, and Xu Yongguang, Chairman of the Nandu Public Fund, the China Social Enterprises and Social Investment Forum was launched on September 3, 2014 by a dozen domestic funds, research centers, and social investment institutes devoted to social enterprise and social investment. The first social enterprise and social investment annual meeting was held at the Shenzhen Intercontinental Hotel on June 18–19, 2015. In Table 9.3, I provide a list of the main institutions that have supported the development of the social enterprise movement over the last 10 years in China.

9.2.3 Government Regulations

The laws and regulations governing the growth of social enterprises in China are neither comprehensive nor well developed.

9.2.3.1 Inadequate Legislation

At present, social enterprises in mainland China remain in the early stages of development, and the three regulations governing NGOs in China are administrative in nature. They include the *Social Organization Registration Regulations* (1998), the *Interim Regulations on the Administration of the Registration of Private Non-Enterprise Organizations* (1998), and the *Regulations on the Administration of Foundations* (2004). The administrative legitimacy of social enterprise is based on

Table 9.3 Institutions that have supported the development of social enterprises in China

Year founded founder(s)	Organization	Description and major projects
2006	Pudong Shanghai Non-profit Organization Development Center	Fosters social innovation and cultivates public welfare talents; nurtures start-up grassroots social organizations
Lü Chao	www.npi.org.cn	• Publishes *Social Entrepreneur* magazine • Initiated the nonprofit community service business model by hosting community service centers for the government, which has significantly enhanced service quality • Sponsored the Shanghai Public Welfare Development Fund to explore community funding models (e.g., United Way)
2007	YouChange China Social Entrepreneur Foundation	Promotes the development of social enterprises nationwide
Wang Ping (President)	www.youcheng.org	• Sponsored an on-site study of international social enterprises and held several symposiums • Established the Social Innovation Support Center and set up Excellent Social Entrepreneur Awards to support the training program held by the British Embassy • Supported Peking University in creating the first credit course on social innovation in China • Sponsored the publication of *The Translation of Social Innovation and Social Enterprises* and *Bluebook of Social Innovation* • Launched the venture coffee program • Sponsored the Social Value Investment Alliance • Published the *Social Innovation Review*
2007	Narada Foundation	A grant-making foundation that provides seed funding to promote the development of promising nonprofit projects and organizations, drive civilian social innovation, and foster civilian public welfare

(continued)

Table 9.3 (continued)

Year founded founder(s)	Organization	Description and major projects
Xu Yongguang	www.naradafoundation.org	• Macro-projects and projects in the public welfare domain (e.g., New Citizen Program, Disaster Relief, and Post-disaster Reconstruction Program) • Strategic programs such as the institutional partner plan and Ginkgo partner growth plan
2010	Leping Social Entrepreneur Foundation	• Invests in social enterprises specialized in knowledge innovation, social innovation leaders and supporters
Tang Min Mao Yishi Wu Jinglian	www.lepingfoundation.org	• Introduced the Social Venture Partners (SVP) model to promote venture philanthropy

This table is based on information from these institutions' official websites
Source: Materials published on the institutions' official websites

Example Cases: Social Enterprises in China

Source: Recompiled materials from *China Social Enterprise and Impact Investment Report* (Zhou et al. 2013)

Shenzhen Remnant Group, Inc. (Founder: Zheng Weining)
In 1999, the Internet Club for Disabled Friends in Futian District, Shenzhen was officially registered with the goal of providing employment for the disabled. It began as a small workshop with only five disabled employees and one computer.

- **Great scale:** The group has established 32 enterprises, one charity foundation, and eight nonprofit groups.
- **Turns disadvantage into advantage**: The disadvantage of immobility of the disabled was downplayed due to computer science. Employees are more resilient, have better concentration, and are able to work for longer periods in front of computer screens than their nondisabled counterparts.
- **Dividend model:** The foundation's dividend model has enabled the establishment of additional branch offices and increased profits. The remaining dividend is allocated to support various public welfare organizations. Shareholders receive no dividend. In 2009, Zhen Weining donated 90 % of the group's share and 51 % of its subsidiary companies' shares as well as

the brand's value to the Zhen Weining Charity Foundation, which ensures the social ownership structure.

Qiang Embroidery Support Plan/One Needle, One Thread Support Plan (Sponsors: Yan Junhui and Gao Tunzi)
After the Wenchuan earthquake, the Qiang Embroidery Support Plan was cofounded by the One Foundation and the Gaotunzi Cultural Institution to support women in the embroidery industry in order to protect the cultural heritage of Qiang embroidery.

- **Joint support from governments:** Sponsored by Jet Li's One Foundation, the foundation is supported by the Aba prefectural CPC Committee and the Aba government, as well as the Gao Tunzi Cultural Institution. From 2008 to 2009, its products were sold through consortium purchasing.
- **Successful transition to social enterprise:** Once public attention shifted and the One Foundation withdrew support, sales of Qiang embroidery under its original mode declined dramatically, and product quality became hard to control. Inspired by the Hong Kong Social Enterprise Summit, Yan Junhui set up the first Qiang Embroidery flagship store in Kuanzhanxiang in 2010, which broke even in the second year. It has since opened over a dozen stores.

Beijing Fuping School (Founders: Mao Yushi and Tang Min)
Established in 2002 with the aim of relieving poverty, the school mainly provided training programs for women in poverty-stricken areas. The initial intention was to help farmers gain urban work experience before transitioning to jobs in areas best suited to them. It later positioned itself as a promoter of social innovation with the goal of helping the poor, enhancing social equality, and ensuring sustainable and harmonious social development.

- **Diversified business model:** It eventually became clear that a single training program could not lift the poor out of poverty. Hence, the school shifted its focus to professional services targeted at China's promising markets of early children education, elderly care, and agricultural science. It developed four core businesses: housekeeping and community services, early childhood education, ecological agriculture, and micro-financing services.
- **Micro-credit finance service:** Yongji Fuping Micro Credit Co., Ltd. was the first commercial micro-credit company to base itself in a village.

Hetong Elderly Care Industry
In 1995, the first Hetong Retirement Home was established to address the aging population problem in China.

- **Cluster model of industrialization development**: Hetong has since developed an entire industry devoted to elderly care, including the Hetong Welfare Association for the Elderly, the Elderly Public Welfare Foundation,

seven retirement homes, one hospital, seven healthcare training schools, and one national institution dedicated to occupational skills appraisal. Several institutes are in the trial operation phase, including a recreational center, a catering distribution center, an institute of commendations for elders, and a public welfare property service institute that is registered as a company.

- **Nonprofit model**: Compared with other retirement homes, its service fees are relatively fair despite higher costs of care. It keeps costs low by improving management efficiency. It has no shareholders and no dividends. Apart from employee salaries and administrative expenditures, all funds are used to support specific welfare programs for the elderly and daily operations.

Buy42.com (Founder: Zhou Xian)
The website was established in 2011, meaning "buy for two." The website encourages people to donate their unused items and to purchase or recycle unused items through its platform so as to reduce carbon emissions.

- **Provides employment for the disabled**: Disabled people are employed to receive and stock donated items, take photos and upload them to the website, and manage distribution logistics.
- **Transparent statistics**: Donators can track statistics such as donation funds and capital flows. The website publishes a transparent report every 6 months and buyers can identify who donated the goods through the tracking system.

administrative rules and lacks NPC legal recognition. The problem is that administrative procedures for the registration of social enterprises protect the interests of administrative bodies, not the independence and legitimate rights and interests of social enterprises. For instance, while regulations grant the government various types of administrative power over social organizations, they do not prescribe the corresponding obligations on the part of the government.

The key issue that hampers the development of social enterprises in China is the lack of an official definition and qualification standards for social enterprises. Many individuals and institutions that start social enterprises do not have a clear idea of what they actually are. Many institutions claim to be social enterprises, but are not supported by or recognized by authorities. There are few preferential policies for social enterprises, if any. The generally adopted definition for a social enterprise is an organization that takes a commercial approach to achieve a social purpose, including the relatively commercial parts of private non-enterprise institutions and enterprises that are registered with the Industrial and Commercial Bureau but abide by basic social enterprise principles in its rules, internal agreements, and specific

operations. In addition, it is no exaggeration to say that existing regulations provide nearly no special protection for new social enterprises. There are no favorable tax policies, and some even hamper the growth of social enterprises (Sha 2013; YouChange Foundation 2013).

9.2.3.2 Complex Procedures for the Establishment of Social Enterprises

The *Administration Regulations on the Registration of Social Organizations* stipulate that a social enterprise should consist of at least 50 individual members or at least 30 member organizations. A national social organization must have funding of at least 100,000 yuan, and a local organization must have funding of at least 30,000 yuan. These size and funding requirements exclude small social organizations, especially those involved in environmental protection activities.

Furthermore, for a long time, many social charity organizations found it very difficult to register because of the double administration system, which required an organization to find a supervising organization on its own before registering with civil affairs departments at all levels. However, in early 2013, the National Development and Reform Commission unveiled the social organization registration reform, which enabled social charity groups to register directly. The reform was approved by the Third Plenary of the 18th CPC Central Committee and was included in the *CPC Central Committee's Decisions on Major Issues Concerning Fully Deepening the Reform* (hereafter referred to as the *Decisions*). An important reform introduced in the Plenary was to establish a modern corporate organizational mechanism that separated government and corporate entities and established self-management under the rule of law and explicit rights and responsibilities. The explicit target of the reform was to "revitalize social organizations." The *Decisions* indicate that social organizations are no longer regarded antagonistically; instead, they are viewed as partners of the government and the force driving the reform. While Shenzhen and Guangdong had made tentative attempts to directly register public welfare organizations, the *Decisions* signal a national governmental acceptance of the practice.

Although four categories of private organizations are now allowed to run independently without a supervising organization and to register directly with the local civil affairs department, and the capital threshold for the establishment of foundations has been lowered, "soft restraints" and the vigilance of the registration government have continued to hamper the registration of social organizations, albeit in a subtler way. By comparison, the registration process for commercial enterprises has become simpler and easier due to industrial and commercial registration reforms and the governmental focus on facilitating entrepreneurship. Thus, many social entrepreneurs tend to register as industrial and commercial entities or to operate as one physical body with two operation licenses.

9.2.3.3 Sporadic Policy Support

Although great improvements have been made, policy support for the social enterprise movement has been sporadic, and policies have not been integrated into a comprehensive system. In a survey of social entrepreneurs, 47 % considered the lack of government policy a major challenge for the operation of social enterprises (Wang 2012c). Many social enterprises lack the ability to address various policy and legal issues that arise. A questionnaire survey conducted by Shanghai Legal Center for NGOs (2014) in 2012 and 2013 shows that nearly 70 % of institutions are not equipped with professional legal staff; half said that they hire external help as needed and the other half stated that they are not able to hire legal staff at all and are forced to resolve legal issues by themselves.

The history of policy support for social enterprises dates to 2004, when the *Foundations Regulations* were revised to allow companies and individuals to establish foundations. (Previously, only public institutions had been authorized to do so.) In 2007, the Ministry of Civil Affairs released the *Qualification Accreditation for Welfare Enterprises*, further regulating the application requirements for welfare enterprises. In 2007, when the Hong Kong government hosted the first Hong Kong Social Enterprises Summit, the then Chief Executive of Hong Kong Donald Tsang pointed out that "the distinguishing feature of social enterprise is to use entrepreneurial thinking and business strategy to achieve societal goals" (Zhou et al. 2013). However, Chinese government has not distinguished social enterprises from their original role as welfare enterprises, commonweal organizations, or commercial companies, and the governing civil affairs departments and other ministries have not instituted favorable policies for the approval and administration and tax preferences of social enterprises.

Overall, since 2008, the trend for philanthropic resources in China shows a "retreat of the state and advancement of the people." The situation has improved even more since the release of the *Decisions* in 2013. The government now routinely purchases services from social organizations; in 2013, the government spent over 15 billion yuan on services from social organizations, a substantial increase compared with 2012. Moreover, in Guangdong and some other places, the government has expanded purchases beyond social work services to services from all types of social organizations. Recently, in coastal regions such as Shanghai and Guangdong, some experimental social enterprise incubators have emerged, providing evidence that local governments are exploring social enterprise opportunities. At the national level, in 2014, China made enormous strides to integrate basic endowment insurance for urban and rural residents and establish equal rights for all citizens. The State Council also released its *Guidelines on Promoting the Sound Development of Public Welfare Enterprises*, marking the first time the Council publicly expressed support for public welfare ventures. Charity financing is now encouraged as a new age of philanthropy is being embraced. On March 16, 2016, the 4th plenary session of the 12th NPC passed *Charity Law of the PRC* by voting, and the new law is to be effective from September 1st 2016, which will likely have a great impact on the social enterprise movement in China.

9.2.4 Social Impact Investment and Evaluation

In 2010, J.P. Morgan and the Rockefeller Foundation collaborated to publish a research report[8] on impact investments as an emerging asset class. The report points out that impact investments not only help resolve social issues but also yield financial returns, an idea that has attracted attention from both traditional investors and philanthropists. Somewhere between donations that strengthen social value and traditional investments that emphasize economic value lie impact investments, which are made through venture philanthropy and/or socially responsible investing. Globally, an increasing number of government and local institutions are making an impact on investments, with a current trend toward creating more impact on investment institutions. The recent introduction of the impact investing concept has strongly driven social enterprise innovation in China.

Appraisal standards are indispensable for managing the operations of social enterprises. Currently, there are two notable trends related to the introduction of international evaluation standards to China. Publicly traded Chinese companies are increasingly compiling and releasing corporate social responsibility reports to conform to standards required for obtaining international capital and being listed overseas. The year 2006 marked the birth of corporate social responsibility in China with the release of 32 reports. According to statistics published in *White book of China CSR Reports 2013* (Zhong et al. 2013), a total of 1231 CSR reports had been released by 2013. By 2012, all state-owned enterprises were releasing annual CSR reports, which was a target set by the State Department in 2008. Moreover, both the Shanghai and Shenzhen Stock Exchanges have begun to recommend that all publicly traded companies release sustainability development reports. In response to governmental requirements and demands from domestic and international stock exchanges, many companies have begun to release informal versions of the report. However, most of the reports show relatively rudimentary reporting mechanisms. In January 2014, the Global Reporting Initiative (GRI) released the G4 Chinese version of guidelines for sustainable development reporting, which has since become the most widely adopted tool for this purpose. The introduction of the GRI in China is evidence that in the current political and economic environment in China, commercial enterprises are increasingly being asked to engage in corporate social responsibility and to pay closer attention to the sustainable growth of mankind.

Likewise, the Impact Reporting and Investment Standards (IRIS), created and promoted by the Global Impact Investment Network (GIIN), and the Global Impact Investing Rating System (GIIRS), developed and released by B Lab, have been introduced in China. IRIS is similar to an index database that screes information, with around 150 questions that are updated every 2 years. This system has been adopted by about 65 % of impact investment projects around the world. Currently, some charity programs are trying to use the system, but it has not been widely adopted by major

[8] https://assets.rockefellerfoundation.org/app/uploads/20101129131310/Impact-Investments-An-Emerging-Asset-Class.pdf

commonweal and social innovation and investment institutions, especially emerging social impact investment institutions. The problem lies in the emphasis on assessment, as practitioners pay little attention to it and investors are not willing to pay the associated costs. In addition, traditional commercial investment institutions in China have not been paying much attention to the topic of social impact investment.

9.3 Stakeholder Experiences in the Social Enterprise Movement in China

Over a 2-year period, I interacted with more than 100 different stakeholders in China's social enterprise movement. I collected qualitative data during interviews with social entrepreneurs and as a participant in various forums and seminars to gain some insight into the internal dynamics of China's social enterprise movement. I also used information from various documents, white papers, and websites to deepen my understanding of the experiences of these stakeholders.

9.3.1 Traditional Commonweal Organizations in Transformation

Although most traditional commonweal organizations (i.e., those collaborating with governments or explicitly supported by them) have abundant financial resources, they continue to face multiple challenges.

9.3.1.1 Public Image

Since the Guo Meimei scandal, members of the public have questioned the true motivations of traditional government-supported commonweal organizations. With the development of the Internet, information transparency about various projects has improved, suggesting that demand for project promotion and implementation remains high. To improve their public image, social enterprises are trying to anticipate public concerns in advance, and ensure information transparency in a timely fashion, thereby enhancing the performance of staff members.

9.3.1.2 Team Effectiveness

Most staff in traditional public benefit organizations have academic backgrounds in social work and studied public policy administration at school. However, textbooks and curricula are outdated and contradict the managerial principles that form the

foundation of the current social enterprise model. During interviews, multiple stakeholders described situations in which team members who have worked in business organizations question other members with social work backgrounds, believing that social workers tend to focus on solving problems for individuals, and do not know how to systematically solve problems on a large scale. Moreover, government-run organizations have rich sponsorship and resources, so that the pace and pressures of work are minimal, and work efficiency is low. Thus, when such organizations attempt to shift to a commercial model, it is often difficult for the staff to adapt.

9.3.1.3 The Dilemma of Asset Rights

While many traditional commonweal organizations wish to become social enterprises, the process involves many legal risks since most of their assets such as brands, social resources, and work outputs are the direct result of funding and support from the government and the public. The laws and regulations related to private nonprofit organizations are unclear about asset rights. Spinning off one part of a public commonweal organization to become an independent social enterprise poses new challenges related to determining its investment value and income distribution.

9.3.2 Grassroots Social Entrepreneurs

Grassroots social enterprises cannot be strictly defined and categorized as social enterprises. In China, such organizations tend to be called nongovernmental commonweal organizations (as opposed to traditional commonweal organizations, which are run by the government). In 2013, Sun Yat-sen University's School of Philanthropy, NGO 2.0 China, and the Narada Foundation created the first database for nongovernmental commonweal organizations to address the information asymmetry between funding organizations and recipients. By the end of 2013, there were 3602 nongovernmental commonweal organizations in the database. Several criteria are used to define nongovernmental commonweal organizations. They must have been founded in mainland China (i.e., not founded in Hong Kong, Macao, Taiwan, and overseas); have been founded by private individuals or groups from mainland China; not be government-run organizations; have members who are devoted to philanthropic activities in China in order to help the public or each other; be nonprofit; and not be foundations (whether they are registered or not). This definition mirrors the definition of grassroots organizations. Over the past 10 years, grassroots social enterprises in China have encountered many difficulties.

9.3.2.1 Lack of Business Skills

Although grassroots social enterprises are eager to solve social problems, they struggle to survive themselves. They do not want to be funded through donations or grants, but many lack green marketing and e-marketing skills and do not know how to position and price products and services or package and promote their social value. Some grassroots social entrepreneurs work alone or have minimal staffs of two or three people. They also tend to have less experience in personnel management, team management, and social mobilization.

9.3.2.2 Lack of Sufficient Social Recognition and Support

Although most members of the public know about volunteer service, many have not actively participated in volunteer activities. Due to policy guidelines and public pressure, commonweal organizations pay their employees much less than similar commercial organizations; young, talented business professionals are thus less interested in joining social entrepreneurial ventures. Moreover, in the past, government-led philanthropy was free, so Chinese consumers view "the public good" as a free thing. Likewise, the Guo Meimei scandal dealt a heavy blow to the social credibility of commonweal organizations, so that grassroots social enterprises are reluctant to openly "sell" products and services and feel uncertain about engaging in commercial operations.

9.3.2.3 Lack of Official Registration and Tax Support

For many years, dual control over the registration of private nonprofits has severely hampered the ability of grassroots social enterprises to obtain legal status. Many social innovation projects were run without being registered, which made regulation and management difficult during the initial stages.

9.3.2.4 Funding Limitations

Ensuring the long-term operation and development of social entrepreneurial organizations requires hiring long-term employees who must be paid. However, the financial support given to nongovernmental commonweal organizations is project-based, and personal and administrative expenditures are not to exceed 10 % according to the current law. This inevitably results in a continuous project application process so that the team members' salaries can be paid on a regular basis. Fortunately, these obstacles are being gradually removed.

9.3.3 Socially Responsible Enterprises

In research reports on corporate social responsibility in China, it is clear that executives tend to advocate the establishment of socially responsible investment funds. Although the overall level of development lags behind the rest of the world in both size and proportion, it has improved in recent years. To some degree, this is related to globalization, entrepreneurial promotion, and cultural consumerism.

The Wenchuan earthquake in 2008 not only inspired the volunteer spirit but also was an important turning point for the development of social responsibility among many entrepreneurs, especially private entrepreneurs. Entrepreneurs who made one-time donations that had nothing to do with business operations exhibited an early form of corporate social responsibility. For example, in February 2013, Jack Ma delivered a speech at the Yabuli Forum. He specifically drew attention to social and environmental risks like air and water pollution in order to awaken entrepreneurs' crisis awareness. Many entrepreneurs reread Chinese classics to embrace the Confucian ideal of "cultivating the moral self, regulating the family, running the state, and making the whole world peaceful." Since then, many entrepreneurs have become the main promoters of cross-border cooperation between commercial and nonprofit organizations. They not only have contributed to strategic cooperation, but also have held management positions in nonprofit organizations to promote the development of China's commonweal and charity. For example, Liu Xiaoguang, Wan Shi, and Feng Lun successively served as the president of SEE Conservation. Jack Ma is the first Chinese member of the global board of directors of The Nature Conservancy (TNC), and he uses this identity on his Weibo profile.

At the same time, Chinese consumers have a growing awareness of the green movement. With the increasing use and popularization of Internet communication, stories about sweatshops run by foreign companies, the frequency of food security issues, and air quality are widely discussed. Consumers are increasingly demanding safe and environmentally friendly products and socially responsible actions from organizations. In 2015, Chai Jing, a prominent journalist who resigned from CCTV, released her privately filmed, in-depth investigation of air pollution entitled "Under the Dome." Chai said that air pollution had become an issue that she could no longer ignore due to her child's illness, so, she decided to perform a series of investigations. Since the video was released on social media, it has been viewed hundreds of millions of times. Chen Jining, the newly appointed minister of the Ministry of Environmental Protection said that he took the initiative to call Chai after watching the video.[9] In the months that followed, sales of all types of outdoor anti-haze equipment and air cleaners skyrocketed. Chinese public demands for environmental protection and fair development are being increasingly awakened, which has prompted enterprises to not only pay significant attention to social responsibility but also to treat it as an opportunity for innovative development.

[9] http://v.ifeng.com/v/news/chaijing/#01245964-64ae-4c8b-a580-58345199e2e5

9.3.4 The Social Entrepreneurial Venture Model

During interviews, Chinese social entrepreneurs revealed that the founders of many commonweal organizations or commercial social enterprises are business elites who have made mid-career transitions. Their social entrepreneurial journeys are quite deliberate, and they are able to use their business acumen and robust networks to exert more influence and meet more social needs. Business elites are almost always involved in training organizations, incubators and the most successful social enterprises. Another trend in China is the active participation of women in social entrepreneurship. Chen Jie, Founder of Shanghai Qixiang Children Development Center, a female social entrepreneur who won the Social Enterprise Innovation Award, described her work in a speech at the Women in Social Enterprise Conference at Shanghai (2014, July 12)[10]:

> Qixiang is a school that helps autistic children rehabilitate…some have asked, "What's the percentage of social enterprises that are established by women?"…I want to ask, "Does everybody know the percentage of autism rehabilitation institutions that are run by mothers?" 49.6%. Therefore, at the beginning I actually was a mom. I'm sure you are wondering about my child's condition. To be frank, I run the institution for my child. This was what inspired me to set up this institution, because at that time there were no autism rehabilitation institutions in Shanghai. My child had no place to go. What could I do?…In fact I knew almost nothing about social enterprise before, but just felt that I needed to set up a rehabilitation institution for my son. In the first year, I received an e-mail about a program that was financing Chinese entrepreneurs to study in the United States, so I signed up. In the second year, I went to the United States on April 5, 2012; that was the first time I heard the term "social enterprise." Coincidentally, I joined the BC social entrepreneurs in the same year…I began to learn that social enterprises aim to solve social issues using a business model…This gave me a lot of inspiration and I learned new concepts as well. It was almost a shock to me.

9.4 Challenges of the Social Enterprise Movement in China

In this section, I summarize the major challenges of the social enterprise movement in China based on the material presented in Sects. 9.2 and 9.3.

9.4.1 Money, but Little Talent

Given the booming Chinese economy, there are ample funding opportunities for social enterprises. However, the number of highly qualified business people who are engaged in social enterprise movement of commonweal and social innovation organizations is currently quite low. This might be attributable to the salary restrictions imposed on social enterprises. In order to become social entrepreneurs, business elites typically must give up their high salaries to devote themselves to their causes.

[10] http://www.huodongxing.com/go/2014wisesh

Why should highly qualified business people have to sacrifice economic security in order to achieve their goals of addressing social needs? This should not be the norm. The vast majority of citizens have no reference point for the intense social pressure faced by social entrepreneurs, who generally lack psychological support and guidance as they devote themselves to social enterprise ventures.

9.4.2 Organizations, but Little Awareness

The social entrepreneurial ventures introduced in this chapter are the accomplishments of true pioneers; in reality, most entrepreneurs and local governments in China do not have much awareness of these organizations. Moreover, the development of the third sector in China started much later than in the rest of the world, and its credibility and ability to mobilize society are low. Volunteering and donation are relatively novel concepts in Chinese society; Chinese citizens' social awareness is still in an early stage of development, and charity awareness is not very high.

9.4.3 Ideas, but Little Balance

Social enterprises need to find a balance between nonprofit commonweal and for-profit business. At present, the optimal model in China remains to be discovered. Although some ventures have achieved modest success, only certain aspects of them are successful. As a whole, social enterprises remain small in number, are implemented on a small scale, and do not have sustainable business models. In addition, university business schools generally perform research and develop curricula based on models of traditional enterprises. The government does not have an assessment, auditing, and supervision system specific to social enterprises, mainly because an effective ecosystem that supports systematization does not exist. Thus, overall development is not balanced or systematic, and the involvement of governmental agencies and commercial enterprises is insufficient. Overall, the social enterprise movement has not expanded beyond the realm of charity. It remains a fragile seedling that must be nurtured if it is to flourish.

9.5 Opportunities for the Social Enterprise Movement in China

While major challenges remain, many opportunities currently exist for the social enterprise movement in China. The social enterprise movement in China is unique and will continue to mature in order to best serve the Chinese context. China has finally found a new normal after 30 years of rapid economic development following

the reform and the opening of its markets to the West. The GDP forecast has been cut to less than 7 %, and the Chinese government must now face the reality of livelihood issues. A social crisis related to sustainable development has begun to emerge, including problems related to the huge development gap between urban and rural areas, the aging population, corruption and low efficiency among governmental agencies and state-owned enterprises, environmental protection and food safety issues, the drawbacks of exam-oriented and elimination education, and the demand for rules of law in civil society. However, it is precisely this crisis that creates development opportunities for the social enterprise movement.

9.5.1 Caring for the Needs of the Elderly

Business organizations dedicated to providing services for the elderly spend most of their time and money on the development of senior housing, while public benefit organizations mostly help individuals. There is little overlap between the activities of these two types of organizations, presenting an opportunity for social enterprises to bridge the gap and take a more holistic approach to addressing the needs of the elderly.

9.5.2 Improving the Education System

China faces many problems related to education, including a lack of educational services in rural areas, imbalanced educational resources, a lack of a comprehensive philosophical and cognitive curriculum, and inconsistent educational quality. Social enterprises could address many of these problems. With the involvement of business elites, the injection of social capital, and Internet technology, there are infinite possibilities for improving the education system.

9.5.3 Protecting Culture

The Cultural Revolution and a long period of large-scale urbanization have wreaked havoc on local culture in China. Protecting local culture is becoming an increasingly prominent problem, especially ethnic culture in a multi-ethnic country and intangible aspects of cultural heritage. Moreover, young adults in China's urban areas are under intense financial and career pressure and are in dire need of positive and healthy recreational outlets. Their needs for self-improvement in body and mind through travel, leisure, and entertainment are on the rise. Multiple opportunities for social enterprises exist at the intersection of the needs to protect traditional and local

culture while the young people are fit in the social innovation talent needs for this category. At the same time, the policies to encourage young people return hometown as entrepreneurs are increased.

9.5.4 Intelligent Environmental Protection

The Xi-Li Administration encourages entrepreneurship and innovation and desires traditional industries to engage in intelligent environmental protection. In recent years, "Internet plus," "big data," and "industry 4.0" have become frequently used buzzwords. After Chai Jing released her video *Under the Dome* detailing her investigations of air pollution, the administration appointed a new head of the Ministry of Environmental Protection and amended the Environmental Protection Law, which went into effect on January 1, 2015. A massive explosion at the Tianjin hazardous materials warehouse on August 12, 2015 aroused public interest in the safety of enterprises' production and storage facilities as well as their environmental assessment and testing protocols.

Different cities have different characteristics and advantages that impact innovation and development models. Beijing, which is not only the political center, but also the place where various international organizations and institutions are located, would be a logical location from which to coordinate projects sponsored by global corporations. Shanghai, with its strong business culture, has a high number of contractors and attracts a significant amount of business management talent. It has the unique advantage of being able to provide an ideal environment in which to test a commercial promotion model. Chengdu, having experienced several disasters, has well-developed NGOs with strong capabilities to coordinate with the government and social resources. Chengdu is thus a suitable location for innovation projects that require cooperation among the government, enterprises, and NGOs. Shenzhen is not only a city of volunteers but also a city of innovation and change. In May 2015, the largest-ever forum on social enterprises and social influence was held in Shenzhen, along with Maker Faire.[11] The Shenzhen government has an open, favorable attitude toward the social enterprise movement in China.

9.6 The Unique Significance of the Social Enterprise Movement

Based on my in-depth exploration of the social enterprise movement both globally and in China, I propose that the social enterprise movement can be defined as the search for better solutions to the constantly changing needs of society that achieve

[11] Maker Faire: http://www.makerfaireshenzhen.com/english

a balance between efficiency and fairness. Social enterprise does not require new types of organizations or institutions to be creased or the formal regulation of existing institutions; rather it is based on a set of new and innovative social business operation patterns inspired by the development of modern politics, economy, technology, and humanities. Given its ties to entrepreneurial innovation, the movement could be more precisely called the *social entrepreneurial movement for innovation*. In this section, I draw on global academic research on social enterprises, strategy, and entrepreneurship to identify several major social enterprise innovation trends.

9.6.1 Hybrid Organizations

Global academic research on social enterprises can be divided into three major categories: definitions of social enterprise (presented in Sect. 9.1); theoretical frameworks for understanding social enterprise development (i.e., state/market failure theory, resource dependency theory, institutional theory, social origin theory); and investigations of organization and strategic management and entrepreneurship in the social enterprise context. In recent years, academic research has shifted in the third direction; scholars are showing more interest in the inner workings of the social enterprise movement, specifically, organizational management and performance evaluation, and internal and external environmental factors of social entrepreneurship.

In the creation and pursuit of social and economic value, the benefits of global social innovation practices of the past decades are blurring boundaries between the traditional public and private sectors (Alter 2007). This has led to the birth of the social forms of enterprises (Johannisson 2000; Wallace 2004). From an organization theory perspective, social enterprises are hybrid organizations, with the twin goals of social objectives and financial sustainability; they are the product of the cross-border integration of the social and economic sectors.

Professor Wang (2012a) of Peking University pointed out that social enterprises subvert the primary assumption of classical enterprises: profit maximization. Rather, the primary concerns of a social enterprise are to maximize social welfare while ensuring sustainable development of the venture. These concerns correspond to the Confucian principles of the unity of righteousness and profit, balance of interest and righteousness, and profit generated from righteousness. However, in course of entrepreneurship practices such as goal setting, resource acquisition, human resource mobilization, etc. in social enterprise contexts, there are constant trade-offs between conflicting institutional logics and strategy selection resulting from border-blurring dual objectives (Doherty et al. 2014; Austin et al. 2006). As discussed in Sect. 9.4.3, social enterprises in China have ideas, but little balance. As shown in Fig. 9.1 (Zhang and Liu 2015), these organizational management struggles are inherently “tangled” (Doherty et al. 2014) and quite difficult to reconcile.

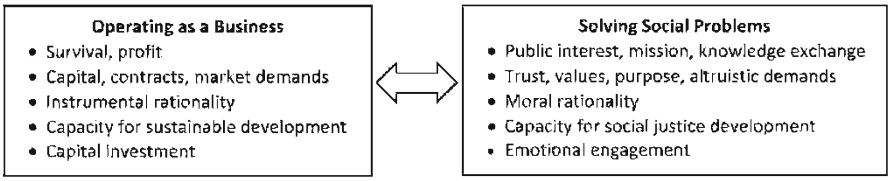

Fig. 9.1 Social entrepreneurs' psychological tension at surface (Zhang and Liu 2015)

First, social enterprises need to cooperate in order to leverage various social resources. Unlike Schumpeter (1942), who believed that entrepreneurs and other stakeholders have conflicting interests and take resources from each other, Freeman (1984, 2010/2013) believed that management activities are centered around balancing the interests of multiple stakeholders. Unlike traditional management theories, stakeholder management theory advocates that a company's development is inseparable from its stakeholders' input or involvement and that an enterprise pursues the overall interests of stakeholders, not just shareholders. Second, social entrepreneurs must decide whether to adopt a commercial or public (i.e., government-sponsored) funding strategy. Different asset rights are associated with commercial and public assets, and profits are allocated in different ways, so there are trade-offs that must be carefully considered. Third, social entrepreneurs must address trade-offs associated with the mobilization of human resources. In China, for example, volunteerism is encouraged in order to mobilize more people in addressing societal needs. However, since social enterprises tend to view volunteers as free intellectual labor, they do little to manage them. Moreover, talented businesspeople feel they must sacrifice personal financial gains in order to apply their skills to solving major social problems. Obviously, classifying social enterprises as hybrid organizations is only a stopgap.

9.6.2 The Unique Strategy Model of Social Enterprise

Counter to the dynamics suggested by resource dependency theory (Pfeffer and Salancik 1978) in traditional business management, social enterprises adopt a unique way of identifying and utilizing resources. Generally, business enterprises harness the power of resources to create competitive advantages, but the primary challenge faced by social enterprises is resource scarcity. Solving this problem is the mission of social entrepreneurship. This difference in resource access has led to the implementation of a unique social enterprise strategy model.

In traditional models, grassroots entrepreneurs would be expected to use bootstrapping methods (i.e., investments from founders, minimal capital requirements, asset sharing with other companies, delayed payments, and minimum inventory and financial expenditure) (Winborg and Landstrom 2001) in order to minimize their financial outlays. Likewise, organizational learning theory (March and Olsen 1975) suggests that organizations develop as they adapt their goals over time based on changes in the environment. This means that social entrepreneurs are constantly identifying and finding ways to utilize all types of resources based on intuitive response, rather than creating long-term strategies to reduce uncertainty (Sarasvathy 2004). Based on these two key differences, a more precise way to describe the business strategies of social entrepreneurship is bricolage (Domenico et al. 2010). As social enterprises develop and evolve, they continue to use the resources at hand, while continuously identifying and storing additional resources in hope that they can be used in the future. Through various assemblages, many social resources can be used in innovative, unprecedented ways.

9.6.3 "Life is Entrepreneurship"

In the mid-1990s, scholars with social psychology backgrounds began to explore issues related to entrepreneurship, which led to the creation of a cognitive theory of entrepreneurship. According to Mohammad Yunus, founder of Grameen Bank, "the biggest flaw in our existing theory of capitalism lies in its misrepresentation of human nature" (Yunus 2011). Making money is a major, but not the only, human pursuit. An economic framework must also include service, caring, sharing, compassion, and other factors. Once economic theory acknowledges the multidimensional nature of humans, business perspectives are immediately transformed. As discussed in Sect. 9.1, in many cases around the world, the motivations of many social entrepreneurs are tied to social cognition. During interviews, social entrepreneurs often made statements such as "this is my mission in life," "this is the love of my life," and "this business is my life."

Using classic grounded theory methods, Zhang and Liu (2015) explored the psychological causes of social entrepreneurship as evidenced by entrepreneurial management behaviors. Findings based on interviews, written and verbal statements, social media posts, and other data from 44 different social entrepreneurs show that the psychological tension (Fig. 9.1 show the tension at surface) experienced by social entrepreneurs is essentially a underpinning self and identity construction process involving constant evaluation and reordering of priorities in three areas: individual, career, and society. This dynamic process of conflict, tension, and release involves several stages (i.e., awakening, exploring, releasing, challenging, and transcending), whereby social entrepreneurs balance their individual-, career-, and society-related interests in order to "keep the momentum of life." The psychological tensions associated with social entrepreneurship are also a source of power that

makes such endeavors attractive. Unlike other theories (i.e., hybrid organizations), this theory explains the unique psychological components of social enterprise management and social entrepreneurship.

9.6.4 The Future of the Social Entrepreneurial Movement for Innovation

When academic researchers discussed social capital theories in the past, they could not have predicted how digital technology would change the future economy and society. In the wake of the information technology revolution, traditional economic and sociological theories are inadequate for explaining investments in social capital, knowledge exchange, and the evaluation of social resources and value. For example, with increased Internet usage and innovative developments such as crowdsourcing, crowdfunding, and resource sharing models, it has become more difficult to calculate consumer surplus, and distribution has become more diverse. Moreover, as more products and services are being manufactured and managed by robots, human intelligence is being reflected and exchanged in a new way.

When it becomes exceedingly difficult for traditional economic approaches to explain the dynamics associated with the development of the global economy, the unnecessary antagonism between social objectives and economic goals will likely begin to disappear. In various regions around the globe, the social entrepreneurial movement is not expected to be isolated, but continuously integrated through, for example, the formation of an exchange system for various social resources (i.e., money, time, intelligence, human labor) and a unified financial, sustainability and social impact assessment system with integrated resource and information reports. Furthermore, the lines between the three sectors (government, businesses, social organizations) will become increasingly blurred, and their activities will complement each other.

Unlike business objectives, societal objectives are not inherently good or evil. The operational objective of both social enterprises and public welfare institutions is to achieve social goals, unlike traditional enterprises, where the goal is to maximize profits. People create enterprises to organize investments, production, distribution, and knowledge exchange, with the desire to achieve maximum efficiency. An enterprise is instantiated through contracts with various stakeholders whose rights must be safeguarded. When activities are performed in accordance with contract specifications, transaction costs are reduced, operations are in compliance with rules, and performance improves. The development of the social entrepreneurial movement is driven by efforts to seek better solutions to constantly changing societal needs that achieve a balance between fairness and efficiency.

During the industrial revolution, the goal of many enterprises was to increase output efficiency in order to meet societal needs. An enterprise's success was typically measured as increased monetary value, which ultimately led to a one-dimensional culture based on "money worship." Since providing solutions to social needs of disadvantaged groups did not add monetary value, other types of organizations, third

parties, and governmental departments began to provide such services, and other nonmonetary assessment criteria became acceptable. It gradually became widely recognized that the dominant monetary value-added assessment method (i.e., based on traditional financial statements) has created a disadvantage for social development. Therefore, other assessment methods such as social responsibility reports, sustainable development reports, and unified financial statement were actively advocated.

In addition, the traditional value-added assessment model has been overhauled to separate the culture and relationship between commercial enterprises and charity organizations (e.g., the unnecessary distinction between "good" and "bad" social needs). In light of recent social and scientific developments as well as charity and social resource diversification, knowledge can be directly exchanged in nonmonetary ways; meaning and organizational influence are being recognized as valid pursuits and making money is no longer the only development target. Organizations are engaging in innovative resource investment and output and allocation practices to address social needs; together, they are driving the current social entrepreneurial movement for innovation. Adopting commercial organizational structures for fair development, holistic and harmless solutions to social needs are truly innovative (Ding 2013). Thus, it is meaningless to classify the enterprise as commercial or commonweal entities from the innovative perspective, and enterprise pattern will play a better role in "efficiency" service.

From the perspective of fair development, the social entrepreneurial movement for innovation presents abundant opportunities for mankind. Moving forward, society is likely to encounter new challenges associated with this movement, such as:

1. Who will evaluate the process of investment and output allocation and determine whether it is helpful or harmful, fair or unfair? Is fairness itself "fair?"
2. What are the reasonable allocation proportions for production and consumer surpluses? Could it be considered exploitation when financial capital is involved?
3. How can the social entrepreneurship spirit and value system be expanded? How can social entrepreneurs access support services such as psychological training and expertise?
4. What transaction platform(s) should be used for the exchange of knowledge, meaningful currency, or influence investment? What should the exchange methods and norms be?
5. Since social entrepreneurial innovation will continuously test the limits of current traditional commercial laws and regulations, will the vagueness of the three sectors' roles bring about social insecurity?

On September 25, 2015, during a Summit on Sustainable Development at UN headquarters in New York, 193 member states formally adopted 17 sustainable development goals aimed at three dimensions of development: social, economic, and environmental. From 2015 to 2030, solutions will be implemented in an integrated and thorough way, in an attempt to put the world on a path toward sustainable development. The adoption of these global goals highlights the significance of this chapter. The social entrepreneurial movement for innovation encompasses the trends of fair development in the world and presents an opportunity for the global community to collaborate with the Chinese people to solve the greatest problems facing mankind.

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Chapter 10
Interorganizational Fair Governance in China

Chuang Zhang

Abstract Using a framework based on interorganizational fairness theory, I describe the current state of interorganizational fair governance in China from three perspectives: academia, business, and government. After a brief review of relevant theoretical literature, I review empirical academic research on interorganizational fair governance published by Chinese scholars. Then, I present findings from a preliminary research investigation of interorganizational fair governance practices of the top 100 Chinese enterprises and the top 100 Chinese retail enterprises. Specifically, I describe the vertical relationships between enterprises and upstream suppliers as well as downstream distributors and the role of fair governance in horizontal alliances and competition. I also explain how retail slotting allowances (i.e., passage fees) currently threaten fairness in the entire retail marketing channel in China. I summarize legislative and regulatory actions taken by the government in response to calls for interorganizational fair governance. I conclude by offering some recommendations for future research and some final reflections on the current and future state of interorganizational fair governance in China.

10.1 Introduction

Justice or fairness is the basis of all economic transaction relationships (Luo 2008; Ring and Van de Ven 1994). For nearly five decades, many scholars have studied organizational fairness, and the literature is vast (see Colquitt et al. 2001 for a review). More recently, scholars have begun to explore interorganizational fairness theory; although the body of literature is smaller, it is growing rapidly (e.g., Kumar et al. 1995; Luo 2005, 2007, 2008; Poppo and Zhou 2014; Samaha et al. 2011). In this chapter, I briefly review theoretical literature on interorganizational governance and fairness and then describe the current state of interorganizational fair governance in China from three perspectives: academia, business, and government.

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10.2 Theoretical Framework

Interorganizational governance is established through agreements or institutional arrangements to create, maintain, and end transaction relationships between enterprises (Heide 1994) and participants' supervisory and executive processes based on formal contracts or informal relational norms (Zhuang 2012). Building on ideas from new institutional economics (especially transaction cost theory), marketing scholars have introduced diverse theoretical perspectives (e.g., resource dependence theory, social exchange theory, relational contract theory, and role theory) into the study of interorganizational governance (Heide 1994; Heide and Wathne 2006). With transaction efficiency as the basic selection criterion, the market and hierarchy are the two basic transaction governance mechanisms in transaction cost theory; the former relies on the market price mechanism, while the latter relies on organizational authority. Using the market governance mechanism as the basic point of reference and integrating relational contract theory, resource dependence theory, and social exchange theory, marketing scholars have enriched and developed the interorganizational governance mechanism. In addition to the market and organizational hierarchy, marketing scholars focus on formal contracts and relational governance (relational norms and trust), two important governance mechanisms. By studying the vertical relationships between enterprises in marketing channels and supply chains, marketing scholars have investigated the promotion effect of different governance mechanisms on channel performance, the inhibition effect of enterprises' opportunism, and the interactive effects between different governance structures, thereby creating a very rich body of literature.

While the study of organizational fairness dates back nearly half a century (Colquitt et al. 2001; Greenberg 1990), scholars began to develop interorganizational fairness theory relatively later (e.g., Frazier 1983; Dwyer et al. 1987; Ring and Van de Ven 1994). Because justice is regarded as the basis for all economic and social exchange relationships, marketing and strategic management scholars believe that fairness is very important to the establishment, maintenance, and completion of interfirm transaction relationships, as well as interfirm organization (Luo 2007; Ring and Van de Ven 1994), which makes it necessary to incorporate the concept of fairness into the framework of interfirm organizational research. In organizational contexts, fairness is "the perception by a person that a decision making, outcome or procedure is both balanced and correct" (Husted and Folger 2004: 720). Scholars agree that fairness is a multidimensional construct, and the theory of organizational fairness includes three dimensions: distributive fairness, procedural fairness, and interactional fairness (Colquitt et al. 2001; Luo 2007). In interfirm organizations, distributive fairness is the fairness that enterprises perceive in the cooperative relationship or other results (Kumar et al. 1995). Distributive fairness is directly related to the distribution and sharing of income and costs in cooperative relationships between enterprises. An enterprise can develop a perception of fairness or unfairness by comparing the ratio between investment and income in the partnership. Procedural fairness relates to the decision-making process governing the allocation

of resources, profits, and costs in partnership, unlike distributive fairness which is focused on the distributed results (Kumar et al. 1995). Interactional fairness relates to the processes of execution and distribution and includes interpersonal fairness and informational fairness (Colquitt et al. 2001). Interpersonal fairness is the degree to which personnel are respected and treated politely, and informational fairness is the degree to which information is disclosed and exchanged during the decision-making and distribution processes. Obviously, compared with distributive fairness and procedural fairness, interactive fairness is based on the perceptions of the people representing the two sides in a cooperative relationship between enterprises.

10.3 Academic Perspective on Interorganizational Fair Governance in China[1]

In research on fairness in interfirm organizational governance, Chinese scholars have focused on two main contexts: supply chain/marketing channel management and interfirm strategic alliances. The former represents vertical cooperative relationships between enterprises in the supply chain/marketing channel, while the latter represents horizontal interfirm cooperative relationships. In vertical interfirm relationships, the effect of perceived fairness on trust has received much attention. Hu et al. (2007) found that in Chinese mobile phone channels, manufacturers' procedural fairness and distributive fairness both remarkably promoted distributors' trust, with procedural fairness having greater effect. As distributors' income level increased, the effect of distributive fairness on distributors' trust was reduced; the longer the relationship, the greater the enhancement effect of procedural fairness on distributors' trust. The positive effects of procedural and distributive fairness on trust have also been confirmed in the Chinese auto channel; distributive fairness remarkably promoted dealers' assessments of their investments in channel relationships (Qian and Ren 2010). Shou et al. (2011) found that in marketing channel relationships, suppliers' behavioral control and ability control significantly reduced distributors' perceptions of goodwill trust and ability trust, respectively; however, distributors' perceptions of fairness in the control process diminished the negative effect of behavioral control on perceptions of goodwill trust and ability trust.

Unlike scholars who studied effects on trust, Wang et al. (2014) focused on the functions of different fairness dimensions in repairing distributors' trust damaged by suppliers' supply shortages. The authors found that procedural fairness and distributive fairness had a remarkable effect on restoring the ability trust, goodwill

[1] To accentuate the book's Chinese perspective, I review research performed mainly by Chinese scholars (including those of Chinese origin) and Western researchers who focused their empirical studies on the Chinese market. This is not intended to be a comprehensive literature review; rather, I use some representative studies to reflect general observations and ideas of Chinese scholars on the role of justice in interfirm organizational relationships. For more detailed information, please refer to Liu et al. (2012).

trust, and integrity trust of distributors in suppliers, while interactive fairness only had a promoting effect on restoring distributors' goodwill trust in suppliers. In this context, procedural fairness (followed by distributive fairness and interactive fairness) had the strongest ability to repair the damaged trust.

In addition to effects on trust, the influence of fairness on interorganizational exchange performance has also received much attention. Li's (2010) study of the channel relationships between 353 Chinese manufacturing enterprises and their overseas agents showed that procedural fairness on both sides of the channel relationship can significantly improve overseas agents' knowledge sharing and voluntary cooperation behavior, thus promoting channel performance improvement. This result was further confirmed by Liu et al. (2012), who found that distributive fairness, procedural fairness, interpersonal fairness, and informational fairness have significant positive effects on relationship performance through three kinds of coupling behaviors: knowledge sharing, continuous commitment, and relationship commitment (except for the interpersonal fairness-knowledge sharing path). In addition, the four kinds of fairness have different strengths of effect on relationship coupling behaviors: for knowledge sharing and relationship investment, the most influential is procedural fairness, then distributive fairness; moreover, informational fairness and interpersonal fairness have the greatest impact on continuous commitment.

Poppo and Zhou (2014) introduced fairness theory into the contract governance framework of vertical relationships. Their analysis of relationships among 283 enterprises in China revealed that contract complexity, an aspect of procedural fairness, has a positive effect on exchange performance, while contract recurrence, an aspect of distributive fairness, has a positive impact on exchange performance. At the same time, monitoring and socializing improve the positive influence of contract complexity and contract recurrence on fairness perceptions. The results show that the concept of fairness should be integrated into the design framework for formal contracts between enterprises. When some dimensions of contract governance, such as complexity and recurrence, are framed based on fairness, relationship performance should be significantly improved.

Other scholars have focused on the impact of fairness when there are destructive factors in marketing channel relationships. Zhang et al. (2014) focused on distributors' perceptions of the effects of distributive fairness and procedural fairness on exit and voice when problems exist in channel relationships. They found that distributive fairness significantly reduces distributors' relationship exit propensity, but procedural fairness has no significant influence on it; furthermore, distributive fairness and procedural fairness significantly promote distributors' voice. Distributors' long-term orientation plays a partial mediating role between distributive fairness and exit propensity and a full mediating role in the effects of distributive fairness and procedural fairness on voice. Luo et al. (2015) examined the inhibitory effect of fairness on opportunism in the Chinese home appliance channel. The researchers found that distributive fairness effectively inhibits strong forms of opportunism (opportunistic acts that violate formal contracts), while procedural fairness and interactional fairness effectively inhibit weak forms of opportunism (opportunistic acts that violate informal relationship norms), thereby reducing the cost of governance and enhancing relationship performance.

Luo (2005, 2007, 2008) performed a series of studies on horizontal interfirm relationships and focused on the roles of procedural, distributive, and interactive fairness in strategic alliances. Evidence from these studies revealed that fairness can only become the basis of a strategic alliance relationship if perceptions of fairness are mutual. Different perceptions of fairness can stimulate conflict and opportunism, thereby affecting cooperative performance (Luo 2005). Luo (2005) first focused on the role of procedural fairness in cross-cultural strategic alliances and found that the greater the degree of procedural fairness perceived by the two parties and the greater the agreement between those perceptions, the better the alliance performance. These effects are stronger when cultural differences are more pronounced or environmental uncertainty is higher. Luo (2008) further tested the effect mechanism of procedural fairness on alliance performance and found that procedural fairness has a direct effect on promoting operational performance, but also has an indirect effect on promoting financial performance through interorganizational trust and cross-organizational personal trust. When the strategic alliance governance mechanisms are property rights (i.e., joint ventures rather than contracts), procedural fairness has a stronger impact on promoting alliance performance. Luo (2007) also examined the independent and interactive effects of procedural fairness, distributive fairness, and interactional fairness on alliance performance. Results show that when goal divergence between the two sides is larger, a combination of procedural fairness and distributive fairness better promotes alliance performance; when there is a higher level of interactional fairness, procedural fairness better promotes alliance performance.

Like other organization theories, organizational fairness theory has been developed in a particular cultural environment (mainly in the United States). As Ring and Van de Ven (1994) pointed out, in different cultural contexts, subjects have different perceptions and understandings of fairness and their actions may be different, which limits the applicability of organizational fairness theory in different cultural contexts. For example, Scheer et al. (2003) performed a comparative study of auto channel relationships in the United States and the Netherlands and found significant differences in enterprises' perceptions of distributive fairness in the two countries. As shown in many cross-cultural studies, there are numerous differences between China and the United States in terms of cultural traditions and social systems; indigenous psychological research has revealed the uniqueness of the Chinese view on social fairness (Zhang 2008). Thus, it is very necessary to study interorganizational fairness from a Chinese cultural perspective in order to address this important research gap. It may be an important direction for future research.

10.4 Business Perspective on Interorganizational Fair Governance in China

In this section, I present findings from a preliminary investigation of interorganizational fair governance practices in China. Due to space restrictions, the goal is not to comprehensively describe all of the ways in which Chinese enterprises practice fair governance, but to provide a general overview of current practices to reflect the

current situation in China. First, I describe the interorganizational governance practices of China's top 100 enterprises. Since the list is based on 2014 revenue regardless of industry type or ownership structure, these companies represent a good cross-section of the Chinese market. Since fairness problems are more prominent in relationships in which partners have unequal power (Kumar et al. 1995), it is appropriate to investigate the governance practices of relationships between the most powerful enterprises in China and their suppliers and distributors. Moreover, 81 % of the 100 largest companies in China are state-owned enterprises; given their prominence in Chinese industry and the Chinese market, their perceptions of fairness and fair governance practices in interorganizational relationships largely reflect the current concerns and characteristics of fair governance issues in Chinese enterprises.

Second, I focus on fair governance practices in relationships between China's 100 largest retail enterprises[2] and their suppliers (hereafter referred to as retailer-supplier relationships). Since no retail businesses are included among the top 100 enterprises (which are skewed heavily toward manufacturing and financial services), findings related to the retail industry are complementary and provide a more complete picture of fair governance practices in China. Moreover, retail enterprises are at the end of the consumer goods supply chain; thus, studying fair governance issues between enterprises and upstream suppliers can reveal different perspectives of fairness in interorganizational governance practices. During the past decade, retail enterprises have charged their suppliers various slotting allowances which are widely perceived as unfair. This practice has attracted significant attention from enterprises, the government, and the public to contradictions in retailer-supplier relationships and the fairness issues that emerge as a result. Transactional fairness is a major focal point of current interorganizational fair governance practices in China.

10.4.1 Fair Governance Practices of the Top 100 Chinese Enterprises

Among the top 100 Chinese enterprises, 81 are state-owned enterprises, 12 are private enterprises, and 7 are foreign-invested enterprises; 89 are listed companies. The enterprises operate in a variety of industries, including manufacturing (41), finance (17), mining (16), shipping and logistics (9), utilities (9), real estate and construction (4), communication services (3), and import/export trade (1). Average revenue for the Top 100 Chinese enterprises was 61 billion dollars in 2014.

I collected and analyzed data related to large enterprises' fair governance practices from several sources, including the enterprises' official websites, public reports and documents (such as annual reports, corporate social responsibility reports), news reports, and other related information based on search engine results for keywords related to enterprise fair governance. I was unable to find any public information on enterprise fair governance practices for 28 enterprises, including 22 state-owned

[2] Based on 2014 rankings published by the China Chain Store & Franchise Association

enterprises (27 % of all state-owned enterprises in the top 100), 5 private enterprises (42 % of all private enterprises in the top 100), and 1 foreign-funded enterprise (14 % of all foreign-invested enterprises in the top 100). Among the remaining 72 companies, only 19 mentioned fair governance directly on their websites; the other 53 discussed fair governance specifically in their corporate social responsibility reports, including 47 state-owned enterprises (58 % of all state-owned enterprises in the top 100), 5 private enterprises (42 % of all private enterprises in the top 100), and 1 foreign-invested enterprise (14 % of all foreign investment enterprises in the top 100).

For the top 100 enterprises, the concept of fair governance is discussed mostly in the context of major interorganizational relationships with suppliers, distributors, partners, competitors, etc. Many enterprises specifically explain how they implement fair governance in actual interorganizational management practices. For example, China National Petroleum Corporation (CNPC) stated that for suppliers, fair governance constitutes "fair procurement, integrity compliance, strategic cooperation, realization of a win-win result." In order to implement fair governance and maintain fair competition throughout the industrial chain, CNPC has used an Internet-based electronic procurement and project bidding platform since August 2008. The platform creates a unified procurement system with standardized procedures that enable purchasing information to be highly integrated and widely shared. Making the procurement process transparent achieves the goals of "open business, controlled processes, full documentation, permanent trace," thereby promoting the virtuous circle of a transparent, open, and fair industrial chain.[3] Other companies in the same industry (e.g., Aluminum Corporation of China, China Resources, etc.) also use electronic procurement platforms to ensure that purchasing activities are open, transparent, and fair.

The results of this simple survey reveal that China's top 100 enterprises have not adequately implemented fair governance practices. These 100 companies are among *Fortune* magazine's Global 500, and 81 % are state-owned, making them extremely influential in the Chinese market. Yet, only half of the enterprises on this list systematically elaborate fair governance ideas and discuss specific implementation measures. Moreover, 28 % fail to mention fair governance at all in public documents. Although this does not necessarily indicate an absence of fair governance practices, the fact that they do not mention the concept in communications with stakeholders or in the media may signal that fair governance has not been fully integrated into these enterprises' business philosophies.

10.4.2 Fair Governance Practices in the Retail Industry

The list of the top 100 Chinese chain businesses in 2014 published by the China Chain Store & Franchise Association includes 32 state-owned business, 49 private enterprises, and 19 foreign-invested enterprises, including 64 listed companies. I used a data collection and analysis method similar to the one described in Sect. 7.4.1.

[3] Accessed September 4, 2015: http://www.sinopecgroup.com/group/shzr/ygfz1/yxpy/

Among the top 100 retail businesses in China, I was unable to find any references to fair governance for 84 enterprises; 12 enterprises made brief references to fair governance on their websites, and only 4 enterprises discussed fair governance in their social responsibility reports. Among the 12 enterprises that referred to fair governance on their websites, 7 are private enterprises, 4 are state-owned enterprises, and 1 is a foreign-invested enterprise; among the 4 enterprises that mentioned fair governance in their social responsibility reports, 2 are state-owned enterprises, 1 is a private enterprise, and 1 is a foreign-invested enterprise.

Several conclusions can be drawn from these findings. First, using fair governance as an evaluating standard, retail enterprises are doing far worse than the top 100 Chinese enterprises. Only 16 % of the top retail enterprises clearly refer to fair governance, and only 4 % of enterprises elaborate on it in a meaningful way (i.e., in formal reports). Second, although just 32 % of the top 100 Chinese retail enterprises are state-owned, 37.5 % of the 16 enterprises expounding the fair governance idea are state-owned. Finally, foreign-invested enterprises seem to focus the least on fair governance issues: only two foreign-invested enterprises (just 10.5 % of all foreign-invested enterprises on the list) referred to fair governance, vs. 18.8 % of state-owned enterprises on the list and 16.3 % of private enterprises on the list.

These findings for retail enterprises are closely related to conflict between retailers and suppliers in the Chinese market that has attracted significant attention in the past decade. Large retail enterprises charge their suppliers slotting allowances in order to have their products placed on store shelves, which creates unfair perceptions among suppliers. This practice may reflect inadequate fair governance from another perspective.

Fairness problems within retailer-supplier relationships are receiving increased attention with the collectivization and growth of China's retail enterprises. Before China joined the World Trade Organization (WTO), Chinese retailers were relatively small, and large chains with a national presence were nonexistent due to governmental restrictions on foreign-invested retail regions and operations and ongoing restructuring of traditional state-owned retail enterprises. The development of new retail formats also lags behind. For example, Wal-Mart, the world's largest retail enterprise, entered the Chinese market in 1996, but as of 2004 had only opened 43 stores (Zhang 2006). In 2004, 3 years after China joined the WTO, the government completely abolished limitations on opening stores for retail enterprises. At that point, many retail enterprises expanded nationally and a variety of retail formats grew rapidly all over China. According to data released by Wal-Mart China's official website,[4] as of July 31, 2015, Wal-Mart had opened 416 stores in 166 cities, 9 warehouse distribution centers, and 11 fresh food distribution centers nationwide. Another example is China's largest electronics retailer GOME, which began to open retail locations in 1999, the company had its headquarters in Beijing and locations in Tianjin and Shanghai, and by the end of 2014, it owned 1698 stores nationwide with annual sales of 143.5 billion yuan.[5]

[4] http://www.wal-martchina.com

[5] Collected on September 5, 2015, from GOME's official website: http://www.igome.com/article_list/index

The rapid nationwide expansion of the retail industry has yielded two results, and the interaction of these two results has facilitated the gradual emergence of fairness issues centered on channel costs. First, as the scale of retail business has increased and manufacturing capacity has developed, the dominant position of manufacturers in the marketing channel has been challenged. Research shows that the dominant power in the consumer goods channel relationship has been transferred to large retailers (Zhang and Dong 2010), who are now using their newly acquired power to extract more profits. Second, as competition has become increasingly fierce, industry profit rates have declined, causing retailers to seek more effective ways to grow profits by transferring more costs to suppliers (Li et al. 2013).

Retailer passage fees are charges levied by retailers in exchange for access to certain market resources (Li et al. 2013). Whereas in Western contexts, passage fees are one-time, up-front fees paid to retailers to encourage them to introduce new products and display them in prime places (Bloom et al. 2000), in the Chinese context, all fees charged by retailers to suppliers are passage fees (i.e., entry fees, promotion fees, return fees, sponsorship fees, etc.). At present, retailers collect many different passage fees from suppliers, both explicit and hidden. For instance, large-scale retailer Carrefour Supermarket has attracted a lot of attention for charging passage fees (Li et al. 2013), including agent fees (3 % per month), new product exhibition fees (2000 yuan/brand), promotion fees (700 yuan/promotion placement, 400 yuan/promotion location), festival sponsorship fees (New Year, Spring Festival, International Labor Day, National Day, and other festivals, 1000 yuan/festival), new-opening fees (10,000 yuan in cash or goods), and anniversary fees (3000 yuan/year). Additional fees such as shelf stocking fees and promotion space subsidies are negotiated independently, and all payments are due within 60 days. In a case study, Dong and Zhang (2007) found that GOME also charges fees to its suppliers, including exhibition fees, advertising fees, news fees, festival fees, return fees, etc.; exhibition fees range from 3000 to 12,500 yuan/m^2 with a return ratio of 3–17 % due to significant sales differences for different brands. The festival celebration fees include fees not only for government-recognized Chinese festivals but also for new store openings, old store reopenings, and store or branch office anniversaries. In addition to these explicit fees with clear standards, there are some hidden passage fees for commercial treatment support, credit support (1–3 months), salesperson support (when a supplier sends a salesperson to a shop), etc. In 2009, GOME announced that it would waive the entry fee and use a single business return fee as the charging standard but would continue to charge some promotion fees (Li et al. 2013).

Department stores operate in a comparable way (mainly depending on return fees and passage fees to extract profits), with fees similar to those charged by chain stores. In addition to these numerous fees, nonnegotiable "king terms" are part of typical retailer-supplier relationships, which are undoubtedly contrary to the principles of fair governance in channel relationships. The vast majority of department stores in China have implemented "pool systems" based on leasing store space to suppliers. In addition to charging various fees, they deduct a certain percentage (5–30 %) from suppliers' sales volumes for themselves. Since store space is limited, stores periodically eliminate underperforming brands and introduce new brands. In order to ensure stable income,

department stores determine a test marketing period (e.g., 3 months) for new brands and corresponding sales targets (e.g., 100 million). If the brand fails to achieve the sales goal during the test marketing period, it can be expelled and the department store takes the predetermined percentage of the sales revenue negotiated by both parties. For example, if the two parties determined the proportion of deduction to be 20 % and a sales goal of 1 million, and the brand achieved only 0.2 million in sales during the test marketing period, then the store would take all 0.2 million in light of the deduction rule and the brand would receive nothing.

Another common king term in department store relationships with suppliers limits or prohibits suppliers from placing their brands in nonaffiliated stores. Offenders are subject to various penalties or even expelled from the store. For instance, one of China's largest department stores, Dashang Group, prohibited its suppliers' brands from being sold in competitors' stores, attracting media attention and resulting in government punishments. To prevent its suppliers' brands from being sold in the newly opened Zhongxing One Mall in Shenyang, managers of the Shenyang New Mart Shopping Mall under Dashang Group personally met with supplier representatives for every brand and informed them that their sales volume deductions would increase 5 %, settlement money would be suspended, and even they would be enforced mandatory withdrawal penalties if they entered the new mall.[6] Because hundreds of stores belong to the Dashang Group, once penalties were implemented, suppliers would suffer huge losses. This tactic made suppliers angry, but they did not dare to say so; although it was unfair, they did not have the courage to withdraw from a group that owns hundreds of stores.

In a different context, many large electrical equipment retailers require direct supply relationships with appliance manufacturers in order to be able to provide the lowest prices in their regional markets. In 2004, GOME locations in the Sichuan market unilaterally and significantly reduced prices on all products manufactured by Gree, China's leading air conditioner manufacturer, in an attempt to force the Gree Group to circumvent its regional agent supplier mode. The conflict escalated, and eventually all Gree products were withdrawn from GOME.

Numerous passage fees charged by major retail companies, as well as various nonnegotiable channel strategies described in this section, create extremely unfair trading situations for suppliers. As a result, during the past 10 years, conflicts in retailer-supplier relationships have remained high and to some extent have reduced economic efficiency at the societal level.

10.5 Government Perspective on Interorganizational Fair Governance in China

To regulate and promote a fair and equitable atmosphere for business transactions in China, the Chinese government has formulated and implemented several relevant laws since the 1990s. The *Law of the People's Republic of China for Countering*

[6] http://www.lnfzb.com/news_view.aspx?id=20150206104857518

Unfair Competition came into effect on December 1, 1993. The first article clearly clarifies the purpose of the law, namely, "to protect the healthy development of the socialist market economy, encourage and protect fair competition, prohibit unfair competition, and to protect the legitimate rights and interests of operators and consumers." The second article further clarifies that, "in carrying out transactions in the market, operators shall follow the principles of voluntariness, equality, fairness, honesty and credibility, and observe generally recognized business ethics." Chapter 2 of this law summarizes various examples of unfair competition, including causing damage to competitors, abuse of legal monopolistic status by public enterprises or other operators, abuse of administrative power by the government and its subordinate departments, practicing bribery, using advertisements or other means to convey false or misleading information, infringing on the business secrets of others, selling goods at a price that is below cost, making a tie-in sale against a buyer's wishes or attaching other unreasonable conditions, making sales with prizes attached, damaging the goodwill of a competitor, and colluding to force prices up or down. This law has not been formally revised since 1993. Over time, many new forms of improper competitive behaviors have emerged that are not included within the scope of this law, such as improper competition among commercial electricity providers, abuse of market power by large retailers, and sales price limitations or exclusion of competing brands by manufacturers through marketing channel cooperation. Moreover, the penalties for improper competitive actions are woefully inadequate: current penalties are 10,000–200,000 RMB or one to three times the amount of illegal gains.

Based on the original *Economic Contract Law of the People's Republic of China*, the *Technology Contract Law of the People's Republic of China*, and the *Law of the People's Republic of China on Economic Contracts Involving Foreign Interest*, the *Contract Law of the People's Republic of China* has been in effect since October 1, 1999. General provisions of this law clearly stipulate: "Contracting parties shall have equal legal status, and no party may impose its will on the other party"; "The parties shall adhere to the principle of fairness in deciding their respective rights and obligations"; "The parties shall observe the principle of honesty and good faith in exercising their rights and performing their obligations"; and "A lawfully established contract shall be legally binding on the parties thereto, each of whom shall perform its own obligations in accordance with the terms of the contract, and no party shall unilaterally modify or terminate the contract. The contract established according to law is protected by law." The *Contract Law* has 23 chapters and 428 articles that provide detailed explanations of contract establishment, effectiveness, performance, modification, transfer and alienation, termination of rights and obligations, breach of contract, and other provisions.

The *Anti-monopoly Law of the People's Republic of China* has been in effect since August 1, 2008. The first chapter clarifies that its legislative purpose is "preventing and curbing monopoly acts, protecting fair market competition, raising economic efficiency, safeguarding the interests of consumers and the public interest and promoting steady development of the socialist market economy." Monopolistic behaviors fall into three broad categories: "monopoly agreements between business

operators; abuse of dominant market position by business operators; and mergers between business operators that have or may have an effect of eliminating or restricting competition." The law stipulates that

> "business operators may merge pursuant to the law through fair competition and voluntary collaboration, expand their scale of business and increase market competitiveness;" "business operators that hold dominant market positions not abuse their dominant market position to eliminate or restrict competition;" "the administrative authorities and organizations empowered by laws and regulations to carry out public administration functions not abuse their administrative powers to eliminate or restrict competition;" and "the State Council establish an anti-monopoly commission responsible for organizing, coordinating and providing guidance for anti-monopoly tasks."

The law describes three categories of monopoly behaviors in detail. For instance, an operator's abuse of market dominance includes the following seven behaviors: "selling commodities at unfairly high prices or buying goods at unfairly low prices," "selling commodities at unfairly high prices or purchasing commodities at unfairly low prices," "selling commodities at below-cost prices without a valid reason," "refusing to transact with trading counterparts without a valid reason," "restricting trading counterparts to transacting only with the business operator or only with designated business operators without a valid reason," "bundling sales of commodities without a valid reason or imposing any other unreasonable terms during a transaction," "implementing different terms such as transaction prices for similar trading counterparts without a valid reason," and "performing any other acts of abuse of dominant market position as defined by the anti-monopoly enforcement agency of the State Council."

To some extent, the *Anti-monopoly Law* has made up for some deficiencies in the *Countering Unfair Competition Law*, but the operability of this law in different sectors (e.g., retail) can still be improved. Market position is defined as dominant when "a business operator holds half of the market share in the relevant market"; in aggregate, two business operators hold two-thirds of the market share in the relevant market"; or in aggregate, three business operators hold three-quarters of the market share in the relevant market. Obviously, these criteria are difficult to apply to the retail industry. Due to the impact of retail formats, store scale, as well as the characteristics of the retail industry itself, determining whether a large-scale retailer has a dominant market position is problematic; in reality, unfair practices of large-scale retail enterprises are closely tied to market position.

In addition to these three laws, the Commercial Department, together with the Chinese National Development and Reform Commission, the Ministry of Public Security, the State Administration of Taxation, and the State Administration for Industry and Commerce, responded to conflicts and problems between retailers and suppliers by formulating the *Retailer-Supplier Fair Trade Management Regulations*, which came into effect on November 15, 2006. These regulations are designed to support fair trade in retailer-supplier relationships. Among the 26 provisions, only one clause regulates suppliers' behaviors, while 12 provisions regulate retailers' behaviors with very specific and detailed descriptions of prohibited business practices. For example, Article VI states that retailers cannot abuse their dominant position by "signing a particular commodity contract with a supplier and refusing to receive the goods

after the two sides had already reached an agreement on particular specifications of goods, models, styles," "demanding suppliers to bear merchandise loss responsibility for non-negotiated goods," "withdrawing goods without justification or prior notification and breaching a prior agreement upon withdrawal," "asking suppliers to unconditionally rebate returns, or not achieving predetermined sales targets but rebating returns from suppliers under certain return-sales agreements," and "forcing suppliers to purchase designated goods or designated services." Article VII states that retailers shall not engage in the following activities to impede fair competition: "restricting suppliers from determining prices charged to consumers and other operators" and "restricting suppliers from providing goods or marketing services to other retailers." Article XIII stipulates that retailers shall not charge or collect hidden fees, such as: "charges for signing or renewing contracts"; "bar code charges when bar codes already exist"; "charging more than the actual cost of supplying bar codes"; "during store renovation or decoration, collecting fees for renovations or decorations that are not in the supplier's sales area"; "charging fees for festivals, anniversaries, new store openings, re-openings, going public, merging and other reasons without engaging in promotional activities"; and "other fees not directly related to the sale of goods that should be covered by the retailer or in non-service conditions." As regulated in Article XIV, "retailers and property suppliers of goods shall expressly agree on the contract payment term, which shall take place within a maximum time of 60 days after receipt."

Although these regulations for fair governance in retailer-supplier relationships are very detailed, they have not been adequately implemented. After the regulations were introduced, retailers began to devise new mechanisms (i.e., "sponsorship fees") for collecting prohibited fees, and the unjust situation of suppliers has not been significantly improved. One reason is because these are departmental regulations with limited legal consequences, and the prescribed penalties for violations do not have much of a disciplinary effect. Measures such as "retailers or suppliers in violation of the provisions of the laws and regulations shall be ordered to correct themselves; if there is illegal income, they shall be liable for a fine of three times the illegal income, not exceeding 30,000 yuan; if there is no illegal income, they shall be liable for a fine of no more than 10,000 yuan." The maximum fine of no more than 30,000 yuan is a drop in the bucket for most retailers and their illegal incomes are much higher than the fines, so retail companies "rationally" violate the regulations. Thus, is has been difficult to achieve the intended regulatory effects.

10.6 Conclusion

Organizational fairness is viewed as the basis for all economic and social exchange relationships by many marketing and management scholars. In this chapter, I described the current status of interorganizational fair governance in China from the perspectives of academia, business, and government by presenting empirical research evidence from Chinese scholars, describing current enterprise business practices, and summarizing relevant laws and regulations. Although the organizational fairness

literature is very rich, research on interorganizational fairness is much more limited. Chinese scholars have focused mainly on the supply chain and vertical relationships between enterprises in marketing channels or horizontal corporate relationships in strategic alliances. While various studies provide some insights on interorganizational fair governance, more research is required. Some of the research questions investigated by Chinese scholars are similar to those investigated by Western scholars, such as questions on the relationship between perceptions of fairness and trust. Although Chinese scholars have replicated the research of Western scholars in the Chinese market, their theoretical contributions have been greatly crippled due to their failure to integrate unique Chinese social and cultural characteristics into their research frameworks. In fact, psychological studies in China have shown that Chinese people have rather unique fairness-related opinions, cognitions, and behaviors, which can be traced directly to Chinese cultural traditions. In the future, researchers should focus on this aspect in order to enrich and extend theories of interorganizational fair governance to the Chinese context.

My preliminary investigation of the fair governance practices of the top 100 enterprises and retail companies in China revealed unsatisfactory levels of awareness of fair governance concepts and implementation of fair governance practices among China's largest enterprises. Although their collective performance far surpasses that of large retail enterprises, nearly a third of the top 100 (non-retail) enterprises still have not embraced fair governance as an operating philosophy. It is worth emphasizing that large state-owned enterprises engage in more fair governance practices than other types of enterprises, which may produce a good demonstration effect. Among large Chinese retail enterprises, unfair practices in retailer-supplier relationships are a pervasive problem. Numerous passage fees and various nonnegotiable king terms have attracted significant public attention. Various attempts to implement corporate governance practices and governmental regulations have been unsuccessful; thus, this problem is likely to continue in the short term.

In order to standardize and promote fair trade between companies, and partly in response to hot issues in corporate governance practices, the Chinese government has formulated and implemented a number of targeted laws and departmental regulations since the 1990s. Since these laws lag behind industry and market developments, and departmental regulations tend to be weak and lack legal authority, they tend to be relatively weak deterrents. Obviously, the efficacy of future laws and regulations will depend largely on how the Chinese government constructs legislation and the extent to which it improves enforcement systems.

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Part IV
Government Perspective

Chapter 11
The Balance Between Equity and Efficiency in Urban Planning

Yunyi Tang and Ruihan Zhang

Abstract Equity is a basic need of human society and efficiency is the objective need of social development. Urban planning is one of the important functions of the government, while distribution equity and economic efficiency are the two important problems that the government must consider. In this chapter, we discuss, along with the speeding up of urbanization, how to balance the relationship between equity and efficiency in urban planning to achieve the sustainable development of cities. First, this chapter elaborates on the relationship between equity and efficiency in economics and their relationship of the unity of opposites. From the theoretical analysis, we point out that urban planning should give balanced consideration to equity and efficiency, while China currently still follows the principle of "prioritizing efficiency by considering equity," which conforms to its basic national conditions. In the new situations, however, this principle cannot meet the needs of development, in that it ignores the values and the humanistic care. In order to keep pace with the new situations and to achieve sustainable development, it is worth to give more in-depth consideration on the balance of equity and efficiency in the future of urban planning.

11.1 Introduction

Two themes of human social development—equity and efficiency—are interdependent and mutually constrained. Based on efficiency, resource use and allocation are the essential components of modern economics and form the foundation for the operation of a market economy. Traditionally, economists defined *efficiency* as satisfying consumers to the largest extent possible based on available resources. Over time, however, definitions of efficiency have become more nuanced. In the late 1930s, Kaldor (1939: 550) proposed new criteria for efficiency: "An economic

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change can make those that are made better off compensate those that are made worse off and lead to a surplus outcome." Nearly 50 years later, Okun (1987) defined efficiency as gaining the largest output from a fixed input. Samuelson (2004: 138) further refined the definition of efficiency in the modern era as effectively making use of social resources to satisfy human beings' wishes and needs. In perfect competition, Pareto improvements can be achieved and consumers' utility can be maximized by conserving resources. Market efficiency can result in the effective integration of social resources and the optimal allocation of material resources, information, and systems.

However, perfect market competition is rare. Market imperfections lead to income and wealth distribution problems, external negative effects (e.g., environmental concerns), market monopolies, unemployment, regional economic disparity, etc. Social inequality and other problems created by market failure greatly endanger social stability and people's welfare, which in turn reduces market efficiency. Market failure reduces efficiency and undermines equity. According to Friedman (1998), the government must ensure equity in three main areas: law, opportunity, and income.

11.1.1 Three Economic Perspectives of Equity and Efficiency

Foreign scholars typically investigate the relationship between government and market forces to explore the relationship between equity and efficiency. Some Western economists, including Rawls (1971), insist that equity should be established prior to efficiency, believing that as long as the cost of income transfer is taken into consideration, equity and efficiency are substitutes. According to these scholars, equity is the distribution that can most improve conditions for the poorest people. Likewise, Samuelson (2004) suggested that equity and efficiency are mutually reinforcing. When the issue of equity is addressed, efficiency will be improved accordingly. Since justice takes priority over efficiency (Rawls 1971), the principle of efficiency is subordinate to the principle of justice. Economists from this school of thought thus believe that it is reasonable to make some sacrifices in efficiency in order to improve conditions for the poorest people in society.

However, other economists such as Robbins (1997) and Friedman (1998) value efficiency over equity. Robbins (1997) suggested that unfair social distribution is an inevitable consequence of social and economic development. This phenomenon cannot be eliminated; it can only be mitigated to some degree. Robbins (1997: 110–111) proposed that the best way to mitigate the unfair distribution of income and wealth is to enhance productivity rather than obstruct reallocation: "Even if the government was to obstruct the distribution, incentive and productivity will not be decreased. Even if richer countries adopt redistribution based on absolute equalitarian, per capita income can only be inconspicuously improved." Friedman (1998: 6) suggested that the unfairness resulting from the pursuit of efficiency actually is fair and that "equality of result obviously contradicts freedom." Thus, based on the premise that equal access

to opportunity and equal rights are guaranteed, income should be allocated according to the tools a person possesses and the value he or she produces. This process will be influenced by various indeterminate factors, so income distribution will inevitably become unequal. Scholars who adopt this perspective believe this type of inequality promotes social progress and economic development.

Keynes (1999) and Okun (1987) hold a third perspective on the balance between equity and efficiency. They believe that without interference, the free market system will neither realize equity nor obtain efficiency. Based on effective demand theory, Keynes (1999) advocated resolving the unfair distribution of income and wealth through a series of state intervention policies aimed at eliminating the rentier class by increasing taxes on the rich. Keynes and Okun believe equity and efficiency are equally important.

These three perspectives are consistent with the developmental stage of productivity. Once humans began to engage in production, the notion of efficiency emerged. Market efficiency varies based on the level of productivity. Efficiency relates to resource use and commodity production, while equity is based on distribution. Historically, equity has only emerged as a consideration when efficiency has been strong enough to create a surplus. Historical economic development trends in various countries reveal that equity improves only when market efficiency is high (i.e., a country is experiencing relative economic prosperity); likewise, in un(der)developed countries, income distribution tends to be more unequal. In a communistic society with an abundance of material wealth, all members of the society should experience the largest degree of equity. Therefore, when both social productivity and market efficiency are low, the primary task is to develop productivity, accumulate social wealth, and improve efficiency (i.e., efficiency is prioritized). Once social wealth has accumulated to some degree and market efficiency has improved, product distribution becomes an equally important part of the social economy (i.e., efficiency and equity are viewed as priorities of equal importance). Once social wealth has increased dramatically, improving public welfare and equity becomes the primary focus (i.e., equity is prioritized over efficiency).

Equity is guaranteed by the government and implemented by other public sectors. Equity has historicity, relativity, and concreteness. Under different historical conditions, the state of equity results from the relative development of the economic and social values systems. Thus, all equity is relative equity; all determinations of equity are based on specific frames of reference, considerations, contexts, and perspectives. Since people's original conditions (e.g., personal talents, resources, family backgrounds, etc.) vary widely, social systems must be arranged in ways that are not perfectly equitable in order to compensate for these differences and ensure equal access to opportunity.

As the level of productivity increases, people's attitudes toward equity change and the objectives of economic and social planning shift in response. When economic development is relatively low, the main goal of economic and social planning is to improve market efficiency and develop the economy in order to adequately meet people's material needs. As the economy develops and people's material needs are met to some extent, they begin to pursue higher spiritual and cultural needs and equal

social treatment; thus, equity plays an increasingly important role in economic and social planning. The public participates in planning and supervises the actions of the government, enterprises and the market in order to enhance social equity and promote market efficiency. Once an economy is well developed and social wealth is relatively high, people pay more attention to social development, and enhancing social welfare and guaranteeing social equity become the most important objectives in economic and social planning.

11.1.2 Balancing Equity and Efficiency in Economic and Social Planning

No matter the stage of economic and social planning, a country must maintain a balance between efficiency and equity—the two cannot be separated. Without efficiency, equity will lose the basis for its existence. Without equity, workers' enthusiasm will be weakened and societal turmoil will emerge, hindering the improvement of market efficiency and social progress. Zhan (2003), a scholar in Taiwan, used a pendulum as a metaphor for the relationship between equity and efficiency, both of which can be improved when a country alternately emphasizes equity and efficiency. Higher equity creates demand for higher efficiency, while higher efficiency creates demand for higher equity. The trends of the two are similar. Historically, the development of human society is a process not only of improving efficiency but also of promoting equity. Therefore, achieving equilibrium (i.e., identifying the unique local conditions under which the requirements of both equity and efficiency can be met; Yang and Chen 1995) is the most important government objective.

11.2 Theoretical Analysis of Equity and Efficiency in Urban Planning

Urban planning is one of the most important functions of city governments, which are responsible for daily operations and long-term development in urban areas. This responsibility is reflected not only physically but also in the economic, political, and social dynamics that play out within a city's boundaries. In the process of urban planning and development, the essential task is to reasonably arrange and effectively use physical, human, and economic resources. In a market economy, urban planning efforts to improve efficiency are interventions aimed at rectifying efficiency flaws caused by market failures. Achieving efficiency in this way depends on the scientific validity of the underlying theories and intervention methods and the quality of decision-making and implementation mechanisms.

Urban planning should focus not only on economic development but also on social development. The former requires urban planners to prioritize market efficiency, while the latter requires an emphasis on social equity. Equity in urban planning is

reflected in three ways: equity of implementation, including an open and transparent administrative mechanism, a universal and binding public participation mechanism, and an equal benefit control mechanism; equity of public services for city residents, including employment, travel, and housing; and equity of basic living conditions to ensure that residents with low incomes and other vulnerable groups are able to improve their conditions and access development opportunities.

In the context of economic globalization and regional integration, competition between regions and cities becomes increasingly fierce. Cities are in a constant state of rapid change. Therefore, urban planning must keep up with the pace of urban development by planning and implementing numerous short-term projects simultaneously and quickly. Moreover, public participation in the planning process requires the involvement of human and financial resources from planning management, design, and other related functional departments. This inevitably increases the time and costs associated with project approval processes, which delays project plans, investment, and construction. Thus, there is often a stark difference between the theoretical and actual level of equity that can be achieved in urban planning. On the one hand, if the theoretical ideal is neglected, the existence of urban planning cannot be justified. On the other hand, if real constraints are ignored, efficiency will decrease dramatically and urban planning will be ineffective.

Throughout the economic development process, it is necessary to pay attention to urban economic and social planning in cities for several reasons. First, cities integrate the economic and social interests of communities of people. Cities and their development are the products of civilization. They promote efficient resource allocation and enhance market efficiency by integrating the social resources of a particular region, thereby maximizing agglomeration effects. Cities are also organizations with strong social ties, in which one member rarely stands or falls alone.

Second, urban resources and space are limited. On the one hand, the space and resources on earth are finite; thus, there are absolute limits to the space and resources that cities can obtain. Since social resources are scarce, their use inevitably reduces their supply. Although cities can obtain more space through expansion, doing so leads to losses in cultivated land that ultimately could influence the survival of human beings. Therefore, the expansion of cities also is limited in absolute terms. On the other hand, as the population continues to grow, urban resources and space become increasingly constrained. When expansion and resource exploitation cannot keep up with population growth, cities become limited in relative terms. Both absolute and relative limitations on urban resources and space limit the pace of economic development and the efficiency of market resource allocation and create problems such as income inequality and skewed wealth distribution.

Urban planning, which is an important part of economic and social planning, should therefore consider both efficiency and equity. Efficiency supports the accumulation of the maximum possible amount of social and material wealth, given limited amounts of available resources; equity supports a resource distribution that achieves maximum utility and welfare for citizens under certain material conditions. In urban planning, both efficiency and equity are indispensable. Urban planning is not only the method of allocating social resources and planning urban

spaces but also a government-led social behavior in which the public participates in coordinating the interests of all social classes to maximize overall benefits and realize the sustainable development of an urban society and economy.

11.3 Urban Planning in China

In its report, the 18th National Congress of the Communist Party of China introduced a "five-in-one" general institutional framework for economic, political, cultural, social, and ecological development in China to ensure equity and efficiency in economic and social planning. In the five-in-one framework for civilization, economic development is the root, political development is the guarantee, cultural development is the soul, social development is the condition, and ecological development is the foundation. It is thought that comprehensively implementing the five-in-one framework will create a development pattern of economic prosperity, political democracy, cultural prosperity, social equality, and ecological soundness that will transform China into a prosperous, strong, democratic, culturally advanced, and harmonious modern socialist country. This framework represents the fundamental interests and common aspirations of the Chinese people. The framework, which includes ecological soundness (i.e., eliminating and reversing the trend of ecological deterioration, creating a productive and healthy living environment, making the country beautiful, and engaging in sustainable development) as the foundation and economic development as the root, reflects China's current stage of development and a focus on long-term efficiency.

To harness the full potential of the five-in-one framework, it must be implemented in a comprehensive way. Improvements must be made to the socialist market economy system, and the economic development mode must be transformed more rapidly in order to sustain the momentum of development and simultaneously promote industrialization, urbanization, and technological and agricultural modernization. Politically, socialism must be tailored to the Chinese context; under the party's leadership, the people must run the country based on the rule of law under a sound system that ensures transparency and limits the use of power. Culturally, the socialist core value system must be strengthened in order to comprehensively improve morality, enrich people's spiritual and cultural lives, enhance overall cultural capability and competitiveness, and ultimately build a powerful country with a socialist culture. Socially, the protection and improvement of people's livelihoods must be a key priority; social problems must be addressed through innovative social management in order to promote the construction of a harmonious society. Ecologically, the natural environment must be protected and citizens must engage in green development and strive to make China beautiful.

The success of the five-in-one framework also depends on the deliberate use of scientific development forecasts to guide practice. This scientific grounding promotes the overall development of people in contemporary China. A people-

oriented stance must be maintained in order to comprehensively coordinate sustainable development and create holistic plans that consider all factors. Achieving, advancing, and protecting the fundamental economic benefits of the vast majority of people in China should always be the starting point and objective of work. From the overall perspective of modernization, new problems arising from the conflicting priorities of the present vs. the future, parts vs. the whole, humans vs. nature, urban vs. rural areas, region vs. region, economic vs. social development, and domestic development vs. opening up must be dealt with positively. Production and productivity must be coordinated via the superstructure and the economic base, and new avenues toward creating abundance and ecological civilization must be explored.

11.3.1 Measures Aimed at Improving Efficiency

In discussions of urban planning, it must first be acknowledged that China is still in the primary stage of socialism: social productivity is not high; material wealth is not abundant; people's spiritual, material, and cultural needs are constantly increasing; and the majority of people are not well-off. Therefore, increasing the material wealth of society and achieving economic growth remain the central goals of urban planning in China.

China has implemented several measures aimed at improving market efficiency and productivity. First, China has established a socialist market economy. Unlike the previous planned economic system, resource allocation conforms to the principles that govern market value and the supply-demand relationship, which has greatly improved efficiency. Moreover, government intervention has improved the efficiency of market resource allocation. Because a perfectly competitive market does not exist, when the market fails, interventions based on pricing mechanisms are required to optimize market resource allocation.

Moving forward, the market and the government must work in complementary ways in order to enhance the efficiency of resource allocation. The market cannot always optimize resource allocation and government interventions are not always effective. Since members of the public sector are influenced by incomplete information, planned interventions sometimes are not as successful as they should be. Moreover, when institutional arrangements are inappropriate, problems (e.g., rent-seeking) can arise. Nevertheless, the government plays an important role in improving market efficiency, along with the market. Therefore, improving resource allocation in real economic activities requires blurring the lines between the two and promoting their complementarity. Through information disclosure and transparency, reasonable institutional arrangements, and limited and rational rectification, the effects of market failures can be minimized and market efficiency can be maximized.

11.3.2 Measures Aimed at Improving Equity

Urban development cannot be separated from equity; equity affects efficiency, which in turn influences economic development. When the level of equity is high, efficiency can be improved; when the level of equity is low, efficiency can be impeded. The government has adopted several urban planning measures aimed at improving equity related to income and wealth distribution, the legal system, and access to opportunities.

China's Gini coefficient has increased in recent years. In 2014, the Gini coefficient reached 0.469 and 90 % of the wealth was concentrated among 10 % of the population, causing great social unrest. To address the problems of inequitable income and wealth distribution caused by market failures, the government has implemented a progressive income tax scheme and provides subsidies to low-income people.

The government also has implemented measures to ensure that all parties have access to fair development opportunities and benefits such as tax incentives, subsidies, auctioned pollution permits, and property rights. To eliminate negative externalities, economic, political, cultural, and ecological priorities must be balanced in order to realize sustainable societal development. Economies of scale generate monopolies that decrease market efficiency and hinder other enterprises from entering the market. Therefore, the government must eliminate the preferential treatment given to some enterprises, encourage the development of SMEs, and enhance the vitality of market competition to promote efficiency and ensure fair development. Market failure also leads to unemployment, depriving citizens of the right to participate in labor market and earn income. By charging an inflation tax, the government stimulates economic vitality, creates jobs, and provides equal employment opportunities for citizens, including access to the same information and job training programs. To coordinate regional economic development, some regions are developed first and then others nearby are developed in order to create industrial belts that enable various regions to share resources and information.

To increase legal equality, the government has issued laws including the *Labor Law of the People's Republic of China*, *Rules on the Minimum Wage of Enterprises*, an *Environment Law*, and the *Anti-Monopoly Law of the People's Republic of China* to ensure the mandatory implementation of equity. Legal equality means that the limitations of normative or legal behavior depend only on the nature of the behavior, not on the identity of the person engaged in that behavior, which means that all humans are created equal. All citizens receive equal treatment under the law.

The government has also implemented measures to ensure equal access to opportunity in order to meet the needs of people at all levels in three different dimensions. First, the government grants citizens with equal rights to access public services. The government cannot prevent a citizen from accessing public goods such as infrastructure. Second, the government guarantees the right to participate in production and to obtain labor income. Third, the government ensures the opportunity to participate in urban planning. With the accelerated pace of urbanization, equity has gradually

become a prominent issue in urban development. The best way to demonstrate equity is to let the public participate in urban planning, manage cities themselves, and form communities of interest that can be better integrated into urban management. Urban planning is a joint activity engaged in by the public, the government, and urban planners. The public typically participates in audit planning schemes, review meetings, project hearings, and field simulations. No matter which methods are adopted, the degree of public participation in urban planning is enhanced, the transparency of planning projects is increased, and planning aligns much more closely with public welfare, which is beneficial to the promotion of equity.

11.4 Institutional Characteristics of Urban Planning in China

In this section, we describe several specific institutional characteristics of urban planning in China.

11.4.1 Prioritizing Efficiency with Due Consideration of Equity

In an orderly and harmonious society, the government actively intervenes in social and economic development, guides the joint development of society and the economy, and coordinates relationships between various interest groups, in addition to performing the basic governmental function of ensuring administrative efficiency. In theories of public administration management, efficiency is a basic value and goal. In the new public management movement since 1980, efficiency has also become a basic measure of administration management. It can be said that the economic competition associated with globalization is actually a competition of government efficiency. One important aspect of the administrative reforms implemented by the United Kingdom and the United States is to pursue the efficiency of administration management under the premise of ensuring equity and impartiality. Ying (2004) and others believe that the goals of enacting administrative procedure laws are to protect the procedural rights of citizens and to improve administrative efficiency.

Generally speaking, abstract administrative behaviors prioritize equity and fairness with due consideration to efficiency, while concrete administrative behaviors are used to formulate different procedures to address different circumstances. Since granting permission is the fundamental abstract administrative behavior of urban planning, it should be based on equity and fairness with due consideration of efficiency. Procedures for administrative permission should reflect the principles of convenience and efficiency based on the scale and complexity of construction projects.

Likewise, three different types of concrete administrative behaviors—simplified, general, and complex—can be adopted based on the situation. General procedures should be adopted for typical projects with due consideration of efficiency and equity. Simplified procedures can be adopted for less complex projects (i.e., walls) to improve administrative efficiency. Moreover, projects that are inconsistent with planning should not automatically be denied; rather, relatively complex procedures that control local modification should be adopted instead, to ensure an appropriate balance between efficiency and equity.

11.4.2 Attaching Importance to Urban Economic Development

The main task of urban planning management is to ensure the reasonable allocation of urban infrastructure and facilities to meet public needs and guarantee that urban development progresses reasonably in accordance with established planning. But in a market economy, developers tend to violate planning processes and engage in intense development to chase high profits.

As a result, planning management processes spin out of control, which affects the lives of nearby residents and the pace of urban development and opposes the principles of fairness in two main ways. First, an unwarranted amount of land is allocated to public facilities during the land development process and developed without regard for control indicators such as plot ratios, adequate green space, building density, and so on, which are ruled by superior planning. Since governmental departments tend to regard land as the main source of local finance, they directly or indirectly condone developers' illegal behaviors. Moreover, they often ignore their duties in the daily management of planning, meaning that some functions exist in name only. These practices damage the public living environment and quality of life, complicate municipal administrative processes, exacerbate traffic and environmental pressure in urban areas, and encroach on public interests over time. Second, GDP has become the criterion for assessing the executive performance of governments. The ruling governments adhere to the "GDP-only theory," which focuses on economic development and neglects the social development and well-being of citizens. Practices based on such a theory are not conducive to the sustainable development of humans and cities and deprive future generations of opportunities for fair development through excessive consumption of current resources.

11.4.3 The Leading Role of Governments in Urban Planning

Governments play a leading role in organizing and managing urban planning processes such as preparation, planning, formulation, and implementation and employ urban planning experts to perform these functions. The *Urban Planning Act* is the result of consultations between governments and planners. Governments played a

leading role in finalizing the act, and the final urban planning program was created to address specific governmental needs. The implementation of urban planning requires funding and institutional supervision. Since governments authorize funding and supervision activities, they can allocate funds where they are most needed in order to give the market full play. Governments are the only body to promulgate laws and systems, and their supervision is authoritative and mandatory.

In addition, the leading role of governments is determined by the characteristics of their functions. Humans and enterprises are both rational economic entities, and the goal of market operations is to achieve the most effective allocation of resources. Because they are interested in maximizing their own benefits, members of the private sector do not provide funds for free. Since public goods such as public infrastructure have "free rider" problems, projects aimed at addressing public needs can only be provided by the public sector (i.e., governments) in order to achieve maximum social utility. Therefore, the leading role of governments in urban planning is inevitable.

11.4.4 The Gradual Clarity of a Market-Oriented Path

The implementation of a socialist market economy in China reflects China's market-oriented path of development. Marketization refers to the use of the market as a basic way of solving social, political, and economic issues, which means loose governmental regulation of the economy and the privatization of industrial property rights. There are many kinds of marketization tools, ranging from outsourcing to complete sale. The "negative list" management model is gradually being adopted by current city administrations. It clarifies the market-oriented path for establishing the list of rights in government administration and draws a clear line of demarcation between the executive power of governments and the market. The negative list, established as a way to enable enterprises to enter the market, relaxes the market entry threshold and helps enterprises access more development opportunities. Governments have shifted the functions of the prior system of examination and approval to a pre- and post-planning supervisory system, which relaxes controls on the economy, gives the fullest play to the invisible hand of market, and gradually moves governments into the role of "night watchman."

11.4.5 Neglecting Values and Humanistic Care

In reality, planners are often keen on planning physical spaces, believing that such planning can promote economic growth, which in turn will automatically resolve issues of social equity. However, these simple and naive ideas are not reflected in reality. The planning of physical spaces appears to be very vulnerable to the tremendous power of political demands and the market economy. In reality, planning often

directly reflects the unilateral will of governments and developers. In the process of urban planning, governments and developers seek to maximize their work performance and benefits because of the ways in which the political system and market economy are structured. Thus, planning tends to align with the desires of governments and developers and ignore the interests of the public, which would benefit from the construction of urban infrastructure and public service facilities.

Due to their focus on economic development, governments are more inclined to pursue the accumulation of wealth and materials in urban planning; yet physical spaces and architecture are more likely to be seen by citizens and are conducive to the establishment of work performance. It is also much easier to assess the value of physical objects than of intangible assets. Intangible assets are more related to knowledge and require a common standard to quantify their value as well as a sound legal system to protect their ownership. The contributions made by tangible and intangible assets to economic development should be treated equally. Both types of assets should be increased to promote social progress and improve equity for citizens.

11.4.6 Lack of Public Involvement

During the rapid urbanization process, governments become the organizers and promoters of public involvement in urban planning. In fact, public involvement in urban planning in most cities is initiated and led by governments, not by the general public. Urban planning is a function of public policy administration. Due to the complexities and natural communication barriers with governments, the public tends to shy away from getting involved in urban planning. In order to promote active and effective public involvement, urban planning managers should carefully consider whether the adopted model reflects the public's need to exercise decision-making power.

Although great progress has been made in the model of public involvement in urban planning, in many cases, the disclosure process has become simply a notification mechanism for governments; instead of actively engaging in the process, members of the public passively accept the results of urban planning. Public involvement is more confined to reports, exhibitions, seminars, etc. pertaining to specific urban planning policies. Governments play an obvious leading role in introducing policies and some content, with limited involvement in local procedures and details. As some scholars have pointed out, although governments have shifted from a passive to an active role in urban planning, they have not yet created a successful model of public self-determination (Wu 2003).

11.5 Urban Planning Under China's New Development Strategy

In this section, we describe new needs, problems, and goals encountered by urban planners as China's new development strategy begins to take effect. We also discuss current urban planning strategies aimed at balancing equity and efficiency in economic and social development.

11.5.1 New Needs, Problems, and Goals

As cities develop and transform, the functions of urban planning are changing as well. Urban planning is the system by which governments formulate and implement principles and policies for urban development over a given period. Because the world is constantly changing, planning schemes often become outdated, creating many new problems. Urban planning is part of urban change, so it must be formulated from a developmental perspective; its functions must be continuously enriched and expanded in order to ultimately realize the sustainable development of cities.

The sustainable development of cities has two main focal areas: physical components and human inhabitants. The sustainable development of the physical components of cities requires respecting the natural environment, using limited social resources rationally, and maximizing the use of space by eliminating restraints in urban planning so as to balance the development of the economy, society, and ecology and ensure the long-term efficiency of urban development. The sustainable development of humans requires living in harmony with nature and with each other and ensuring timely access to and exchange of information in urban planning so as to realize mobility within and between cities and help humans address their needs and pursue their values. Humans cannot exist without society and society cannot exist without humans. Therefore, their sustainable development requires the coordination of interests between and among individuals and groups and an emphasis on equity in urban planning.

As the process of urbanization has accelerated, many new demands and problems have emerged in urban planning. First, urban planning has fallen behind the current pace of change and outdated urban plans have hindered development. The third technological revolution has ushered in an era characterized by groundbreaking technological innovation and massive flows of information. Five new iconic technology groups will form in the sixth wave of the third industrial revolution: the next generation of information technology with the Internet of things, cloud computing, and big data as the core; new energy technology with green energy as the core; intelligent manufacturing technology with digital manufacturing, 3D printing, and industrial robots as the core; material technology with new materials as the core; and the biotechnology with genetic engineering and cell engineering as the core. These changes will lead to even greater challenges in the environment and goals of urban development.

Second, due to the focus on short-term economic efficiency, the importance of the environment and resources for the future development of cities has been ignored in urban planning. Urban planning is an important governmental function. Therefore, to achieve better performance during their terms, those in power often only pursue short-term economic benefits, which results in many environmental problems, such as water pollution, air pollution, increased solid waste, etc., and seriously affects the sustainable development of the economy and humans.

Third, in order to achieve economic growth, limited social resources are used excessively in urban planning. The excessive use of nonrenewable resources sharply depletes

their supply, which will be completely exhausted within the next few hundred years. The large volumes of waste produced by burning fossil fuels in a short time exceed nature's capacity to compensate, causing environmental problems. Furthermore, the rate at which renewable resources are being used surpasses that of their regeneration. For example, the accelerated progress of urbanization increases human demand for water; when large amounts of underground water are pumped out, the underground water supply decreases sharply, which compromises surface pressure and undermines support of the earth's surface. Moreover, new sources of energy must be found to meet the needs of rapid economic development.

Fourth, urban development is subject to space restrictions. Because land resources are limited, the scope of urban development is limited geographically. Thus, the task of urban planning is to determine the nature of the city, scale, and spatial development status, based on the economic and social development goals in a certain period, to use the land reasonably, and to coordinate urban space function layout and functional layout and the construction of comprehensive deployment and overall arrangement.

Fifth, as the economy continues to develop, people will pursue higher values and will place more demands on urban planning. Once people's material needs are met, their demand for equity becomes stronger. Thus, the balance between efficiency and equity in urban planning will need to be considered in more detail, requiring more effort from planners.

The new demands and problems emerging in economic and social planning have forced urban planners to set a new goal: to realize the sustainable development of cities and humans. This goal is reflected in China's desire to become a global leader in information, establish a sustainable ecological system, improve the spiritual lives and morality of urban residents, and increase public involvement in urban planning. Eventually, Chinese cities will enjoy rapid economic development, social harmony, cultural abundance, friendly environments, timely and appropriate governance, and spaces that can be upgraded easily. All things considered, a reasonable balance of equity and efficiency can be achieved.

11.5.2 Balancing Equity and Efficiency

As these new needs, problems, and goals emerge in China's economic and social planning, the best way to balance equity and efficiency will be to achieve the sustainable development of cities. Realizing this goal requires economic development (i.e., upgrading the industrial structure), social development, cultural development, environmental development (i.e., developing green, low-carbon practices), advancement in urban governance and management, and improved upgrading capacity.

11.5.2.1 Sustainable Development of the Urban Economy

China tends to pursue economic growth instead of economic development in economic and social regulations. Since economic growth only indicates an increase in economic production, the governments of various cities only pursue GDP growth

and ignore balanced development in other aspects of urban planning. However, this is not the case with economic development, which is reflected in both quantitative economic increases and qualitative increases in per capita welfare in various dimensions. Economic growth adopts the policy of giving priority to efficiency, while economic development takes both efficiency and equity into consideration and adopts the path of balanced development.

In order to achieve economic development, a balance between efficiency and equity should be made in economic and social planning. Urban planning should be aimed at achieving quantitative economic growth on one hand and promoting the improvement and optimization of the economic structure on the other, mainly in terms of technical, industrial, and income distribution, demographic structure, etc.

In order to enhance market efficiency and reduce negative externalities, China has made great efforts to support the development of small- and medium-sized enterprises focused on technological innovation. Moreover, the industrial structure has been adjusted to increase upgrading capacity, enterprises with high energy consumption and low productivity have been shut down, and the development of a new energy industry and a tertiary industry to provide better services for humans and improve social equity has been encouraged. Government departments at all levels also enact relevant laws and regulations to standardize income distribution. Distribution decisions are currently made based on the nature of the work and factors of production; individual contributions to economic development are considered along with market efficiency factors. To reduce the tax burdens of enterprises and enhance industry professionalism, business taxes are now structured as a value-added tax; this has been successfully piloted in Shanghai and should be implemented nationally. To ease residential housing pressure, governments should standardize real estate prices, and real estate developers should build inexpensive and practical commercial buildings to ensure that low-income groups have access to housing. As the population-aging crisis worsens and the driving forces of economic development weaken, each city should actively promote the elective two-child policy by simplifying the review process to improve the distribution of the inverted population pyramid.

11.5.2.2 Increased Emphasis on the Development of Social Equity

Social development pays more attention to the equity issues of citizens. Once an economy has achieved a certain level of development, citizens demand more social rights and expect to receive equal treatment. One important way to achieve social development and enhance the welfare of citizens is to increase public involvement in urban planning. In the past, urban planning related to economic and social development was performed by planners within the government infrastructure. As public awareness of equity increases and they become more involved in the design and implementation of urban planning and the supervision of governmental behaviors, the rent-seeking activities of governments and enterprises can be eliminated, thereby enhancing the level of social equity, which is conducive to long-term social

stability. The public can get involved urban planning in many ways. For example, they can examine and verify plans, organize investigation meetings to supervise government administration, and hold conferences to deliver information on the progress of urban planning.

To promote social development, governments should increase investments in public infrastructure and services, enact relevant laws to protect the interests of citizens, openly and transparently disclose administration processes, and maintain relationships with citizens. When enterprises seek to maximize their benefits, they should take the interests of employees into account. Employees are the basic component of enterprises and the key to creating a competitive edge in the market. Emphasizing employee welfare cannot only improve market efficiency but also promote social development.

11.5.2.3 Increasing Abundance in Urban Culture

As an economy develops, people's demand for cultural activities increases; cultural life has become a reflection of the right of equity. Cities have formed a large cultural market, which calls for sticking to market principles and using market rules to regulate the balance between supply and demand. To regulate and supervise the cultural market, governments should enact relevant legal policies to enrich cultural life, implement cultural policies, establish and improve cultural recreational facilities and venues, and ensure easy access to public cultural resources.

Many problems have arisen related to the current cultural platform. For example, cyberbullying has emerged on the Internet, which violates the interests of citizens and undermines social justice. Governments need to manage the cultural platform and establish relevant Internet regulators to increase supervision on network security and defend the rights of citizens. The State Administration of Radio, Film and Television should supervise and manage the contents of network and television programs and enforce strict requirements for actors to create an appropriate social atmosphere. Enterprises in the cultural industry should create cultural products with a wide variety and rich content and avoid vulgar products. No status differences should hinder the enjoyment of cultural products; all citizens should have equal opportunities to access cultural services.

11.5.2.4 Environmentally-Friendly Development

Environmentally-friendly development requires establishing a system for ecological preservation in urban planning. Governments should use green technology innovation as the engine to develop a green, low-carbon economy and achieve harmony between the economic development and ecological environments of cities. Green economic development can take many forms. Governments can promote the use of clean energy, improve the public transportation system, and restrict the number of private cars. Enterprises can reduce production of vehicles with high energy consumption and

emissions and increase production of vehicles that use clean and new sources of energy. The public can choose to use public transportation to travel. Moreover, carbon emissions can be reduced and environmental pollution can be eased through the use of clean energy, bicycles and electric bicycles, walking, and ride sharing. For basic goods, governments can promote the use of products that create no or low pollution, provide financial and policy support to new energy industries in order to encourage their development, and levy a higher consumption tax on products that consume high amounts of energy and create pollution in order to weaken consumer demand. Enterprises should reduce the production of products that contribute to pollution and actively research and develop environmentally-friendly products. Citizens should reduce the consumption of disposable products, such as chopsticks, paper cups, trash bags, etc. In construction, environmentally-friendly materials should be used.

Overall, in the process of urban development, governments should enact relevant laws and regulations to support environmental protection, publicize environmental protection initiatives to help more citizens understand the importance of environmental protection and promote environmental awareness, and strengthen penalties for environmental damage. When the cost of environmental pollution is higher than the benefits, enterprises will stop destroying the environment. Enterprises should research and develop new energy sources and look for energy-saving and environmentally-friendly production materials. For example, wind, solar, tidal, and other energies should be designed as the energy sources for products. Enterprises should also increase their level of social responsibility and voluntarily protect the environment. Individuals should protect the environment in all of their actions and select environmentally-friendly ways to travel and purchase goods that reduce environmental pollution.

11.5.2.5 Improving Governance Capabilities

Urban planning is managed and carried out by governments, so its merits depend largely on their governance and management capabilities. To ensure the balance of equity and efficiency in economic and social planning, governments' capabilities in these areas must be enhanced. High governance capacity will ensure efficiency throughout the entire urban planning process, effectively inhibit the widening gap between the rich and poor, create equal conditions of employment for every citizen, and ensure the responsible development of the ecological environment.

In order to improve urban management capacity, governments should take the following measures. First, they should increase investment in the construction of public infrastructure, particularly urban drainage and transportation systems, to ensure an appropriate development environment for cities. Second, they should set up corresponding organizations or institutions to encourage public involvement in urban planning and management. Third, they should establish a supervision system that actively monitors urban development pre- and post-planning. Finally, they should establish relevant departments for urban governance, such as the Urban Assembly for Management, to offer professional governance for urban affairs.

Enterprises also must take active measures to improve the governance capabilities of governments. First, they should actively cooperate with governments in urban management and use laws and regulations related to urban planning to regulate business practices. They should get involved and jointly manage urban planning with governments to improve governance and management efficiency.

Third-party societal organizations such as nonprofit institutions also should get actively involved in the affairs of urban governance and management to reduce pressure and help supervise governments. The public should also play a supervisory role in urban governance and management.

11.5.2.6 Optimizing Spatial Layouts

In the information age, the ease of information transmission has facilitated urban development processes, enabled people to make more choices related to their residences, and made the agglomeration and fragmentation of urban space easier. In the information society, widespread use of the Internet and other communication technologies has facilitated the development of a digital economic and social system that has changed the way people work, live, communicate, and travel and thus reshaped the spatial requirements of cities and regions.

In order to achieve the sustainable development of cities, spatial layouts must be optimized. First, the land utilization rate must be improved. When constructing cities, city layouts must be planned in detail to maximize land use. When building houses, aspects of work and life must be considered to avoid the creation of "ghost towns," which waste social resources and urban space. Second, cities can cooperate with residents in the surrounding countryside. Non-arable rural land should be used for urban development purposes. Third, city distributions are becoming increasingly decentralized. In order to improve the utilization efficiency of information and resources, cities can cooperate with each other to form city belts and expand their overall range. Fourth, virtual space should be expanded. The gradual expansion of data and information capacity will increase residents' quality of life and support urban development. Fifth, governments and markets should cooperate with each other to build information networks that link cities and regions. Sixth, spatial integration should be a priority. Virtual space and real space should coexist, and much attention should be paid to the communication space in a microscopic way. As human society has a natural centrality, it cannot be replaced by technology. Thus, in the process of upgrading spaces, communication between people should be strengthened. Finally, a coordinated spatial layout should be designed to recycle urban space according to the ecological infrastructure distributions within regions.

11.6 The Future of Equity and Efficiency in Urban Planning

As globalization intensifies, urban planning faces severe challenges to its legitimacy, accountability, and effectiveness. Increasingly, the concept of public governance, which links the separate corporate governance of public institutions with policy

networks, is being introduced in urban planning contexts. Poststructural governments in the West have already transformed local government systems by incorporating organizations from the public and private sectors. In such contexts, governance is a term that encompasses more than government management; government, private sector, and volunteer organizations all participate in the public service function. For example, the British government has established agencies that serve multiple local governments and uses specialized institutions to provide services. Moreover, it encourages partnerships between the public and private sectors and eliminates and broadens the boundaries of public, private, and volunteer organizations via the Internet.

The basic principles of efficiency and equity in urban planning emphasize transboundary cooperation based on market principles and the recognition of public interests. People have always been the core focus of urban development. Citizens' needs should be fully considered in urban planning efforts related to managing population growth, land use, the housing supply, employment, energy, the environment, transportation systems, recreation, community buildings, public spaces, urban security, and so forth, in order to better meet developmental needs. Finally, social disintegration and environmental security will become the two major challenges faced by the Cooperation Council on the Development of Global Civilized Cities (Sassen 1999), which provides institutional guarantees to help cities realize efficiency and equity as they construct modern governance systems. Such systems integrate various institutions and mechanisms, bridge the real and virtual worlds, and facilitate domestic and international interaction.

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Chapter 12
Fair Development: The Construction of a Rural Social Governance Ecology in China

Ming Lei

Abstract As part of state governance, rural social governance is an important component of Chinese modernization. In this chapter, I review the history of social governance modernization, with a focus on systemic obstacles to Chinese rural governance. Building on the ideas of creating a "national governance system" and "promoting the modernization of national governance and governance ability" proposed in the Third Plenary Session of the 18th Central Committee of the Communist Party of China, I advocate fair development as the logical choice for Chinese rural social governance modernization. Specifically, I propose constructing a rural social governance ecology. I provide a detailed explanation and analysis of its core features and construction mechanisms and suggest ways to establish an ecological system for rural social governance in China. I conclude the chapter by highlighting problems that have emerged that must be solved to ensure the long-term stability of the rural social governance ecology and fair development for rural residents in China.

Keywords Fair development • Rural social governance modernization • Rural social governance ecology

12.1 Introduction

The concepts of a national governance system and promoting the modernization of national governance and governance ability were first discussed during the Third Plenary Session of the 18th Central Committee of the Communist Party of China (CPC). As part of state governance, rural social governance is an important aspect of Chinese modernization. After more than 60 years of development, great progress

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has been made in Chinese rural governance; however, new governance crises are emerging in rural areas as additional reforms are being implemented. Since the reform of rural taxes and fees, the relationship between the nation and rural areas has been changing significantly. The nation no longer extracts resources from rural areas; instead, it is feeding rural areas by providing public services. Under this circumstance, it becomes necessary and urgent to study rural social governance and the rural public goods supply.

12.2 The Current Situation of Rural Social Governance

After China implemented economic reform and opened its markets, in order to release the potential of rural society and the rural economy, the government abolished communes and established township governments to exercise state sovereignty in rural areas, while residents in villages and towns elected local committees to independently manage rural affairs. This system, in which township officials represent the national government and villagers engage in local self-governance, was designed to show respect for villagers' rights of political participation, and it "has changed the rural organization process since the founding of the People's Republic of China, and marked the relatively separation of national administrative power and the rural autonomy" (Yu 2001: 49). However, the separation of national administrative power from local politics does not necessarily lead to good governance of rural society, for a great gap remains between the intended outcomes and reality. Given the uniqueness of villagers' lives and the rationalization of their behavior, the segmentation of rural society, the routinization of population flows from villages, and the general depopulation of rural society, the current rural social governance structure faces unprecedented challenges. It can even be concluded that this rigid governance system has failed to adjust to the rapidly changing dynamics in rural areas of China and is creating many more problems than it is solving.

When addressing issues of rural governance, it is important to view the social rights of villagers as the core of village governance, to rebuild the dominant role of villagers, and to establish a consultation system that recognizes both national and rural sovereignty by constructing community organization capability. By incorporating the principal needs of villagers into the logic of rural social governance and the realization of their fundamental rights into the goals of rural social governance, it is possible to break out existing paradigms and explore rules for rural social governance based on a broader social vision. However, in order to address rural crises and replace the current system with a more reasonable social governance mode, significant problems must be solved on both a theoretical and a practical level.

12.3 The Paradox of the Rural Governance System

Current research on factors influencing self-governance among villagers is mainly focused on aspects of the current system. Village self-governance is confined by the current system, which limits the functions of management, education, and public services. The principal status of self-governance among villagers has been established, and village committees exercise their governance rights relatively independently; however, township governments have not been willing to relinquish their authority and enable self-governance in a real sense; in other words, the "pressure-oriented system" is hindering the expansion of autonomy at the local level.

On the other hand, while the idea behind village self-governance was for the state administrative authority to withdraw substantially from rural society, it is impossible and unreasonable for the state to completely abandon its administrative role in rural areas. However, the cancelation of agricultural taxes and various farming subsidies and the implementation of reforms in villages and towns have dramatically shrunk the functions of township governments, and thus they have changed from raising money or raising grains into borrowing and lending. Thus the functions of the township regime have shifted from extraction to suspension, creating a looser relationship with villagers, which cannot guarantee their self-governance.

Certainly, the most significant features of Chinese socialist democratic politics are the leadership of the CPC, a democratic society, and the rule of law. After the *Organic Law of Village Committees* established village committees to implement self-governance at the basic level, the leading role of the village branch of the party was established by the *Rules for Rural Organizations at the Basic Level*. Led by village branches of the party, village committees implement democratic voting, democratic decision-making, democratic management, and democratic supervision. Theoretically, the relationship between the village branches of the party and village committees should be clear and harmonious; however, in practice, the relationship between them is a problem that remains to be solved, which is influencing the implementation of self-governance among villagers (Xu 1997: 203–204).

Viewed both horizontally and vertically, the current system impedes villagers from playing a dominant role in basic-level rural governance, thereby hindering its effectiveness. In most cases, the village committee is responsible for coordinating self-governance among villagers; however, village committee members often lack the skills to do so, and the lack of guidance and supervision on self-governance from higher levels of government has actually led to disordered spontaneity in many villages, has eroded traditional customs, and has created basic governance problems that affect village public order and the ecological environment.

12.4 Toward Fair Development: Rural Social Governance Modernization

The development of modern society has promoted the development of modern governance theories and practices. In a major international trend, governance theories are rapidly becoming the foundation for public policy while providing theoretical and intellectual support for reshaping the Chinese village social governance structure.

12.4.1 Modern Social Governance Models

The term *governance* is derived from the Latin *gubernare* and the Greek *kubernetes*, originally meaning "ancient captain or helmsman." According to Plato, *kubernetes* means "the art of steering or handling." This term was adopted by Western politicians and managers, who advocated replacing "rules" with "governance," due to the ineffectiveness of the market and state in social resource allocation (Lou and Tan 2012).

The Commission on Global Governance (1995: 2–6) defined governance as

> The collection of all means for public and private, individual and organizational affairs. It is a consistent procedure in which contradicting sides or different interested parties can be coordinated and take collective actions. It includes not only formal institutions and rules that have the authority to be obeyed, but also informal agreements or other institutional arrangements that meet with the needs of people.

Governance theory emphasizes polycentrism by shifting the government's function from "paddling" to "steering" and introducing competition into public services, thereby providing a theoretical foundation for building the rural public service governance mechanism. Western scholars define local governance as a set of formal and informal rules, structures, and processes that enable multi-governance. In addition to the market mechanism emphasized by new public management, this definition attaches importance to the inherent core authority of government and the network for coordination and cooperation. Based on traditional political operations and considering the interaction of power and the pursuit of self-interest, managers and elites must not be solely responsible for governance. Instead, service functions must be integrated into civil living patterns, and a robust coordination mechanism must be established with cross-functional connections between internal and external parties (Bovaird and Loffler 2003/2006).

Generally speaking, governance is a kind of management behavior that is executed in both private and public entities. It covers not only traditional roles played by state and local governments but also new roles played by villagers and social organizations. In order to maximize the public interest and to meet the increasing material and cultural needs of the public, governance must integrate administrative means, market means, and social mobilization and build up

a network power structure, with connections that cross many hierarchical and organizational boundaries between superiors and subordinates, peers, and internal and external stakeholders. Several different modes of governance have been developed, including collaborative governance, integrated governance, horizontal governance, and network governance, among others.

12.4.1.1 Collaborative Governance

The British began practicing collaborative governance in 1997 when they began to take advantage of the capacities of both public and private entities, and government branches began cooperating to align their activities toward the same goals without abandoning the boundaries between them. They increased the level of cooperation between superiors and subordinates, peers, and internal and external stakeholders.

12.4.1.2 Integrated Governance

Australia has been building integrated governance for a long time, with the objectives of achieving common goals across organizational boundaries and eliminating organizational isolation. Building a supportive cultural and tactical foundation is necessary to establish integrated governance. Australia established appropriate structures for governance, including budget and responsibility systems to maximize information sharing capabilities, increase the participation of both individuals and organizations, and increase capacity to tackle new problems and challenges.

12.4.1.3 Horizontal Governance

Canada advocates cooperative federalism, a form of horizontal governance that emphasizes equal partnership among all levels of government. The key point of horizontal governance is the transverse nature of the federal government, which emphasizes the function of the central government as finding collective solutions for common problems and realizing administrative cooperation and harmony.

12.4.1.4 Network Governance

Network governance is a combination of integrated and collaborative governance. In the United States, all interested parties are invited to join in decision-making. The government's main functions are executing and supervising marketization and democratization processes; facilitating collaboration among different governmental branches, geographic regions, and disciplinary fields in order to tackle complex problems; and building up multi-governance or collaborative governance capacity.

12.4.2 Rural Social Governance Ecology

The core concept of the national governance system proposed during the Third Plenary Session of the 18th Central Committee of the CPC is based on the organic trinity of leadership from the ruling party, people being their own masters, and rule of law. Therefore, an effective social governance system must address the challenge of maintaining the leadership of the ruling party, establishing mechanisms that support self-rule and laws that facilitate social change.

The modernization of rural governance essentially is the formalization and democratization of the governance system. In other words, modernization involves establishing and standardizing a coordinated, sustainable governance system. Under the planned economy, social governance was realized by administrative order of governmental departments with public authority over subordinates. Obligatory and imperative management was the epitome of state governance at that time. Over more than 30 years of economic reform, the Chinese state governance system has transformed and made significant progress. The focus of the Chinese rural governance system has shifted from authoritarianism and individual power toward extensive participation and efficiency. Great achievements have been made in transforming governmental functions, strengthening public services, eliminating corruption, etc., by establishing rule of law, rule of nature, and self-governance, among others. Meanwhile, Chinese social organizations are booming, and the state governance system is being strengthened. This progress has significantly secured the success of the economic reform.

As the market economy matures, Chinese rural society is transforming from a hierarchical society with a single structure into a complicated social network, while the administrative responsibilities for the rural governance system are shifting from the government to a broader network comprised of the government, market, society, and nature; at the same time, the orientation of the governance environment is shifting from the government to the entire populace. The one-dimensional governance mode is becoming multidimensional; what was once a simple, rigid system with one principal is becoming a complex, flexible system with multiple principals. However, the construction of a modern governance system still has a long way to go and has become a bottleneck for rural development in China.

In order to avoid becoming too state or society centric, the cooperation-based network approach tries to strike a balance by regarding governance as “a management network connected by the face-to-face cooperation of government and society forces” and “a social cooperation process with public interest as its common goal, in which the state plays a key role but not necessarily a dominant role” (Chen 2003: 82–100). Network governance not only provides an interactive platform for multi-principal governance but also requires all principals to fully capitalize on their advantages and cooperate. Therefore, constructing a new rural governance system requires constructing a multi-principal governance structure and a new multi-principal relationship mode. Unlike the traditional single top-down power structure, the governance power structure should

be multifaceted and interactive. Public affairs should be managed collectively through interactions among multiple principals from different levels of the governance hierarchy who engage in cooperation, negotiation, partnership, authorization, goal setting, etc.

Incorporating ecology theory into these ideas, a *rural social governance ecology* can be defined here as a dependent, interactive, and dynamic system consisting of the main governance body and the ecology for social poverty alleviation. The concept is similar to the construction of an ecological system. Rural social governance ecology is made up of rural social governance principals and the rural social governance environment, a dynamic ecological system of interaction and mutual conditions with principals and the environment as its components.

Principals include government, self-governance organizations, private departments, third sector organizations, and villagers and their products and services, including policies, rules and laws, and services (e.g., judicial, administrative, market, public, etc.). The environment is the context in which the rural social governance ecology exists and develops, which includes components of nature, society, economy, law, etc. The recipients of rural social governance ecology products and services in China are low-income families, villages, counties, etc. Rural social governance relies on the support of governance principals (such as governmental departments, organizations, individuals, etc.), which requires a good governance ecology, a decisive factor in ensuring the reliability of governance principals. This mutual dependency is an urgent problem that must be solved in the construction of a rural social governance system.

In economics, the government and the market are seen as two separate and complementary resource allocation methods, varying on the three dimensions of uncertainty, transaction frequency, and asset specificity. However, as developmental needs become more diverse, subjective, and individualized, a more complex network is being created that enables a "handshake" between the "visible hand" of the market and the "invisible hand" of the government. In addition to societal development and increased democratization, the construction of a rural social governance system requires this type of cross-boundary cooperation among the government, the market, and society.

The new rural social governance ecology relates not only to the government's role in society but also the relationships between different branches of government, between the government and citizens, and among citizens. Environmental governance is a good example. Rural social governance should be based on certain objective laws of social development, while the administrators and citizens should be equal. To collaboratively establish social order and an effective cooperative relationship, administrators should be constrained by rules and be supervised, and interactions with citizens should be compassionate. The term rural social governance ecology effectively captures the nuances of tackling these challenges.

12.4.2.1 Components

What should the ecological components and goals of rural social governance be? Ecology is the organic unity of the biological and nonbiological environments within a certain time and space, which are mutually connected, interactive, and self-adjusted as a whole. Conditions for ecological existence include air, water, and earth. Effective laws and mechanisms are the guarantee of social governance ecology, being parallel to laws that govern natural ecology such as the indestructibility of matter, the conservation of mass, gravity, survival of the fittest, etc.

The rural social governance system is an organic, hierarchal, and adjustable self-organized system, similar to the natural ecological system, in which all principals and elements form a mutually dependent self-organized system with sharing rights. It replaces the rigid hierarchal structure with a dynamic network structure. This is the governance concept described previously. The system is dynamic and oriented around a collective goal. It is not simply a static network comprised of various elements, but an open system that is continuously being constructed, deconstructed, and reconstructed through interactions as information is shared and transmitted.

Although the elements in this system are discrete, they interact frequently through resource integration and coordination on this governance platform, thus replacing the rigid hierarchical structure with a dynamic network structure. Meanwhile, thanks to the widely inclusive and participatory foundation of this ecological system, it can use its information and strength to form an integrated linkage system with all sectors of society and interpret social environment variables in order to respond promptly and appropriately, which in turn reinforces the dynamic adjustment capabilities of this system to a great extent.

No organization has sole ownership of long-term core resources. In modern society, the features of all kinds of environmental variables are becoming increasingly complex and dynamic, which requires all stakeholders to participate in resource allocation. The rural social governance ecology forms an organism with the most reasonable structure by optimizing and collocating elements that have complementary advantages. This will create a booming pattern of core advantages, releasing enormous energy just as nuclear fusion does, and will bring back the synergistic effect of $1 + 1 > 2$ in overall collaboration, overcome the inherent capability deficiencies of a single-principal (i.e., government-run) system, and improve the problem-solving ability of the governance system.

The rural social governance ecology includes many decision-makers with individual rights of action, maintaining the government framework as its core while facilitating multiple interactions among principals. It reintegrates government and society in order to allocate the social governance function across boundaries. At the same time, it constructs an open-information organization system that can increase the openness and transparency of public decisions and increase their level of social acceptance.

During the decision-making process, principals in the rural social governance ecology have rights to take independent action and make decisions in their own fields; they can consciously adjust their own actions to make consonant decisions through the dynamic process of cooperation and coordination. Moreover, they can

overcome the limitations of time and space to share information and discuss issues on the platform created by the social governance ecology and make decisions in their areas of core strength. Ultimately these will be integrated into collective decisions, in order to ensure the dynamic adaptability of the decision-making process. In other words, the fundamental goals of constructing a rural social governance ecology characterized by impartial development and dynamic balance are to mitigate governance risks, improve governance efficiency, and improve the sustainability of the governance system in order to realize national long-term stability and, ultimately, the Chinese Dream.

Constructing a rural social governance ecology is critical to improving overall conditions, establishing a long-term governance mechanism, improving the quality and self-development ability of governance principals, and realizing governance goals. At the same time, constructing a rural social governance ecology will push government branches at all levels and other members of society to accept responsibility for rural governance and form a highly effective rural social governance system comprised of multiple communities. It is extremely urgent to construct a rural social governance ecology system with Chinese characteristics, a system with integrated diversity that is based on laws, led by the government, pushed by the market, adjusted by morality, supported by civil independent innovation, and participated in by all principals.

The rural social governance ecology is an organic governance system with multiple principals that fully capitalizes on the strengths of both the government and the market in allocating resources from different fields to support and supplement each other. In this system, the government, rural social organizations, and villagers perform their duties and cooperate with each other to ensure the system runs smoothly. This system can effectively overcome the overcontrol or nonaction of basic-level government in rural social governance, release the value and potential of rural self-governance, and finally realize "good governance" of rural society as much as possible. The fundamental goal of constructing a rural social governance ecology characterized by impartial development and dynamic balance is to mitigate the risks associated with rural social governance, improve governance efficiency, and improve the sustainability of rural social governance in order to realize national long-term stability and ultimately help those in poverty to prosper.

12.4.2.2 Construction

As a dynamic system, the rural social governance ecology emphasizes the interaction and participation of system components in order to change individuals' behaviors and enforce the cohesion and sense of organization through mutual aid and altruism; furthermore, independence and cooperation consciousness are improved through a systematic coupling and cooperation mechanism.

In this governance ecology, the relationship between different principals is not master-slave, nor manager-managed, but a harmonious relationship based on equality, tolerance, correlation, and cooperation. Under these circumstances, "I

was commanded to do it" will be replaced by "I want to do it." The integrated operational mechanisms and laws based on tolerance, correlation, and harmony will guarantee the sustainable and effective operation of the system.

How can China construct the rural social governance ecology? The system and mechanisms are the most important. Although the system is not elaborated here, I emphasize the key point of constructing an integrated mechanism for adjustment.

In ecology, biodiversity is what keeps an ecological system running smoothly. What can help a rural social governance ecology run smoothly without human intervention? The most important thing is an effective integrated coordination mechanism that is open and fosters stability, innovation, connection, and cooperation. Such a mechanism is based on collaboration, with each component engaging in a principal activity and contributing to the common goal of governance, helping the ecological system to run effectively and steadily. This mechanism is instantiated through laws.

Through this mechanism, the system can search for, identify, and adjust all kinds of factors in rural governance spontaneously; integrate the strengths of different components, principals, etc., in order to develop self-discipline and adjust to changing dynamics; establish order by collaborating to guarantee the relative balance of the rural governance structure; and drive the system to support development. At the macro level, major needs include system innovation, process reengineering, policy guidance, and behavior norms to ensure adaptation, efficiency, and stability. At the micro level, the forces of government, market, and society must be mobilized to exert the four adjusting mechanisms of the visible hand, invisible hand, legislation, and morality; adjust the relationship between government, civic groups, and villagers; amplify the system and improve the mechanism in order to meet the various needs of principals and normal operation of rural governance system; and minimize the overall risk of rural governance.

First, rural governance must be treated as a complex, open system; if the government acts as the only principal, it will monopolize all decisions related to production and supply, which will close the system in the long run. Along with the market-oriented economy, private sector, third sector, and rural self-governance organizations have developed rapidly. The rural public service system is transforming from a closed system into an open one characterized by increased interactions of competing and cooperating variables. Second, the governance structure of rural public service organizations should be reconstructed. According to governance theory, the existence of multiple suppliers of public services is an inevitable requirement and realistic choice in a modern society. The current government monopoly must be broken; in order to realize its full potential, the system must be run by multiple principals, including the government, private sector, the third sector, and village organizations. Third, the functions of each of the principals must be clearly delineated. According to order parameter theory, the government should play a dominant role in this system by leading and coordinating; self-service organizations should connect all levels of government and the public; the market should effectively adjust economic activities; the private sector should minimize costs and improve the efficiency of rural public services to make profits; the third sector

should use expertise and organizational independence to supplement the activities of other principals; and villagers, as consumers and suppliers of public services, should actively promote social progress and their own self-development.

Rural public service governance activities should be divided into concrete steps of expressing, deciding, financing, producing, evaluating, accounting, etc. Moreover, mechanisms for cooperation, competition, and balance should be designed according to theories of competition and cooperation, control parameters and responses, etc. Specific functions such as expressing, deciding, and financing should run according to the cooperation mechanism; functions such as evaluating and accounting should run according to the balancing mechanism, and the producing function may need to be based on all three mechanisms.

12.4.2.3 Poverty Alleviation

Full use of all resources and elements in this system must be used to drive poverty alleviation efforts by creating open-ended poverty alleviation plans for specific regions (county and above), thereby establishing a large-scale poverty alleviation system to integrate efforts, improve efficiency, and accelerate progress. For this purpose, the rural social governance ecology must be an open system. Its design and implementation should clearly assign responsibilities for all aspects of rural public service and promote cooperation, competition, and balance among principals to compel them to take the initiative to engage in public service governance (not only on the village level).

12.5 Suggestions for Constructing a Rural Social Governance Ecology

This is a critical period for China's development, with the reform endeavor at a crucial stage and growth becoming steady; society is exposed to potential risks. President Xi Jinping said in 2014:

> The new situations and problems confronted by social governance should be solved by deepening the reform and turning the traditional social governance into the modern social governance…Social governance is a major task for social construction, and an important part of state governance…In Chinese, the words "governance" and "management" only differ by one character, but it bears brand new ideas of systematic governance, rule of law, governance at the source, and integrated governance. (The Propaganda Department of the Central Committee of the Communist Party of China 2014)

This is the new normal of social governance.

In order to fully implement the spirit of the Third and Fourth Plenary Sessions of the 18th Central Committee of the CPC and to reflect the new economic normal, reform must be comprehensively deepened in order to develop the innovation practices of various regions. Historically, poverty alleviation reforms have

been coupled with innovations in rural social governance systems in order to deepen rural social governance reform and prompt the innovation mechanism. In the current context, this entails advancing the open-ended poverty alleviation plan and constructing a rural social governance ecology, an innovative system run by multiple principals of basic-level party committees and governments, village-level organizations, social organizations, etc., thereby establishing and improving the new social governance mode of "led by the party, funded by the government, coordinated by society, participated in by the public, and guaranteed by legislation." In order to establish the rural social governance ecology, several aspects of the overall system and mechanisms should be emphasized. I describe these in detail in the subsections that follow.

12.5.1 Establish a Highly Sophisticated Legal System and Institutions

Law is an important instrument for good governance, and rule of law is an important foundation for a national governance system and governance capacity. Accordingly, a rural social governance system should implement legal thinking and the rule of law; support legislation, strict law enforcement and judicial justice, and abide by the law; and promote dynamic and harmonious social development by building a country, government, and society that is ruled by law. Specifically, constructing a rural social governance ecology requires establishing a highly sophisticated law system and institutions. The institutionalization, standardization, and routinization of the legal system are a major guarantee and key index for constructing a rural social governance ecology and for modernizing the rural social governance system and governance capacity.

12.5.2 Implement Rule of Law, Rule of Ethics, and Self-Governance

The rural social governance system can be enhanced and improved by organically implementing the rule of law, the rule of ethics, and self-governance through the participation of multiple principals in governance. According to the *Decisions of Fourth Plenary Session of the 18th Central Committee of the CPC*, China should combine rule of law and rule of ethics and promote a multilevel, multifaceted implementation of rule of law. Therefore, in the practice of rural social governance, the relationships between the rule of law and basic-level self-governance and between the rule of ethics and societal interactions must be managed, and the means of law, ethics, consensus, and so on must be integrated. Specifically, the construction of a rural social governance ecology should be

based on the construction of a legal system and combine governance by government with governance by society, citizens, the market, and ethics, in order to mobilize forces and harness resources from all parties. The party committee, government, society, and individuals can form a multi-principal, interactive system to make public decisions based on overall interests and prompt collaborative social governance through equal partnership based on sharing benefits and responsibilities.

In addition, social governance should synthesize multiple rule systems. In a sophisticated modern society, the social governance rule system cannot be simple and homogeneous, but should be an aggregation of different types and tiers of social rules. In addition to state laws, many other social norms standardize, promote, and restrict the actions of organizations and individuals, such as citizens' rules, village regulations and agreements, industry regulations, and organizational regulations. Therefore, social governance innovators should place more emphasis on implementing other social norms to lead and support the public, giving play to the positive functions of such norms.

12.5.3 Promote the Construction of Rural Social Governance Mechanisms

Construction of the rural social governance ecology should rely on effective rural social governance mechanisms, including allocation mechanisms for social service resources, market mechanisms for economic resources, negotiation mechanisms for making decisions, motivation and restriction mechanisms for action, learning mechanisms, innovation mechanisms, integration mechanisms, collaboration mechanisms, supervision mechanisms, sustainability mechanisms, etc. To construct a rural social governance ecology, China should promote the innovation of rural social governance mechanisms and incorporate them to improve the rural social governance framework. Specific innovations related to the structure, methods, and measures of a social governance framework include transforming a hierarchical structure into a flat one, a direct pattern into an indirect one, rigid methods into flexible ones, obligatory policies into guidelines and recommendations, commands into encouragement, unidirectional actions into bidirectional ones, and management into collaboration. It is also important to make full use of the supervisory role of public opinion. With economic development, public democratic supervision, including the supervision of news and public opinions, is becoming an important means for expanding the political participation of citizens and an inevitable necessity under rule of law. This is also a principal guarantee for constructing a rural social governance ecology.

12.5.4 Clearly Distinguish Functions

The functions of basic-level government and village-level organizations should be clearly defined and delineated to strengthen and perfect the leadership structure and public service system of rural social governance. It is important to bring a sense of order to party affairs, government affairs, and village affairs and to address the problems caused by the administrative practices of village organizations in order to enforce and improve the leading structure and public service system of rural social governance.

12.5.4.1 Construct Regional Communities of Villages

New communities of villages should be established in specific regions with the leadership of the party committee at its core to help less well-developed villages learn from more prosperous villages as they "share organizational construction, resources, cadre management; use collective intelligence to negotiate affairs, solve problems and develop together" (Tao 2015: 29–31). Facilitating cooperation among villages within these regional communities and coordinating local resources will enable problems to be solved that cannot be addressed by one village, such as those related to infrastructure, public service, and interest disputes. By building regionalized public service platforms, citizens will be able to conveniently access services. Moreover, providing a platform by which weaker villages can learn from stronger ones will improve the self-governance capability of basic-level cadres and village-level organizations and help realize the collaborative governance of rural society.

12.5.4.2 Ensure Multi-principal Collaborative Governance

Urbanization and industrialization have introduced new problems, such as the expropriation of a great deal of rural land, rapid rural economic restructuring, a large migrant population flowing into cities, etc. Tackling these problems requires building on the core idea of grid-integrated management and overall general services to form a new rural social governance mode at the source, by which multiple principals collaborate to provide integrated public services. First of all, the main leaders of village party committees and the government should take the lead in constructing an integrated governance network for general services and enhance the leadership mechanisms. By integrating human, work, and institutional resources of the three tiers of community, area, and grid, the main leaders should lead the creation of multi-principal grid governance based on responsibilities within each grid unit. Second, integrated service teams, specific support panels, and social services teams should be established to strengthen the governance and basic-level services provided to rural society. Finally, basic-level governance capability should be modernized through intelligent governance by enforcing technical support and sharing the information resources of the social administration center, command center, service windows, districts, functional offices, grid, and service teams.

12.5.4.3 Promote Village Self-Governance

In order to enhance and improve self-governance among villagers, as well as ease and solve conflicts in rural society, democratic supervisory institutions and participation platforms must be improved to support villagers' rights to access information, make decisions, participate, and supervise. Village affairs supervisory committees should be established to improve the democratic supervision platform and institutional system. Villagers should elect committee members to represent their views and report back on decisions that are made. Creating village affairs supervisory committees will create the supervision mechanism necessary to effectively promote rural self-governance and maintain rural stability and harmony.

12.5.5 Establish Clear Property Rights for Rural Collective Assets

The *Decisions of Third Plenary Session of the 18th Central Committee of the CPC* pointed out that social governance should retain the principles of governance at the source, solve current problems, and eliminate the root causes, with an emphasis on eliminating root causes. Several current problems have led to rural rights disputes and social contradictions, such as unclear property rights for rural collective assets, ineffective governance, unequal distribution, and lack of supervision. Thus, it is important to actively explore reforming property rights for rural collective assets.

First, the share allocated to the village economic cooperative is the principal for managing rural collective assets, and its organizational construction must be supported. Second, a registration system for each village economic cooperative's share of assets should be established and improved, along with a democratic management system, a public bidding system, a contract management system, and an accountability system; moreover, the management of each village economic cooperative's share of funds, assets, resources, etc., must be standardized. Finally, rural collective asset reform should center on implementing formal accounting and assessment methods, defining members' shares and stock rights, establishing and standardizing the management system, etc.

12.5.6 Explore Effective Implementation Patterns for a Rural Collective Economy

It is important to explore effective implementation patterns for a rural collective economy in order to financially guarantee village self-governance. First, methods for integrating the advantages of village-level resources, locations, and industries should be explored, as well as development paths for village-level collective

economies. Suburban villages, urban villages, and villages inside industrial parks should deepen and improve property rights reforms to strengthen village economic cooperatives and establish and improve rural collective asset management systems by clarifying property rights, rationalizing share allocations, constructing flexible management mechanisms, preserving or increasing asset value, etc.

There are plenty of problems with community governance, one of which is ambiguity around community boundaries. The essence of community is the interactions that bond people together by common interests and habits. However, under the current community committee system, people in residential areas or units that seldom connect or communicate with each other are grouped together into "communities." These groups are too large to be organically merged into real communities. Second, community self-governance has not been effectively implemented, because residents do not have a common identity and have not enthusiastically or efficiently participated in the construction of such communities, which in turn has resulted in a lack of participation in community governance. Other problems related to community governance include emphasizing districts but ignoring communities and using standard approaches for all kinds of communities.

12.5.7 Enhance and Improve Multimodal Systems for Rural Social Governance

The *Decisions of the Third Plenary Session of the 18th Central Committee of the CPC* emphasized continued promotion of multi-tier, multi-domain governance according to the law. In the process of rural social governance, it is important to balance universality with specificity when implementing governance methods. With the spiritual guidance of the party and government about social governance innovation, specific governance methods should be explored for specific circumstances in order to enhance and improve the multimodal system of basic-level rural social governance.

12.5.8 Construct a Rural Internet Governance Platform

The Internet is the new frontier for social governance, as both an object and a method. Since the beginning of the twenty-first century, Internet technology has advanced tremendously. The Internet has become an indispensable part of daily Chinese life that is facilitating social participation and self-expression and transforming traditional methods of engaging in work, life, and communication.

Since the Third Plenary Session of the 18th Central Committee of the CPC, China has been constructing and improving the Internet governance system based on the principles of active use, scientific development, law-based administration, and ensured security. Through legislation, an Internet governance system

is being established that enables participation by government, society, and the public, integrates the functions of related organizations, and enforces supervision of the Internet industry. Jointly constructing logical and effective supervision mechanisms will help guarantee Internet stability and safety, in terms of both technology and content, for daily operations, cracking down on crime, etc.

Constructing a rural social governance ecology is a complex project. Modern information technology is challenging rural social governance, while new information technologies such as big data are providing revolutionary tools for rural social governance reform. The power of new technology must be fully harnessed in order to advance the application of modern Internet, e-commerce, and e-government applications in rural social governance and provide strong technical support for the rural social governance ecology.

In modern society, the Internet and information technology are not only shaping a brand new social pattern, but also helping to fulfill social needs. In most countries around the world, e-government is a key strategy. However, in most e-government implementations, e-technology is overemphasized and the opportunity to reshape the governance structure is neglected. Therefore, it is urgent to reconstruct governance relationships and power, since e-governance is an inevitable outcome of e-government.

In fact, there is still a long way to go to transform the infrastructure of China's rural social governance into a modern rural social governance system. For instance, there are still many problems associated with collecting, authenticating, synthesizing, communicating, and protecting basic information from citizens and organizations. These problems have affected many related industries and have impeded the government's ability to engage in effective governance and create reasonable policies. In many places, people are working to establish rural social governance information systems by collecting information, creating isolated "information islands" in the process. Inevitably, these resources must be integrated into a national Internet governance network.

Building a national rural network governance platform requires making full use of the advantages of modern Internet technology, constructing social governance participation mechanisms, and creating a network support system for rural social governance that can be participated in and seen by all principals in society. Thus, the governance roles of an Internet platform, big data, and e-governance should be given full play, while providing important intellectual support for constructing rural social governance ecology and applying basic features of "intelligent villages," namely, "Internet+" (i.e., Internet plus transportation, medical services, community, education, and government). Taking this approach will establish a new norm for rural society and will advance the construction of a rural social governance ecology. This will reduce the cost of rural social governance while improving its functionality, downscale government, improve decision-making and implementation abilities in order to meet the requirements of economy and social development, and benefit villagers by making their lives and transportation more convenient and their environments more pleasant.

12.5.9 Emphasize the Functions of Civil Groups and Social Organizations

To truly modernize, more importance must be assigned to nurturing, supporting, and leading multiple principals to participate in rural social governance under the guidance of the party and the government. In the Third Plenary Session of the 18th Central Committee of the CPC, it was pointed out that constructing a scientific and effective social governance system requires leadership from the party committee, guidance from the government, encouragement and support from society, and interaction between government governance, social self-adjustment, and residents' self-governance. Civil groups are public organizations led by the party committee. As the bridges between the party and the public, they have significant responsibilities for social governance. Led by the party, the groups can educate and organize the public to take part in the state and social governance through a variety of means, abiding by the constitution and other laws. Social organizations are important principals of social governance and serve as bridges between the government and the market, society, and the public.

Co-governance is achieved through collaboration between the government and the third sector. Co-governance is a form of governance based on interactive partnerships characterized by cooperation, collaboration, co-arrangement, and co-leadership. The third sector can not only increase the overall supply of services but also meet various demands of multiple tiers, thus meeting needs that are not met by the government and the market.

Currently, there are more than 570,000 social organizations in China in many fields such as science and technology, education, culture, health, sports, poverty alleviation, environmental protection, economic development, rights and interest protection, etc. However, compared with developed countries, there are less social organizations overall in China and they cover fewer categories; they also lack specific skills, struggle with disorganization, and tend not to be fully used. To promote the vitality of social organizations, current social organizations should be regulated, but no longer funded by the government and subordinate to it. Social organizations such as chambers of commerce and those involved in technology, charity, urban and rural community services, etc. should be encouraged and supported. Government functions should be transformed in order to establish and improve the mechanism of government procurement from social organizations and to transfer some public services and affairs from government to social organizations. Moreover, it is important to establish and improve the mechanisms and institutional channels by which social organizations play their roles; improve the laws and regulations of social organization governance; construct a dynamic supervision system consisting of laws, government, and society; improve the internal governance structure of social organizations; improve their self-governance and self-discipline capabilities; and ensure the orderly development and operation of social organizations.

12.5.10 Cultivate Talents for Social Governance

Modern rural social governance is a new kind of work and knowledge, and the leading cadres should acquire governance knowledge, know the rules behind social governance, become familiar with the related laws and regulations of social governance, and improve their social governance ability. Since the 18th Central Committee of the CPC, party schools, schools of administration, and management institutes at all levels have been strengthening cadre training to improve their knowledge and abilities in developing community works, resolving social conflicts, defending the public interest, motivating social members, implementing Internet social governance, etc.

Rural social governance operations require plenty of professional personnel, of which social workers comprise the main force. Social workers are professionals who provide social services and play special roles in helping vulnerable groups, preventing and resolving social conflicts, coordinating family or social relationships, etc. There is a lack of social workers in China. The innovation of social governance is providing a rare opportunity to develop and train social workers. Based on the requirements of the *Medium- and Long-term Plan for Social Work Professional Talent Team Construction (2011–2020)*, local governments should establish and perfect an institutional system to train, use, evaluate, and motivate social workers. Moreover, they should establish teams of professional social workers with training and job creation as the foundation and an emphasis on training middle- and high-level talents.

Volunteers are also an important supplementary force in social governance. In recent years, volunteerism has been booming, with more and more people participating in volunteer services. However, the foundation of social service volunteerism remains vulnerable, an ethos of volunteerism has not yet prevailed, the number of volunteer service organizations and individuals remains small, and related laws and regulations are not well established yet. President Xi used to reply to volunteering youth and encourage them to devote themselves to volunteer services. Volunteering requires not only enthusiasm and devotion but also support from related policies and institutions.

Government at all levels should establish and improve laws, policies, institutions, etc., related to volunteer services, construct volunteer services platforms, unblock channels for participating in social volunteer services, and create an environment in which everyone is willing and able to volunteer from time to time. At the same time, a mechanism linking professional social workers and volunteers should be established, along with a service grid led by professional social workers and assisted by volunteers.

In practicing rural social governance, local governments should make full use of the enthusiasm and innovation of local party committees, governments, and villagers to innovate rural social governance modes with local features. Local political systems should direct and supervise self-governance among villagers, coordinated by the mediating mechanism between government and villagers, elected committees.

12.6 Current Problems

In the process of constructing a rural social governance ecology, several problems have emerged that must be addressed.

12.6.1 "Meshing"

Currently, the biggest feature of rural social governance is coordination of the party committee, government, society, and the public through "meshing." This meshing extends horizontally and vertically in all directions to integrate all social governance and service resources, consolidate the foundation of rural social governance, and facilitate the innovation of basic-level modes of social governance. While "meshing" is an effective integrated governance mode that has promoted innovation, some feel uncomfortable with the level of supervision, perceiving it as a controlling network.

12.6.2 Too Much Focus on Maintaining Public Security

Since the reform and opening up, the party committee and government have engaged extensively in integrated governance, emphasizing that the primary purpose of integrated governance is maintaining public security. However, this has led to inertial thinking that rural social governance and its promotion should emphasize integrated governance. However, while integrated governance may address public security needs, it fails to adequately address increasing needs for public services; therefore, innovative development is inevitable. Reflecting a shift in thinking, the central party and government authorities decided to change the name of the Committee of Comprehensive Management of Social Security to the Committee of Comprehensive Social Governance. The difference between social security and social governance indicates that the original security maintenance function is transforming into an integrated governance function, with more abundant content. Under these circumstances, rural social security problems should be addressed through community services to improve people's livelihoods and democratically meet future demand and elements of the current system related to public services, and people's livelihoods should be distinguished and amplified.

12.6.3 Embedded Social Organizations

While many social organizations exist, many lack effective guidance, management, and integration. Most organizations are embedded in the system, meaning that they bear typical NGO features that interfere with organizational functions and make it difficult to develop strong societal support. These organizations also have a strong

reliance on government resources and run ineffectively; they tend to lack organization and formal institutional mechanisms and often are led by personal charisma. Moreover, social organizations tend to have limited functions, professional service ability, social capital, etc. These problems are caused by both the inadequacies of social organizations and a lack of government involvement. The government has not set up one comprehensive system to guide, manage, and integrate social organizations, which has led to their disorderly development. In the future, a government department or position should be established to register rural social organizations and standardize their management in order to improve the communication between the government and social organizations and within social organizations.

12.6.4 Lack of Effective Support from Volunteer Organizations

Meshing has been an effective way of encouraging public participation in volunteer services. However, it has been a top-down administrative activity. In the future, multiple parties should be involved in constructing volunteer teams, such as cadres from the two committees, village representatives, party members, league members, women's organizations, members of all kinds of associations, enthusiasts, etc. This would be especially helpful in building volunteer teams with specific skill sets for specific purposes.

In addition, a registration system for rural community volunteers should be implemented with the goal of registering 5 % of residents. At the same time, a community volunteer services file system, outstanding volunteer reward system, and application and subsidy systems for volunteer service projects should be created. Mechanisms that encourage community volunteer services should be strengthened, and residents should be encouraged to participate in local volunteer activities.

12.6.5 Multiple, but Not Collaborative

While the idea "led by government and run by multiple principals" is in accordance with the new rural public service paradigm described in this chapter, China has a long way to go before collaborative governance is truly realized. First, "multiple principals" have not been implemented on a large scale. Currently, principals include the government, self-governance organizations, private sector organizations, third sector organizations, and villagers, with an emphasis on government and self-governance organizations and some voices representing villagers' rights and responsibilities. However, the function of the market is defined as *supporting and guiding the market principals to participate in rural public service and social governance*, which is a passive object led by the government, and unequal relationships exist between government and private sector organizations rather than equal public-private partnerships. Moreover, the third sector is addressed at the level of

"encouraging and attracting all kinds of social organizations to participate and develop public services" (Chengdu Municipal Committee of the Communist Party of China and Chengdu Municipal Government 2008). The third sector's position and function in constructing the rural public service system should be highlighted; China needs not only their funds but also their experience.

Second, these multiple principals do not collaborate enough. Rural public service is coordinated by the government, connected by self-governance organizations, elaborated for mutual benefit by the private sector, complimented by the third sector, and participated in by villagers. Thus, they should play different roles in the expression, decision-making, funding, production, evaluation, and accounting functions, thereby fostering cooperative, competitive, balanced, and collaborative relationships in order to carry out the tasks of rural public service integrated governance.

In the current "collaboration," the government is playing the hero, while self-governance organizations are overexploited and overloaded with heavy pressure to provide public services, with little participation from the market and society. Villagers' participation is somewhat better, but the systems for expression and supervision have not been constructed yet, and the villagers are not receiving necessary cooperation and support from other principals; thus their ability to participate and supervise is impeded.

Moreover, the idea of "led by the government and run by multiple principals" has not been implemented effectively. While the *Project Management Rules for Public Service and Public Governance Financing at the Village Level* have launched in some regions, which have set specific policies and procedures for village committees to apply for funding from The Small Town Investment Co., Ltd. (STIC), the funds actually come from the state and collective financial resources and have not been used to construct the rural public service system. It is difficult to implement the concept of "led by the government and run by multiple principals" in practice, because it will increase burdens on regional finances and lead to unbalanced rural public service construction.

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Chapter 13
Decrease the Hard and Increase the Soft: Avoid the Material and Promote the Virtual

Zheng Zheng and Zhigang Ge

Abstract China's current economic pattern based on manufacturing and exporting low-end products creates many disadvantages; as a result, the current pattern is unsustainable. China's annual consumption of vital resources accounts for about 50 % of total global consumption, and excessive pollution is making the environment unbearable. In this chapter, we propose two strategies to support sustainable development in China. First, *decrease the hard and increase the soft*. In order to change the manufacturing-based economic pattern, China must reduce the percentage of high-consuming industries, promote the development of low or nonconsuming industries, and increase the efficiency of resource utilization. Second, *avoid the material and promote the virtual*. Current consumption patterns in China hinder sustainable development. China must encourage the development of a rational consumption pattern that includes less material consumption and more virtual consumption. In short, China must know that country development should not be based on high resource-consuming industries, and people's happy life should not be based on luxury consumption.

13.1 Introduction

Since China implemented economic reform and opened up its markets in 1978, great strides have been made in the nation's economic development. However, this economic development has created immense pressure on resources and the environment and created hidden obstacles to future development. Due to its large population, China's per capita resources are far below the global average, even with a vast

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land area and abundant resources. To make things worse, an economic pattern based on manufacturing and exporting low-end products drives economic growth at the expense of natural resources and the environment. Hence, the government's efforts to solve problems have not paid off to a large degree, and the majority of consumed resources are not used reasonably. It is not difficult to see that although progress has been made in advancing social development and improving people's lives, other problems like resource exhaustion and environmental deterioration have developed as a result. These problems are becoming more and more serious and greatly undermine China's sustainable development.

13.2 Problems in China's Economic Development

At present, China's economic development is based primarily on an export-oriented economy. Manufacturing and exporting a large volume of low-end products is the working principle. This economic pattern creates many disadvantages and jeopardizes developmental sustainability. As China becomes increasingly involved in the global economy, more profound problems are emerging: an overreliance on investment and export activities for economic development, restrictions on upgrading and competence enhancement activities due to an unreasonable industrial structure, an overdependence on foreign technologies and insufficient independent technology innovation, overconsumption of foreign (vs. domestic) goods, an imbalance between labor demand and supply and a disorganized job market, and problems stemming from extensive economic development, including environmental deterioration and wasted resources. If this pattern continues, sustainable development will be impossible. Accordingly, to ensure healthy development, this pattern must be replaced—both theoretically and practically.

Specifically, since China joined in WTO, China's economy has become much more closely tied to the world economy. During the global financial crisis in 2009, China's economy managed to maintain high momentum and recovered quickly from the recession. As a result, scholars both at home and abroad began to study the advantages of China's economic structure and widely advocated the "Chinese Pattern," "Beijing Agreement," etc., increasing the influence of China's development pattern. However, China is now facing huge challenges that threaten rapid and sustainable development. In this chapter, we suggest approaches to promote future economic development in China and align it with the world economy. China's economic pattern must be transformed. In order to do so, we propose a development mode based on two strategies: *decrease the hard and increase the soft*, and *avoid the material and promote the virtual*.

Currently, the manufacturing industry in China remains at the low-to-mid level and profitability and brand sense need to be improved. China's native industries are restricted to manufacturing by the global industrial chain, which dramatically impedes the development of the productive service industry. A tremendous number of imported machines hinder development and increase trade deficits. Foreign-owned enterprises tend to monopolize production services in China, which not only restricts

the development of domestic production services, but facilitates the development of a low-end manufacturing industry. In 2012, the profits of the 272 Chinese manufacturing enterprises ranked among the top 500 enterprises in China only accounted for 25.04 % of total profits; from a global perspective, large, first-class, Chinese manufacturing companies are rare, and China's market share of value-added products is small in the world production chain (Chen 2012).

The low-end manufacturing export-oriented economic model results in massive consumption of productive resources. China is rich in natural resources, but has a large population, so the per capita share of natural resources is below the world average. In 2012, China's coal consumption equated to 1.8733 billion tons of oil, an increase of 6.1 % over in 2011 and accounted for 50.2 % of the world coal consumption, marking the first time this number had ever exceeded 50 % (BP 2013). Steel consumption per capita in China is 477.4 kg; with annual growth of just 1.4 %, consumption is still almost twice the Asian average of 243.5 kg per capita.[1] In 2012, China's total cement production capacity was 2.184 billion tons, yet the national cement production capacity utilization was only 72.7 %, presenting a difficult situation (Gao and Cheng 2013). In 2012, China's wood consumption reached 112.7017 million cubic meters, and the growth rate in the future will remain above 10 % (Insight and Info Consulting 2013).

13.3 Environmental Pollution Problems

Rapid economic development in China has placed a heavy drain on productive resources, and serious environmental pollution and ecological problems have arisen. In 2012, the 18th National Congress of the Communist Party of China integrated the construction of an ecological civilization into the five-in-one mission of the construction of socialism with Chinese characteristics, proposed to promote eco-civilization and build a beautiful country under daunting environmental circumstances.

13.3.1 Water Environment and Emissions of Major Pollutants

In 2012, the volume of wastewater discharge in China was 68.48 billion tons, an increase of 3.9 % over the previous year. Industrial wastewater emissions totaled 22.16 billion tons, 4 % less than the previous year, which accounted for 32.3 % of total discharged wastewater, 2.6 % less than the previous year. Urban sewage emissions amounted to 46.27 billion tons, an 8.1 % increase over the previous year, which comprised 67.6 % of total sewage emissions, up to 2.7 % over the previous year. Wastewater emissions for centralized pollution control facilities (excluding municipal wastewater treatment plants) totaled 50 million tons, accounting for 0.1 % of the total wastewater discharge (Ministry of Environmental Protection 2012).

[1] http://www.chinairn.com/print/3018455.html

13.3.1.1 Chemical Oxygen Demand (COD) Emissions

In 2012, China's total discharge of chemical oxygen demand (COD) was 24.237 million tons. Industrial sources contributed to 3.385 million tons of COD emissions, accounting for 14 % of total COD discharge. Agricultural sources contributed to 11.538 million tons of COD emissions, with 10.99 million tons from the livestock industry and 548,000 tons from aquaculture, accounting for 47.6 % of total COD discharge. Life in cities and towns contributed to 9.128 million tons of COD emissions, accounting for 37.6 % of the total. COD in wastewater emissions of centralized pollution control facilities amounted to 187,000 tons, including 186,000 tons of COD emissions from domestic waste treatment plants (field), and 1472.1 tons from dangerous (medical) waste disposal facilities, accounting for 0.8 % of the total (Ministry of Environmental Protection 2012).

13.3.1.2 Ammonia Emissions

In 2012, the amount of ammonia nitrogen in wastewater emissions was 2.536 million tons, including 264,000 tons from industrial sources, accounting for 10.4 % of all ammonia nitrogen emissions. Ammonia emissions from agricultural sources were 806,000 tons, of which 152,000 tons were from planting, 631,000 tons were from raising livestock, and 23,000 tons were from aquaculture, accounting for 31.8 % of total ammonia nitrogen emissions. Ammonia nitrogen emissions in urban sewage amounted to 1.446 million tons, accounting for 57 % of total ammonia nitrogen emissions. Ammonia nitrogen in wastewater emissions from centralized pollution control facilities amounted to 19,000 tons, with solid waste treatment plants (field) contributing 19,000 tons and hazardous (medical) waste disposal facilities contributing 36.1 tons, accounting for 0.8 % of total ammonia nitrogen emissions (Ministry of Environmental Protection 2012).

13.3.1.3 Other Major Pollutants

In 2012, the discharge of petroleum and derivatives in industrial wastewater in China totaled 17,000 tons, including 1481.4 tons of volatile phenol and 171.8 tons of cyanide. In industrial wastewater, emissions of heavy metals, including mercury, cadmium, hexavalent chromium, chromium, lead, and arsenic, were 1.1 tons, 26.7 tons, 70.4 tons, 188.6 tons, 97.1 tons, and 127.7 tons, respectively (Ministry of Environmental Protection 2012).

13.3.2 Air Environment and Emissions of Major Pollutants

In 2012, sulfur dioxide emissions from exhaust totaled 21.176 million tons in China, of which 19.117 million tons came from industrial sources and 2.057 million tons resulted from urban life activities. National emissions of nitrogen oxides totaled 23.378 million tons, including 16.581 million tons from industrial sources, 0.393 million tons from urban life activities, and 6.4 million tons from motor vehicles. National exhaust smoke (powder) dust emissions amounted to 12.343 million tons, including 10.293 million tons from industrial sources, 1.427 million tons from urban life activities, and 0.621 million tons from motor vehicles (Ministry of Environmental Protection 2012).

13.3.3 Solid Waste and Emissions of Major Pollutants

In 2012, the volume of general industrial solid waste was 3.29 billion tons, with a comprehensive utilization of 2.02 billion tons, storage capacity of 600 million tons, disposed volume of 710 million tons, and dumped and discarded volume of 1.442 million tons; the national comprehensive utilization rate of general industrial solid waste was 61.0 %. The same year, the volume of hazardous industrial waste was 34.652 million tons, with a comprehensive utilization of 20.046 million tons, storage capacity of 8.469 million tons, disposed volume of 6.982 million tons, and discarded volume of 16.1 tons; the national comprehensive utilization and disposal rate for hazardous industrial waste was 76.1 % (Ministry of Environmental Protection 2012).

13.4 Decrease the Hard and Increase the Soft

Given the extensive problems associated with China's economic development model based on manufacturing and exporting low-end products, measures must be taken to optimize the industrial structure, expand domestic demand, develop a circular and green economy, improve innovation ability to gradually reduce resource consumption, and increase the proportion of less resource-consumptive industries. Together, these measures comprise a strategy that we call *decrease the hard and increase the soft*, which can improve the sustainability of China's economic development.

13.4.1 Optimize the Industrial Structure

Ensuring the healthy and stable development of China's economy requires improving economic development quality; optimizing the industrial structure; adjusting the patterns of the agricultural, industrial, and tertiary sectors as the economy develops; and upgrading agricultural development to modernize agriculture and achieve scalability. To make significant leaps in industrial development, Chinese organizations in science and education, information technology, environmental protection, bioengineering, and other industries must remain on the leading edge and have the ability to acquire and develop core technologies, intellectual property, and brands. China must promote the tertiary industry and increase its proportion of GDP by vigorously developing the financial, telecommunications, business, science, education, sports, health, and modern service industries, while promoting progress in labor-intensive traditional service industries, such as retail, transportation, community services, property management, domestic services, hotels, restaurants, and other industries. To accelerate upgrading and optimization of the industrial structure, resource allocation should be reasonable for each industry, so that all resources can be fully utilized to their fullest effect; technologies and knowledge in all industries should be refined to increase efficiency while reducing resource waste and environmental damage. China also should strive to foster new pillar industries. Finally, the three major industries must reasonably and effectively promote each other. In the process of upgrading and optimizing the three major industries, it is vital to emphasize knowledge, technology, and education and to be aware of the role of governmental macrocontrol when highlighting the importance of the market. To avoid problems arising from blind hysteria, the government should regulate it in a timely fashion.

13.4.2 Develop a Circular Economy

Developing a circular economy requires maximizing the recycling and utilization of all resources throughout the product life cycle. Making resources renewable has proven to be a valid strategy that resolves fundamental conflicts between development, resources, and ecology (Yao 2012). The goal of such a strategy, commonly referred to as "cradle to cradle," is achieving a sustainable resource utilization pattern. Its development philosophy is to obtain the highest profit with minimum investment, so as to achieve the dual purpose of conserving resources and protecting the environment.

Developing a circular economy can facilitate a fundamental transition in the economic development paradigm, which is of vital importance to the *decrease the hard and increase the soft* strategy. A circular economy relies on improving resource efficiency to increase productivity and reduce the rate of factor inputs and makes full use of advanced science and recycling equipment to derive production

value from "waste." Developing a circular economy also requires the use of advanced management concepts and scientific management principles to actively develop a recycling economy and significantly increase contributions from science and technology. In terms of inputs, China should reduce its reliance on foreign investment, use resources more efficiently, and gradually form a low-input and high-return economic growth pattern. In terms of resource utilization, China should promote waste recycling efforts, increase the reuse of resources, and explore the use of renewable resources. Guided by economic and natural laws, the Scientific Outlook on Development should be implemented in order to build a resource-conserving and environmentally friendly society and develop the circular economy (Yao 2012).

13.4.3 Improve Independent Innovation Capabilities

Applying science and technology innovations is an important means for increasing productivity; the value created through improvements in industrial productivity and product and service quality is now a focus of the international community (Yao 2012). Improving independent innovation capabilities in science and technology is critical, because transforming the mode of economic development requires support from the latest technology. The latest production technologies must be applied to reduce pollution and waste and achieve a radical shift in the economic development paradigm. Advanced technology and equipment are prerequisites for improving independent innovation capabilities.

New production technologies must be fully implemented and given full play, which requires support from many talented experts. China should strive to develop an innovative, high-quality education system and increase investments in education as well as research. Quickly establishing a robust scientific research platform based on core technologies requires intelligent people and financial support.

Moreover, independent innovation must be encouraged, and the government must increase investments in improving independent innovation capabilities. Enterprises should provide more input and exercise more control over technology development decisions based on their own needs. The government's responsibility should be to collect information that enterprises can use when determining their goals for future development. Furthermore, China should build an innovation-oriented society by encouraging more people to participate in scientific and technological innovation and research in their daily lives in order to closely align innovation with people's lives and production activities. Improving independent innovation capabilities and developing a circular economy are the top priorities in transforming the pattern of economic development and providing essential technical support for a new economic development model.

13.4.4 Develop a Green Economy

The purpose of developing green economy is to try to protect the environment and produce low (or even no) pollution while pursuing economic development (Yao 2012). First, the government should implement green economic development mechanisms based on incentives used in developed countries to encourage enterprises to develop the green economy and the environmental protection industry. The government should pay attention to the distribution and use of all production factors to prevent inputs that may lead to pollution. Every aspect of production should be green and ecologically friendly.

Second, China should allow the market to play a full monitoring and regulating role in every aspect of production. The market will weed out those who could negatively impact green economic development and those with less competence, which will ensure optimal advantage of the green economy. In terms of technical support, China must put enough effort into upgrading technology and equipment in order to develop a green economy. This new type of economy must be driven by the most advanced science and technology. Both companies and governments should not only make efforts to innovate and introduce new technologies by providing enough funding, but prioritize the development of technologies and equipment for the green economy by enacting relevant policies.

Last but not least, the government must increase legal protection. Passing relevant laws and regulations will ensure the reasonable and effective operation of the green economy, and strengthening penalties for nongreen industries will legally ensure its smooth development.

13.5 Avoid the Material and Promote the Virtual

The twenty-first century is the era of economic globalization in which the core developmental goal is the sustainable development of human beings. In the new era, the focus of China's economic and social development is to promote economic restructuring and establish a consumption pattern that is both compatible with China's future economic development and sustainable based on the guidelines of the Scientific Outlook on Development. Therefore, China must change people's consumption attitudes and advocate less material consumption and more virtual consumption; we call this strategy *avoid the material and promote the virtual*.

China's current economic development plan represents a shift from an export-oriented strategy to a consumption-oriented strategy; thus, consumption patterns in China are about to undergo major changes. In its 12th Five-Year Plan, the government proposed to:

> build a long-term mechanism for expanding consumer demand, through actively yet prudently stepping up urbanization, giving priority to employment, deepening the income distribution system reform, perfecting the social security system and creating a good

> environment for consumers, enhancing people's ability to consume, improving consumers' expectations, promoting the upgrading of the consumption structure, further releasing urban and rural residents' consumption potential, and gradually making the size of China's domestic market prominent in the world.

Thus, expanding consumption demand in China under the guidance of the Scientific Outlook on Development has become the focus of building a harmonious society. Expanding domestic consumption must not be one sided to facilitate unbridled pleasure. Instead, China should advocate nonmaterial virtual spending to conserve resources and realize sustainable development.

Currently, consumption practices in China can be generally classified as either frugal, luxury, conspicuous, or hedonic. Consumers who engage in frugal consumption believe that the value of saving outweighs the value of consuming. They do not buy very expensive goods, emphasizing the utility of goods and their actual needs. This view and way of life had a great effect on building a socialist society during the postwar period. But, with the passage of time and social development, especially in today's highly developed economy, limitations of this view have become more obvious. People who hold this view suppress their own demands and desires, which limits consumption's catalyzing role in economic development. Frugal consumption is not conducive to people's all-round development or to the long-term sustainable development of China's economy.

Consumers who engage in luxury consumption pay attention to brand names and luxury goods when selecting products. They are not thrifty in life and think luxury goods represent a certain status and symbolize their success and achievements. While luxury spending can stimulate economic development, strengthen employment, and drive technological innovation, it is resource intensive. Purchasing luxury and upscale goods to reflect identity, status, and wealth and to obtain the esteem of others can create a great drain on resources. In addition, when products become broken or flawed, people choose to buy new ones instead of having them repaired, which wastes additional resources and creates more environmental pollution.

The first consideration of consumers who engage in conspicuous consumption is how others will evaluate the items they purchase. Conspicuous consumption is a reflection of vanity and money worshipping. When communicating with others, conspicuous consumers deliberately show off the products or services they buy and compare them against others' purchases. While conspicuous consumption may increase consumption, it actually does not support sustainable development because it is based on the opinions of others; once they fall out of favor among members of the reference group, products are abandoned, creating serious waste.

Consumers who engage in hedonic consumption enjoy the sensual pleasures derived from the goods or services they purchase, reflecting their general attitude toward life. Hedonic consumption stimulates economic development to a certain extent, for example, in the entertainment and leisure industry. However, historical limitations of hedonic consumption are harmful to both nations and individuals.

In summary, luxury, conspicuous, and hedonic consumption practices are aimed at satisfying not only personal needs but also insatiable desires, which is a deviation from the nature of consumption. Moreover, such practices are likely to exacerbate a

serious ecological crisis. If consumers with infinite desires replace goods at a rapid rate, producers will respond by increasing production, which (a) could lead to a surplus of goods, increasing the potential for waste, and (b) increase resource consumption and damage to the environment. China's large population, low per capita resource reserves, and long history of rapid economic growth have created extensive damage to the ecological environment, and irrational consumption would undoubtedly worsen the damage. Driven by profit, people have destroyed the natural environment; the air, water, and soil are seriously polluted. It is safe to say irrational consumption is not only a departure from the nature of consumption but also hindering the sustainable development of nature and society.

As time passes and China's economic development progresses, current Chinese consumption practices must gradually be replaced by new consumption practices in order to meet new requirements for sustainable development. People's consumption practices will become more diversified and the government must provide guidance to ensure that those practices are rational and less material consumption.

In some ways, current consumption practices in China are not adapted to the level of socioeconomic development. People must develop reasonable consumption practices that promote economic development without destroying resources, harming the environment, jeopardizing survival, or impeding social development. Cultivating a reasonable consumption culture in China is extremely urgent. China must learn from past experiences (both domestic and foreign) and allow mainstream Chinese culture to play a guiding role.

From the perspective of collective human development, the concept of rational consumption includes sustainable consumption, which means that consumers should consider their personal interests as well as the interests of other individuals, groups, and society when making consumption decisions. In addition to the interests of the current generation, consumers should also consider the interests of future generations. Rational consumption must be guided by the strategies proposed in this chapter, *decrease the hard and increase the soft* and *avoid the material and promote the virtual*, to minimize the consumption of natural resources and destruction of the ecological environment and to ensure intra- and intergenerational equity.

13.5.1 Advocate Circular Consumption

China should advocate circular consumption with material recycling as the core, which will fundamentally reform current consumption practices dominated by mass production, surplus goods, and incredible amounts of waste. Only by reducing natural consumption and protecting the ecological environment can human beings supply various types of goods and services over the long term and enjoy free and comprehensive development.

13.5.2 Increase Nonmaterial Consumption

China should increase nonmaterial consumption to raise both the quantity and quality of consumption. Specifically, material consumption and spiritual consumption must be brought back into balance now that current incomes and living standards have improved. Excessive material consumption yields a diminishing marginal effect and leads to feelings of anxiety and emptiness. Since material consumption cannot fill the emptiness inside, people who want true satisfaction must emphasize the weight of spiritual consumption, combine material and spiritual consumption, increase the proportion of spiritual consumption overall, abandon the mere pursuit of material consumption, and increase consumption of educational and cultural products.

13.5.3 Promote Cultural Consumption

The government should encourage the cultural market to produce healthier cultural products of higher quality. This may influence the moral sentiments of consumers and drive consumption of cultural products, which in turn will create incentives for producers to create even more products to enrich the market and benefit customers. Such a virtuous cycle would cultivate rational cultural consumption and support people's well-being.

13.5.4 Base Policies on Sustainable Development Goals

Consumer policies must be based on the ultimate goal of the sustainable development of society. The danger of consumerism is that mass production, consumption, and waste will damage the ecological environment and resources and cause people to obsess over satisfying false needs, thus alienating them from other people. Green consumer policies such as production bans on excessive packaging should be implemented to direct people's attention toward environmental protection and resource conservation.

13.5.5 Harness the Power of Virtual Reality Technology

After people's basic needs are met, efforts should be directed toward spiritual and mental development. Current virtual reality technology could be a very valuable tool for addressing these needs. Using virtual reality technology, people can engage in very rich, diverse experiences that bring happiness and joy while using very few material resources. In a dream described by the ancients, scholars could successfully pursue happiness without material consumption. When a Taoist on Mount Lao

treats others, guests enjoy great pleasure from the beautiful scenery, delicious wine, and dishes without material consumption. The possibilities are endless. In fact, director Feng Xiaogang's movie *Personal Tailor* has this kind of flavor. These are all Chinese stories.

13.5.6 Increase the Use of Public Infrastructure

When attempting to change societal consumption patterns, increasing the use of public infrastructure is a great way to minimize resource consumption and waste. For instance, citizens can be encouraged to use public transportation instead of private cars to reduce air pollution and relieve road congestion. They can also be encouraged to ride bikes, which is environmentally friendly and conserves petroleum resources. Central heating and air conditioning are other ways to promote socialized consumption.

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Part V
Internationalization of Fair Development

Chapter 14
Multinationals' Experiences in China: Fairness and Unfairness

Yabing Huang

Abstract China's unprecedented economic reform and opening exploration has dramatically transformed the country and its people's lives over the past three decades. Despite China's significant overall strength and power acquisition during this period, there are many new issues and problems emerging inside the country. Some are very serious such as environmental pollutions, income inequality, and corruption and deterioration of social ethics. In this chapter, by focusing on multinationals' three-stage experiences in China from 1978 till present, I try to disclose a journey in which how China's policies evolved and legislation developed in areas concerning foreign investment attraction and management. Along with this journey, I discuss the fair development-related issues appearing and evolving as a result of interactions among those ideology, policies, laws, economic models, and so on and also highlight how those fair development-related issues affected different stakeholders involved in the economic activities.

14.1 Introduction

No one can deny the fact that multinationals have been important participants and beneficiaries of China's exponential economic growth over the last 35 years. Guided by traditional folk wisdom such as "wade across the stream by feeling the way"[1] and "no matter whether it is a white cat or a black cat, a good cat is the one that can catch

[1] A local proverb, meaning that a person who wants to cross an unfamiliar river where there is no boat or bridge has no choice but to cross by feeling the stones in the river. This proverb was cited at the beginning of the reform to encourage people to learn through constant practice. From "wade across the stream by feeling the way," Baike.Sougou.com

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a mouse,"[2] China gradually opened its doors to the world. An economic transformation that began in the original four special economic zones eventually extended to the whole country. Chinese people's perceptions of and attitudes toward multinationals from capitalist countries have evolved as well, from viewing them with suspicion and skepticism, to treating them as honored guests and granting them special privileges, to viewing them as a normal part of everyday life.

For multinationals, experiences in the Chinese market have elicited mixed emotions—love and hate and excitement and horror. Multinationals have had a presence in the Chinese market since the 1920s and 1930s, some even earlier. For instance, Lever Brothers, predecessor to the world consumer goods magnate Unilever, established a subsidiary in Shanghai in 1923 to produce "Sunlight" and "Lux" soap and soon became the biggest soap producer in the Far East. This company was nationalized along with many others after the establishment of the People's Republic of China. Many multinationals reentered the Chinese market in the 1980s after China implemented economic reform and opened up its markets in 1978. For example, in 1986, Unilever returned to Shanghai and formed a joint venture with the state-owned Shanghai Soap Factory (the same company Lever Brothers had established 63 years earlier) to form Shanghai Lever Co., Ltd. In this chapter, I describe three major stages of multinationals' experiences in China post-1978 from the perspective of fair development.

14.2 The First Stage of Multinationals in China (1978–1992)

The reform and opening of China's markets initially was an exploratory test. Since he had no reference point, the chief designer of the policy, Mr. Deng Xiaoping, wisely decided to designate several remote coastal regions as special economic zones in order to maintain some control and ensure that a fatal blow would not be dealt to China's economy. These regions were closer to the overseas market, particularly to the two developed Chinese territories outside mainland China, Hong Kong, and Taiwan and far away from core areas such as Beijing and Shanghai. This way, if the test was not successful, it would not adversely affect the whole regime, system, and economy. Thus, initial foreign investments mainly came from Hong Kong and Taiwan. While those investors did not have the same scale and influence as multinationals from the United States, Western Europe, and Japan, companies in mainland China desperately needed access to capital, technology, overseas markets, and advanced management expertise. Those initial foreign investments, while small by some standards, sparked China's transition from a planned economy to a market economy, which has had significant and far-reaching impacts.

[2] In the 1960s, Deng Xiaoping used this proverb to emphasize that both a planned economy and a market economy are means of resource allocation, which has nothing to do with political system. A capitalist country could have a planned economy and a socialist country could have a market economy. Anything that could improve productivity should be used in practice. From "white cat and black cat theory," Baike.Sougo.com

Since it was a test, the Chinese government and society had little knowledge about how to attract and manage foreign investment. Thus, in the beginning, they were acting without much thought or consideration. Due to anti-capitalism brainwashing over several decades, the majority of Chinese people (including government officials) had embraced an extreme leftist doctrine. Hence, the initial stage of the reform and opening was characterized by constant confrontation and debate over the merits of socialism vs. capitalism, which inevitably was reflected in the policies, legislation, and daily administration of foreign investment. At that time, foreign investors who entered China were not only courageous and determined but also were willing to take major risks. To them, China was an unknown world; they had no idea whether good fortune or disaster awaited them.

The laws concerning foreign investment are based on the so-called three laws: the *People's Republic of China Sino-Foreign Equity Joint Venture Law* (hereafter referred to as the *EJV Law*), the *People's Republic of China Wholly Foreign-owned Enterprise Law* (hereafter referred to as the *WFOE Law*), and the *People's Republic of China Sino-Foreign Cooperative Joint Venture Law* (hereafter referred to as the *CJV Law*), as well as their respective implementation rules. The *EJV Law* was published on July1, 1979; it is comprised of just 16 articles, fits on about one A4 page, and includes extremely simple principal provisions. The implementation rules of this important law, which include 105 articles with relatively detailed provisions for a joint venture's establishment, approval, and daily management, were not published until September 1983. In 1986 and 1988, the *WFOE Law* and the *CJV Law* were published, respectively, and their implementation rules were published in 1990 and 1995, respectively. These three laws and their implementation rules have been amended a number of times since they were initially published. Nearly 16 years after the first of the three laws was published, the last implementation rule was issued. During this period, other supporting laws and regulations related to foreign investment were gradually implemented as such activities increased.

The sequence of the three laws reveals how China introduced foreign investment step by step. Initially, foreign investors had to find local Chinese partners to form joint ventures, since at that time, only state-owned enterprises existed. Several years later, wholly foreign-owned companies were allowed to be established, followed by cooperative joint ventures, which are more flexible in terms of form of investment and management.

As these laws were implemented one by one, China ushered in the first true wave of multinational investment. Unlike the "three-plus-one"[3] model used primarily by investors from Hong Kong and Taiwan to manufacture products in the four special economic zones for overseas markets, world-class multinationals chose to invest

[3] In the three-plus-one enterprise business model, a foreign investor supplies equipment (sometimes even funding for plant construction), raw materials, and samples and is responsible for all product exportation; the Chinese partner supplies the land, plant, and labor. The partners keep separate books (i.e., not as the three-plus-one enterprise) and share profits through processing fees. Both parties assume joint liability for the three-plus-one enterprise. From "Three-plus-one enterprise" baike.baidu.com

more broadly. Most foreign companies selected core cities such as Shanghai, Beijing, and Guangzhou as locations for their Chinese headquarters and satellite facilities and chose to establish long-term operations in order to focus on the vast Chinese domestic market.

At this time, mainland China had just endured10 years of turbulence during the Cultural Revolution which had brought the economy to the edge of bankruptcy. The whole country and its people were extremely poor, thus the domestic market was very small in the late1970s and early 1980s. What mainland China could offer foreign investors was vast amounts of cheap labor and equally inexpensive and plentiful land resources, plus privileged tax treatment and many other favorable policies, all of which made foreign investment attractive. In addition, relevant policies, laws, and regulations did not exist; at that time, foreigners (including fellow Chinese from Hong Kong, Macau, Taiwan, and other countries) who intended to invest in mainland China (particularly in the four special economic zones) were well received and treated as honored guests by members of local governments, who were likely to make special arrangements to satisfy their needs.

The guiding ideology of allowing a portion of the people to get rich first led to inevitable unfairness in national economic policies and the design of the economic system. The people who lived in a few regions where those privileged policies were implemented the earliest were like lottery winners. As the first to connect with the outside world and foreign investors, they acquired wealth much earlier than people who lived in the rest of the country. This special policy treatment lasted more than 10 years and contributed significantly to the huge economic development gaps that currently exist among regions.

Under these special circumstances, acquiring foreign capital, technology, management expertise, and precious foreign currency through exportation were the Chinese government's top priorities, while environmental impact, labor protection, and transaction fairness were secondary issues that often were overlooked. Many three-plus-one enterprises relied much more on Chinese export tax rebates rather than expending the effort required to make profits in overseas markets. For instance, the export price of Nike and Adidas shoes was only USD 40–50 per pair, while the retail price in overseas markets was USD 90–120 per pair, yielding significant profits for foreign investors and dealers. In many three-plus-one enterprises, Chinese partners gradually turned over management authority to foreign investors, lacking the motivation to create their own brands for local markets. Many enterprises did not abide by Chinese labor policies; they paid very low wages and did not provide basic health and safety protection. As a result, many young migrant workers from the interior regions to the Pearl River Delta were afflicted with job-related health problems, some of which caused lifelong damage. The environment was seriously damaged as well, and punishment tariffs were constantly being levied by foreign governments to curb dumping from three-plus-one enterprises. Due to an extreme abundance of rural labor resources at that time, labor-intensive foreign-invested enterprises encountered no difficulties in hiring inexpensive production line workers. Moreover, due to nonexistent or weak labor legislation and law enforcement,

employees were unable to form trade unions, let alone organize strikes; Chinese workers could not fight for or protect their rights and interests through trade unions like workers in Western countries who lived under the rule of law. There was no minimum wage standard in China, so salaries remained persistently low.

Although China badly needed foreign capital, advanced technology, management expertise, and overseas markets, there were strict restrictions on foreign investment in terms of market access. Beginning in the mid-1980s, relevant foreign investment approval authorities relied on an informal "Foreign Investment Industrial Guidance Catalogue" (hereafter referred to as "the Catalogue") to guide them in the examination and approval of market access for foreign investors. In1995, the Catalogue was officially published and has since been amended several times. The Catalogue classifies industries for foreign investment into permitted, restricted, and prohibited categories. In the permitted category, foreign investors can hold up to 100 % of the shares of enterprises in industries such as textiles, clothing, shoes and hats, household chemicals and small appliances, etc. Industries in the restricted category (e.g., automobile manufacturing, telecommunications, state-owned banks, etc.) usually have high market entry thresholds and are heavily regulated; foreign investors are not allowed to be majority shareholders (i.e., Chinese partners are in control). The prohibited category includes industries such as domestic express delivery, Chinese law consultation, publishing, movie production, etc., and foreign investment is not allowed. Overall, the market is becoming more and more open; the number of industries in the permitted category has increased significantly, while the number in the restricted and prohibited categories has decreased. In the permitted categories and certain restricted categories, foreign investors are treated very well and in many circumstances enjoy special privileges.

From a fairness perspective, setting market access threshold to foreign investors could be regarded as unfair; however, such practices are quite common all around the world; hence it is hard to judge using typical fairness standards. Under the planned economic system, state-owned enterprises controlled almost every industry, while the private economy was just getting started. Compared with foreign investors, private enterprises had very few rights and enjoyed no special treatment. In fact, for quite a long time, private Chinese enterprises were subject to discrimination. In terms of fairness, private Chinese enterprises received the worst treatment during the initial stage of the reform and opening.

14.3 The Second Stage of Multinationals in China (1992–2008)

The open market policy in China had tremendously stimulated economic activities; from 1978 to 1989, China's GDP growth rate was around 10 % annually. This economic prosperity stagnated for 3 years after the events following student-led protests in 1989, until 1992 when Mr. Deng Xiaoping made his trip to southern China

and gave his famous speech.[4] At this point Chinese economic reform was reactivated and the country entered its second stage of rapid economic growth and development. This stage, which lasted approximately from 1992 to 2008, was the golden period for most multinationals (the so-called world Fortune 500) who invested heavily in China. During this period, China continued to open new markets, from coastal areas to inland regions and, eventually, the entire country. Development spread from the Pudong district in Shanghai to the central area to the western territory, culminating in China joining the WTO in 2001. The Chinese government wholeheartedly embraced globalization, hoping to use the vast domestic market to attract global capital to participate in the largest investment opportunity in the last100 years.

Now that nearly the entire Chinese market was open, the GDP index became the most important performance evaluation mechanism for local officials at all levels. Special policies that used to be restricted to the special economic zones became universal, and local governments began to engage in furious competition for foreign investment. Increasingly, different provinces and municipalities began to implement local privilege policies, both openly and privately, in order to attract investors. Foreign investors (particularly large-scale multinationals) began to enjoy extraordinary national privileges such as tax exemptions or deductions and extra privileges from local governments such as half-price land, tax rebates in the form of economic incentives, etc. This created an unfair environment for domestic enterprises, particularly private companies, as multinationals had gained competitive advantages in terms of policy and legislative treatment.

In order to attract foreign investment, local governments around the country introduced all kinds of public, semipublic, and private policies and established special economic development zones; while a few were very successful, most had limited success. As foreign investment increased, vast precious resources were wasted and large tracts of cultivated land were expropriated. Due to a lack of relevant laws, the compensation received by farmers for the expropriation of their land was very low. Moreover, the tax incentives used to attract foreign investment created huge losses in tax revenues. During this period, all activities were aimed at promoting economic development; the environment could be sacrificed, along with the rights and interests of rural migrant workers, including their social welfare, citizenship, their children's education, etc. While China enjoyed rapid economic growth, the natural environment deteriorated rapidly and the gap between the rich and the poor widened dramatically.

[4] From January 8 to February 21, 1992, Deng Xiaoping made his famous south China tour, inspecting Wuchang, Shenzhen, Zhuhai, and Shanghai, in that order. During his trip, the former Chinese leader made important speeches that later developed to become the backbone of Deng Xiaoping Theory. The main contents include the following: revolution and reformation are both means to liberate productive forces; it is necessary to hold on to the "one central task, two basic points" principle; and planning and market forces are not essential differences between socialism and capitalism, among others. These speeches provided answers to a series of important theoretical and conceptual questions and thus played a crucial role in guiding and accelerating China's reform and opening process as well as the socialist modernization process. From "Deng Xiaoping's South China tour (Jan. 1992)" www.china.org.cn

During this period, state-owned enterprises became increasingly privatized and the state retreated from many industries, permitting the entry of foreign and private capital. Many multinationals had invested through joint ventures or CJVs at the outset, then became wholly foreign-owned through buyouts of local state-owned partners. Such an approach usually received both local and central government support. These changes sometimes created significant employment redundancies in state-owned enterprises, which sometimes led to social problems due to imperfections in the social welfare protection system.

Economic activities and politics were inseparable, particularly in the so-called market economy with Chinese characteristics.[5] The Chinese government played a very important role in the economy by retaining approval authority over almost all activities, thereby excessively interfering in enterprises' daily operations. Most multinationals operating in China were familiar with this aspect of the Chinese market, so they took building and maintaining government relationships very seriously. Typically, multinationals established designated external relationship departments to handle government affairs. Some multinationals (e.g., Avon[6]) even used illegal or inappropriate tactics to obtain approval.

Certain sensitive international political events, including political and trade conflicts with other countries, sometimes spelled disaster for multinationals from those nations, for instance, the Carrefour boycott crisis in 2008[7] and Japanese enterprises who have frequently suffered due to deterioration of the Sino-Japan relationship). Of course, certain political activities had positive effects. For instance, signing ceremonies for large contracts were usually held during top Chinese leaders' official visits to foreign countries; therefore such events represented rare opportunities to finalize major transactions. Sometimes, public opinion and nationalism could play an important role in a commercial dispute (e.g., the Danone and Wahaha dispute in

[5] "Market economy with Chinese characteristics" is also called the socialist market economy, which is the economic model employed by the People's Republic of China. It is based on the dominance of the state-owned sector and an open market economy and has its origins in the Chinese economic reforms introduced under Deng Xiaoping. The ideological rationale is that China is in the primary stage of socialism, an early stage within the socialist mode of production, and therefore has to adapt capitalist techniques to thrive. Despite this, the system has widely been cited as a form of state capitalism. https://en.wikipedia.org/wiki/socialist_market_economy

[6] From 2004 to 2008, Avon's subsidiary in China made $8 million worth of payments in cash, gifts, travel, and entertainment to gain access to Chinese officials implementing and overseeing direct selling regulations in China. Avon sought to be among the first allowed to test the regulations and eventually received the first direct selling business license in China in March 2006. The improper payments also were made to avoid fines or negative news articles that could have impacted Avon's clean corporate image required to retain the license. In 2014, Avon Entities paid $135 Million to settle the case for the violation of the Foreign Corrupt Practices Act (FCPA). From "SEC Charges Avon with FCPA Violations" www.sec.gov/news/pressrelease/2014-285

[7] The 2008 Summer Olympics torch relay was run from March 24 until August 8, 2008, prior to the 2008 Summer Olympics, in many cities along the North American and European route; the torch relay was protested by advocates of Tibetan independence and others; the attacks on the torch in Paris were particularly serious that has immediately irritated some Chinese people who called on through the Internet and organize boycott against French companies particularly Carrefour. The protest was later cooled down by the government.

2007[8]). When conflicts occurred, multinationals typically utilized their public relationship resources to lobby relevant government departments. Sometimes they attempted to influence situations with the help of third parties such as media outlets, industrial associations, or scholars. Many crises were able to be resolved through good public relationship efforts. However, when a crisis spun out of control, the company involved often suffered great losses. Multinationals that encountered such bad luck typically had no choice but to eat humble pie; after all, when one is standing under the eaves, he must lower his head. There was one exception, however: Google chose to leave the huge Chinese market because the company could not accept the Chinese government's censorship policy.

Multinationals' great success in China during this second stage narrowed the distance between Chinese consumers and the outside world. Without going abroad, Chinese consumers gained access to the same well-known, high-quality, global brands bought by consumers in Western Europe and North America. By providing access to nearly every product and service available around the world—from everyday products to household appliances, luxury goods to cars, imported spirits to Western fast foods—multinationals profoundly changed the Chinese lifestyle. In addition to products, multinationals created a great number of jobs, trained numerous management and technical personnel, and paid a lot of taxes. Multinationals also received large returns on their investments.

However, several long-term problems and difficulties accompanied multinationals' success in China, of which intellectual property rights infringement (i.e., counterfeit goods) is one of the most serious. Beginning in the mid-1990s, counterfeiting became increasingly problematic. Many multinationals gradually increased their budgets to fight counterfeiting; some established internal investigation departments, and in certain companies, relatively large, long-term teams were maintained for this single purpose.

Many believed that the fundamental solution to this problem was to establish a sound legal system and improve overall law enforcement capability. Taking the initiative, a group of multinationals formed a nongovernment organization, originally called the China Anti-Counterfeiting Coalition (CACC) and later renamed the Quality Brands Protection Committee (QBPC). Through this organization's continuous endeavors, the level of concern among Chinese top leaders about this issue was raised significantly, and the Chinese legislature systematically enacted and improved related laws and regulations. At the same time, the QBPC organized and provided countless training programs for Chinese law enforcement officials at all levels, thereby upgrading the overall level of law enforcement.

Unfortunately, however, this problem has not been fundamentally resolved. Counterfeiting yields rich profits, yet punishments for these crimes are too insignifi-

[8] The French Group Danone SA and a Chinese beverage giant, the Hangzhou Wahaha Group, formed their first joint venture since 1996; over the years the number of JVs grows from 5 to 39. In April of 2007, a dispute burst into the public arena and since then Chinese and foreign media have covered the dispute extensively. The Chinese blogosphere has repeatedly discussed boycotting Danone products. Chinese media and business circles have discussed how Danone may be damaging its reputation in China. The dispute was finally resolved in 2009 after a number of arbitrations and lawsuits being launched in China and overseas.—From "A Tale of Two Companies" written by Jingzhou Tao and Edward Hillier published on www.chinabusinessreview.com.

cant to create an effective deterrent. While drug dealers often are sentenced to death, counterfeiters typically get just 2–3 years in prison, often with suspended sentences. Moreover, counterfeiting is not a top priority for police, so fewer resources are allocated to preventing it. Furthermore, local protectionism is pervasive. In certain regions of China, entire villages rely on counterfeiting for their livelihoods. Local governments may view this underground economy as an important source of tax revenue and employment, so they impede crackdowns or provide secret protection. Counterfeiting activities in such places has become rampant and will be difficult to resolve in the long term.

China became the world's factory during this period and the biggest counterfeit manufacturing base as well. Chinese-produced counterfeit products not only proliferated in the domestic market but also overflowed into international markets. The biggest victims of counterfeiting were multinationals, which suffered tremendous losses every year as a result. In order to protect brands that had been established through long-term cultivation and huge investment, they had to invest heavily to fight against counterfeiting. To a certain extent, they were doing what the Chinese government should have done. The counterfeiting problem created an extremely unfair situation for multinationals.

Another source of frustration for multinationals was the abuse of power by government officials, particularly those at lower levels. Generally speaking, multinationals very much respect and abide by the law, which is why they typically obtain legal support on a daily basis from their in-house legal departments or external law firms to ensure legitimate operations in China. However, since the Chinese legal system was still being improved, there were many gray areas in laws and regulations that left them open to interpretation by law enforcement authorities. Some local law enforcement authorities simply lacked professionalism but some abused their power to achieve penalty target or personal interest. Inappropriate law enforcement conduct was extremely disruptive to some multinationals' normal operations. Two major abuses of power were in related to commercial bribery and illegal promotion activities.

14.4 The Third Stage of Multinationals in China (2008–Present)

Two important events occurred in 2008 that symbolized the arrival of a new era—the birth of the global financial crisis and the successful organization of the Beijing Olympic Games. After 30 years of rapid economic growth, China has become the world's second largest economy. Both the government and people of China have become very self-confident. Not only do state-owned enterprises continue to tightly control important industries, their total assets and scale (not to mention their quality and efficiency) have increased dramatically. Likewise, private enterprises have matured and become a very important part of the Chinese economy. In many ways, they are able to compete with multinationals and even dominate certain domestic markets. Thus, multinationals have entered a new era in China: the days of special treatment are gone. In fact, they even face discrimination at times.

China has become very wealthy because it has accumulated the world's largest foreign currency reserve. Despite rapid growth of the urban middle class, it still comprises a small fraction of the total population. Given a population of over 1.3 billion, the rising middle class represents a huge consumption market with tremendous future growth potential. China has already become one of the most important markets to multinationals. In fact, for many, China has become their largest or second largest market and probably one of their biggest sources of profit. When growth was weak or even negative in markets heavily affected by the 2008 financial crisis (i.e., Europe and North America), the Chinese market with its 6–7 % average annual growth became particularly important. Thus, a very different situation has emerged compared to just 20 years earlier. The Chinese market has become more important to multinationals than multinationals are to China.

Moreover, consistent wage increases and structural labor shortages have begun to weaken China's attractiveness as a manufacturing country. Some multinationals in labor-intensive industries have chosen to relocate their factories to countries in Southeast Asia where labor costs are lower. At the same time, multinationals have become less attractive to high-quality talents than in the past. One of the most important factors is strong competition from large-scale state-owned enterprises and fast-growing private companies that can provide not only the same (or better) compensation packages but also much wider development platforms because more and more state-owned and private enterprises are becoming Chinese multinationals.

Although the Chinese economy has experienced more than 30 years of rapid economic growth and the country has become powerful, the average national income has only increased a few times, the gap between the rich and the poor has reached an unprecedented level, and still a large number of people have not benefitted much from the country's economic growth. This unfairness has accumulated over a long period and has become a serious social problem. In addition, the gaps between urban and rural areas and between different regions are becoming wider, and economic development levels are very unbalanced nationwide. Due to enduring systemic issues, enterprises still do not have equal rights and opportunities, which inevitably results in unfairness. For instance, state-owned banks always support state-owned enterprises, especially large-scale operations, even though some of them have operated with long-term losses and have no hope of ever turning a profit. The government also tends to protect the so-called eldest sons of the republic[9]; one good example is the stock exchange market; its main purpose is to provide state-owned enterprises a cheap financing platform toward private capital.

China has quickly grown to become a super economic giant, yet substantial progress has not been made in the development of the legal system over the past 30 years. In certain areas, the system has even deteriorated. Bigwig capitalists initially made their fortunes in environments characterized by unrestricted power and

[9] Refer to state-owned enterprises, particularly those large-scale ones.

extreme corruption. Because many held monopolies or semi-monopolies, state-owned enterprises were able to create a special privilege stratum. The enormous resources of the state-owned enterprises become public assets freely used by a small number of people, who sometimes used various approaches to convert them into private assets. This is the biggest unfairness.

A major feature of a society without rule of law is the abuse of administrative power, which is exacerbated in countries where the government holds extensive power. Many in China have been calling for the government to reduce political involvement in many activities and delegate power to lower levels. The fact was that the government has never really given up its powers, coupled with overlaps and confusion among different governmental departments over functions and powers, have led to idleness and/or abuses of power that disrupt normal economic activities. Therefore, the government's administrative and law enforcement capabilities need to be further improved. Moreover, some governmental law enforcement actions with good motives have created controversies due to procedural or operational issues. For instance, the antitrust investigations carried out by the Chinese government that began a few years ago have been questioned and challenged by some members of the international community who have regarded them as specifically targeting multinationals. The investigation process and procedure have also been challenged for their lack of fairness and transparency.

Counterfeiting and other IP infringement problems remain serious, although senior leaders have realized that IP protection is an important and a necessary condition to fulfill China's new vision to build an innovative society. However, due to enduring systemic issues, there is a long way to go before dramatic improvement can be made.

14.5 Conclusion

Throughout these three major stages, multinationals in China have witnessed the transition from a tightly controlled planned economy to a global market economy through a process of constant exploration and testing. Throughout this process, Chinese economic policies, legal system, and ideology have been transformed. From multinationals' perspective, the honeymoon is over; the days of privileged treatment are gone, and they must now engage in fair competition with local players. In this new era, the Chinese government must treat every enterprise equally, regardless of ownership structure. Whether an enterprise is state owned, private owned, or foreign owned, the government should strive to eliminate political disruption to business operations and continue to eliminate the privileges and unfair protection enjoyed by state-owned enterprises. At the same time, the Chinese government must continuously build a society ruled by law; in particular, their administrative rights must be exercised lawfully to eliminate the abuse of power and truly establish a fair business environment.

Chapter 15
Consumption Culture and Fair Development in China

Pia Polsa

Abstract In this chapter, I build on four basic ideas: (a) savings, consumption and economic growth, (b) Chinese culture and consumption, (c) the role of citizens as consumers, and (d) alternative consumption patterns. I then frame these ideas as a circle of consumption that begins with traditional lifestyles based on sustainability and frugality, transforms into conspicuous consumption among members of an emerging middle class, and turns back toward more sustainable practices once a certain level of economic development has been achieved.

Keywords Development • Culture • Consumption • Anti-consumption • China

15.1 Introduction

The origin and history of development—be it social or economic—is rooted in Western thinking and philosophy. However, the economic focus of the Western model of development is not sustainable and has caused both environmental and social tensions. Therefore, alternative development models are being proposed, including fair development (Ding 2013). In this chapter, I describe the economic development of the People's Republic of China and outline its special characteristics to provide some ideas for alternative international models for development.

On September 8, 2010, during the first plenary session of a conference sponsored by the Chronic Poverty Research Centre, Nobel Prize Laureate Joseph Stiglitz said: "ideas matter…even when these ideas are wrong or incomplete" (Stiglitz 2010). Therefore, rather than providing scientific facts about the development in China, in this chapter, I present ideas based on my personal observations as a researcher, which have enabled me to reflect on my native Western culture. I first reflect on China's economic development and its connection to consumption and savings. I then contextualize consumption within traditional Chinese culture. After reflecting on the roles of human beings as consumers vs. other notable roles, I conclude by pondering a relevant question: What is the ultimate goal of development?

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No system is perfect; thus, no single system can solve all problems. The same applies to fair development. However, openly debating different thoughts and philosophical solutions may help make our world a better place to live. Thus, I hope this book and my humble thoughts on Chinese development can contribute in some small way to global development.

15.2 Consumption or Savings as Drivers of Economic Development

The first time I noticed differences between my own culture and the Chinese culture was when I began to give lectures about doing business in China in the 1990s and subsequently began to follow what was happening in the country. *Beijing Review*, an English language magazine, published a cartoon (see Fig. 15.1) at that time that depicted consumption as a burden to the Chinese economy and savings as a driving force. This interpretation stood in stark contrast to the economic rhetoric in Finland and the United States, where during the economic downturn, citizens were encouraged to consume to boost the economy. In my home country of Finland, consumption is encouraged by popular media and even seen as required. However, Chinese societies and Asian societies feel quite the opposite.

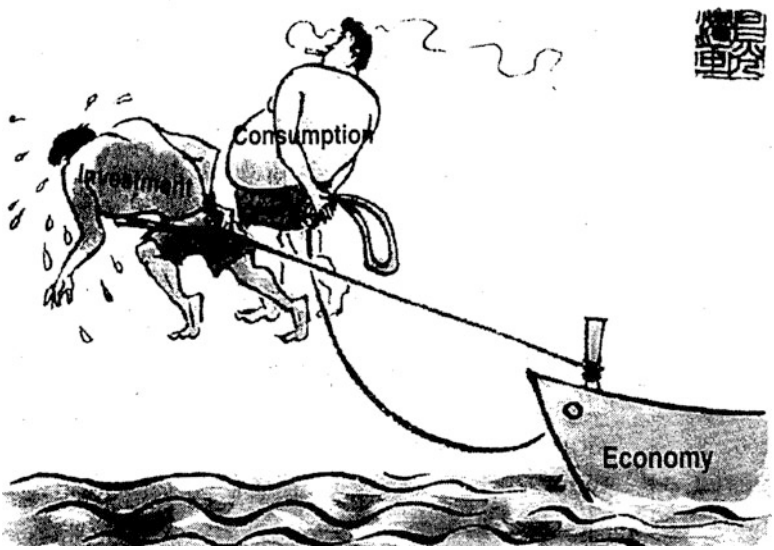

Fig. 15.1 Chinese cartoon depicting the Asian cultural perspective on the impacts of investment (i.e., savings) and consumption on the economy

Table 15.1 Saving rates in select Asian and Western countries, 1982–2014

Country name	1982	1992	2002	2012	2013	Average
Botswana	27	41	34	35	44	36
Canada	20	14	22	21	21	20
Central Europe and the Baltics			20	20	21	12
Switzerland	33	31	31	35	38	33
China	35	38	40	50	50	43
Germany	20	24	22	26	26	23
Denmark	17	23	25	25	26	23
East Asia and Pacific (all income levels)	30	33	29	31	31	31
Europe and Central Asia (all income levels)	21	21	23	21	21	21
Euro area	21	22	23	22	22	22
European Union	21	20	22	20	20	21
Finland	28	17	31	21	20	23
United Kingdom	18	12	17	13	13	15
High income	23	22	22	21	21	22
Hong Kong SAR, China			31	27	26	17
Korea, Rep.	22	34	32	34	34	31
Kuwait	48	25	28	57	56	43
Lesotho	50	71	43	24	43	46
Macao SAR, China			44	56	53	30
Malaysia	20	32	33	32	30	29
North America	22	17	18	18	18	19
Netherlands	25	27	26	28	27	26
Norway	30	25	33	39	39	33
Philippines	21	19	44	42	43	34
Russian Federation			29	28	24	16
Singapore	38	47	39	47	47	44
Sweden	22	21	27	29	29	26
United States	22	18	18	18	18	19
World	23	22	23	23	23	23

Data source: http://data.worldbank.org/indicator/NY.GNS.ICTR.ZS

This personal observation can be supported by statistics about consumption and savings. Table 15.1 provides information about saving rates around the world over past 30 years.

The table shows that saving rates are much higher in Asian countries over time than in Western countries, except in Norway and Switzerland. While over the past 30 years, the saving rates in mainland China, Hong Kong, Macau, and Singapore averaged 42 %, 31 %, 53 %, and 45 %, respectively, the same figures in Europe and the United States were 23 % and 18 %. As shown in Table 15.1, saving rates in China remained high throughout the 30-year time period. The lines in Fig. 15.2 show the average saving rates relative to GDP annual growth rates. The relationship between saving rates and growth rates demonstrates an interesting fact: high saving

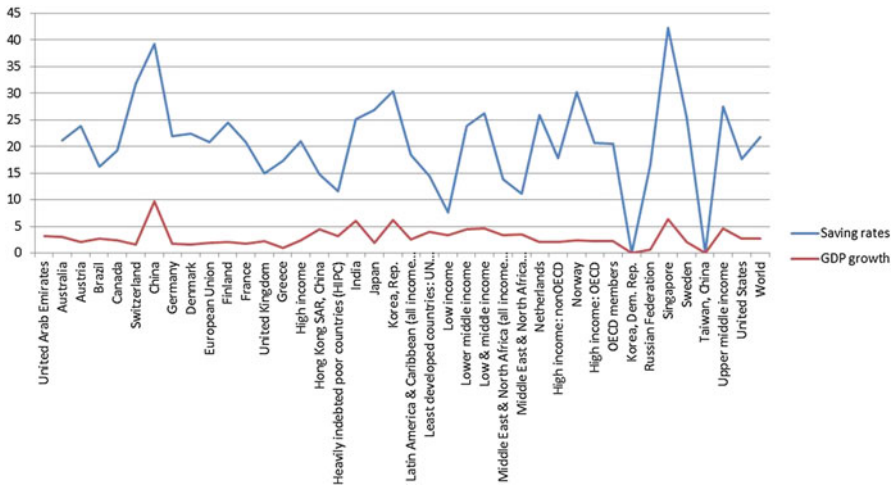

Fig. 15.2 Saving rates in relation to GDP growth percentage. Data source: http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG

rates do not correlate with high growth rates. Rather, GDP growth has been high despite high saving rates in China and Singapore.

However, another approach can be taken. As Table 15.1 shows, economic growth can be achieved without loans and with high saving rates. Chinese saving rates are partially rooted in the traditional culture. Giving practices during the Lunar New Year in China and Christmas in the West are quite different, even though both festivals increase household consumption. While gift giving is part of the Christmas tradition, during Chinese New Year, instead of gifts, money is given in red envelopes (*hong bao*), mainly to children. While Western gift-giving practices enhance consumption and shopping, the traditional Chinese practice of giving *hong bao* actually enhances saving. One might assume that if monetary gifts are given instead of products, consumption and shopping must increase after the holiday. Not true! Traditionally, children (the typical recipients of *hong bao*) are advised to save the money for their educations or for future needs.

The custom of *hong bao* and related lessons taught to children stand in stark contrast with the Christian/Western tradition of giving Christmas gifts, where kids are taught that if they do not behave well and obey, they will not receive gifts. In both traditions, something is given to children and the ritual is linked with upbringing. In Western cultures, children are taught that they will be rewarded with gifts if they behave well and punished with no gifts if they do not. In Chinese tradition, money is given, but not as a reward or punishment for a certain type of behavior; rather, it is an object that is used to indoctrinate the cultural value of saving.

What about kids from poor families? Children from families who cannot afford a lot of Christmas presents may think that they are perceived as less well behaved. Kids in China also compare the amounts of money they receive, but the monetary gifts are not linked to reward and punishment but to saving. Therefore, guilt or

disappointment is less perceived in Chinese customs, since *hong bao* are framed as being for future use rather than as immediate rewards.

Lazarato and Jordan (2011) went so far as to suggest that humans in Western cultures have evolved into an entirely new "species": Homo debitus. Homo sapiens first evolved into Homo economicus by trading surplus resources acquired through farming and gathering. As the magnitude of trading increased, so did the amount of surplus, transforming us into Homo shoppicus. Greedy shoppers soon wanted more goods and services, and they wanted them immediately, before they had earned enough money to buy them. Debitus was born! Now, shopping with credit is the new norm. This Western lifestyle philosophy has spread globally, even among the poorest of the poor.

One example of a loan-focused philosophy is microfinancing, which has been launched as one model for development. Modeled on ideas from Western cultures, microfinancing is used in vulnerably poor regions to enable people to consume or invest first and pay back later (vs. the contesting logic of saving first and consuming or investing later). Some have criticized the microfinancing model (Soederberg 2014), and others have established successful saving programs among the poor (Lindeman 2014). Still, the model remains a powerful development strategy.

In the name of development, microfinancing has spread the cultural norm of spending and consuming before one can afford to do so. Indeed, microfinancing is intended to be used as an investment in production that will yield positive future effects on the borrower's livelihood. However, evidence has shown that despite its partial success, microfinancing has also caused harm in cultures where borrowing is not the norm. Since most development programs are rooted in Western culture and philosophies, it is natural that loans have been introduced as a tool for development.

There is no fair development for those who are not affluent enough to pay back their debts. The system also creates unfairly large incomes for a small number of elites in the form of interest (Lazarato and Jordan 2011). Furthermore, loans provided to the less affluent are more expensive than those provided to those who are rich enough to take out large loans. Average microfinance loans targeted to the poor have interest rates over 36 %.[1] Although these interest rates cover costs that are much higher than those associated with normal bank loans, such loans may not enhance development as much as has been assumed.

If Asian economies have grown despite their high saving rates and despite the lack of encouragement to spend for economic growth, then could fair development be developed toward more saving vs. more loaning? Could human beings evolve from Homo debitus back into a natural Homo sapiens existence?

15.3 Consumption and Face

Generally, Chinese consumer behavior is described as becoming increasingly extravagant (Beam 2015; Lu 2008). Compared with stereotypical Western consumption habits, Chinese habits have been described as social, as opposed to simply

[1] http://www.kiva.org/about/microfinance#III-I

conspicuous (Polsa et al. 2005). This social dimension of Chinese consumption has been interpreted as a need to socially show off one's status by purchasing certain goods (Polsa et al. 2005). This type of behavior is related to the Chinese cultural dynamic of face.

However, what has been less emphasized is that the very concept of face has two dimensions: *mianzi* and *lian. Mianzi* refers to face that can be achieved by granting favors, of which consumption is a form. One can show off one's status by purchasing luxury brands and goods or by giving expensive gifts. While conspicuous consumption/showing off could be related to the *mianzi* notion of face, the *lian* notion of face is related more to values other than consumption and achievement. *Lian* cannot be achieved like *mianzi*; rather, it is a function of "one's moral integrity as a civilized person" (Bond 1991). Thus, when observing and explaining Chinese consumption, the phenomenon has been only partially covered.

Mianzi is the type of face that can legitimize conspicuous consumption and socially desirable consumption. Since *mianzi* can be achieved and acquired, the modern way to do so is to consume for social purposes. If, traditionally, *mianzi* was gained partly by granting favors, then *mianzi* work was less connected to direct consumption. Favors are defined as both services and gifts (Yang 1994) which relate more to intangible services than to material things. In a society with less material goods, people showed respect and attachment by performing services for each other. In the consumer culture, these services have been replaced with goods and consumption.

Lian, the moral character of a person, is more of an inborn characteristic (unlike *mianzi*, which can be acquired and possessed) and has changed over the course of history. Morals are embedded within cultures, philosophies, and religions; thus, while morals can vary over time and from location to location, they also can transcend the two and challenge the dominant moral discourse at a given time in a given community.

In many modern societies, laws have replaced morals. It can be claimed that laws are written from a technocratic perspective to maintain order. In a legislative society, people do not need to consider their morals as long as they can follow the law and feel moral. In highly regulated societies such as the European Union, laws and regulations have replaced morals and citizens' ideas about morality to a large extent. Following the law is a quick substitute for moral consideration in contexts where easy black and white solutions seldom exist. In contrast, in communities where written laws are scarce or when the world changes so rapidly that legislation lags behind, morality is needed more. For instance, even if a new synthetic toxic drug is not mentioned as harmful and forbidden in a written law, bringing it to a country should still be punished according to morals held by the vast majority of people.

Even if *lian* in current Chinese society is less visible due to the focus on economic growth, it can be assumed that moral discussions continue to happen behind the scenes among those with *lian* face. Those who consider morals also explore alternatives. In the domain of fair development, is the evolution toward Homo shoppicus moral? Will national economic growth (the goal of many development programs) inevitably drive humans to evolve from Homo sapiens into Homo economicus and via Homo shoppicus, even into Homo debitus? As humans, what is our role in current society?

15.4 Citizens or Consumers: What Are Our Roles?

As human beings, we have different roles in the world. Researchers as well as governments often see human beings only from one perspective—for instance, as taxpayers or social benefit recipients, clients, and customers or suppliers. In government and business discourses, human beings are seldom seen as holistic beings, but instead are reduced to one or two subject roles. In management and marketing literatures, these roles are of those customers, consumers, and employers. Governments, on the other hand, have taken a less economic view of human beings. Welfare states view and treat their citizens as being entitled to government services, while more capitalistic systems consider citizens more like resources.

As I have observed China over the years, the governmental view of human beings has transformed. During the early 1990s, people were still serving their country as more or less equal citizens. I remember how my friends described their career choices as fulfilling needs for the country or asked me to provide something to fulfill a national need. In the collectivistic country of China, individualistic choices were less obvious, while collective choices that embraced both oneself and a wider network of family or country were more evident.

In line with these observations, Chinese psychologists have proposed an indigenous concept, *ren*, which refers to an individual not only as an independent being but as a person who interacts with other human beings (Hsu 1971). In Western psychology, the individual is framed as a separate unit, but the comparable concept *ren* includes others (Bond and Hwang 1986). Therefore, serving one's country or family is part of one's individual being and identity. *Ren* implicates not one person, but several; thus, an *individual* is actually thought of as *individuals*.

Although the rhetoric of "serving the country" in China has prevailed, the mechanisms for doing so have changed. During the altruistic days of New China, citizens built up the country, participated in state-initiated campaigns, and worked for the benefit of their own nation. However, during the recent Five-Year Plans, consumption has been mentioned as part of the strategy, and citizens' role in domestic consumption has been encouraged. The latest Five-Year Plan also encourages consumption; according to Professor Shimizu: "the most significant part of China's 12th Five-Year Plan (2011–2015) is the focus shift from the export-led sectors to increasing domestic consumer demand by raising Chinese laborers' incomes to allow all Chinese residents prosper in this new era."[2] The way to serve the country in the modern era is to consume. Thus, by encouraging consumption for the sake of one's homeland, China has adopted the Western and capitalistic way of defining its citizens. In postmodern China, the citizens are consumers. In this sense, China has increasingly integrated itself into the global community of consumption. While an increasingly affluent middle class all over the world has embraced consumer culture, China has incorporated consumer culture into its official policy.

[2] http://www.chinadaily.com.cn/bizchina/2010-10/27/content_11463985.htm

How does this influence us? If our obligation as citizens is to consume, then wealthy citizens are better citizens than less affluent ones. Can this change be fair? Is this fair development? Next, I discuss the potential of those citizens who cannot respond to the global call for consumption.

15.5 Circle of Development: Does Economic Well-Being Exist?

It seems as though global goals for development and modernization have been increasing consumption potential. Quite often, efforts to improve people's lives and well-being have been simplified into consumption goals. Modernization and development are associated with more material things. However, just as the role of human beings has been reduced to that of mere consumers, the dominant view of development has been minimized and marginalized into one of economic well-being. Development, however, is—and could be—more. In addition, in the discourse of development, the less affluent are seen as less sustainable and less environmentally friendly because they cannot afford products that are labeled as such. However, the picture might look different if we dare to examine poverty with a sense of equality.

My personal experiences and fascination with nonconsumerist societies with lower levels of economic development inspire my thoughts. Before economic development initiatives were implemented in Guilin, Guangxi Province, most consumed products were recycled in very innovative ways. Plastic bottles were remade into decorative flowers for interior design purposes. Glass bottle recycling centers existed on the outskirts of the city. Highly educated friends of mine had only one pair of shoes that they repaired a couple of times before they purchased new ones as a way reduce waste and provide employment for those who repaired them. Repair work is a common occupation in many less-developed parts of the world that provides employment and extends product life. Residents could not afford chemical fertilizers, but they fertilized their kitchen gardens with composts created from all types of organic household waste. Similar traditions can still be seen in the residential sections of Shanghai, near the luxurious global shopping communities of Huanhai and Nanjing streets. In an Indian Dalit village, during the heat of summer, water did not used to be purchased; instead they grew coconuts and drank the water inside. Unlike drinking bottled water, this practice creates no waste. Unfortunately, consumerism has replaced the organic habit of coconut drinking, and bottled water and its plastic waste now dominate the village.

In modern terms, these indigenous habits are not labeled as sustainable or ecological, because the objects of consumption are not "products" that have been labeled organic, Fair Trade certified, etc. and sold to "consumers." However, these modern ways of determining what is ecological and sustainable are not the only ways to do so, as the examples from Guilin, Shanghai, and India show.

In the circle of consumption and in the course of development, humans move away from their natural and traditional lifestyles, which are inherently organic, sustainable, and ecologically friendly, and become middle-class consumers who cannot afford to live sustainably. When I asked students in a corporate sustainability course in Finland why they do not buy sustainable or eco-friendly products, the most common reason was high price. None of the students expressed the idea that nonconsumption or buying cheap, noncertified products could still be sustainable.

Members of the growing middle class all over the world are rejecting old traditions in hopes of becoming more affluent. Consumption is growing with ever-increasing speed, as consumer goods have become a modern way to strengthen one's identity and face. Once affluence has reached a certain level, the same middle-class consumers can adopt lifestyles that are more "organic," "sustainable," and "ecological," because they can afford products labeled and certified as such. In the modern global consumer culture, lifestyles without consumption are not recognized. People do not use their own waste as fertilizer because it has not been purchased in a marketplace. Compost is not viewed as soil because it does not have a brand and has not been purchased. Breast milk has little value because it is not mass-produced in factories. Scholars consider repair to be a low-value practice (King et al. 2006), even though repairing is widely practiced outside the EU and North America.

We have alienated ourselves from production, which used to define our identities. There were families of cobblers, tailors, farmers, etc. Indeed, some of us are fortunate enough to produce something that still provides an identity (such as teachers and researchers who deliver and/or produce knowledge), but the majority of people, regardless of their professions, build their identities through and around consumption (Belk 1988). Consumption is a required part of identity construction because industrialization made overproduction possible. New markets (i.e., the poor) are needed to sell all the goods we are able to produce more and more efficiently and inexpensively. If these new markets cannot afford these offerings, then microloans enable consumption.

Some, however, resist—either due to their *lian* face or for other reasons—by creating alternative ways of living. For example, the community supported agriculture (CSA) movement, a hyper-local agriculture system and community sharing experience of consuming and producing food, enables consumers to be part of the food production process (Thompson and Coskuner-Balli 2007; Thompson and Press 2014). This movement is an alternative to industrial farming, in which both producers and consumers of food are alienated from traditional farming. In traditional farming, units were smaller, farmers controlled their own production instead of large food companies dictating farming techniques, and consumers were in more direct contact with food producers.

Every morning from about 4 a.m. to 8 a.m., one end of HongQin Street in Shanghai is closed. One block of the street is occupied by sellers of vegetables, fruits, nuts, meet, fish, flowers, and sometimes small garments, effectively creating a traditional wet market. The street is extremely busy during these early hours as customers almost fight for fresh food that is delivered by small sellers who bring it directly from

wholesalers. The phenomenon is not the same as CSA since the customers are not involved in food production, but the experience is similar. A connection is born between the seller and the buyer, even if the seller is not a producer. Despite the huge number of customers passing by, the sellers begin to remember them and personal connections are made. Prices change accordingly. Products are seasonal, in contrast to the vegetables and fruits available year-round in conventional supermarkets. Furthermore, the purchasing experience is more personal and interactive, similar to CSA experiences.

While the traditional wet markets in large Chinese cities like Shanghai and Hong Kong do not provide direct contact between producers and consumers, they nevertheless sell fresh food from fish to vegetables. Despite their status as traditional food retailers, they have persisted in Chinese society as modernization become dominant. This is understandable, since consumers' experiences with these wet markets are similar to the experiences of modern CSA consumers with farmers.

15.6 Conclusions

In this chapter, I have described my own experiences in China as a researcher. Whether China continues to reflect what I have experienced, will continue with a predefined, foreign path of development, or seek alternative, novel developmental paths (some of which may be grounded in old traditions) remains unanswered. Having written these views, I must be self-critical; while I acknowledge that as a Westerner, I may have a somewhat nostalgic and romantic view of the Other and the Oriental, my perspective on fair development is neither nostalgic nor romantic. Rather, it is a statement that all societies and all developmental paths could reject consumerism and embrace values beyond consumption.

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Part VI
Conclusion

Chapter 16
The Nine Dimensions of Fair Development Aspirations in China

Min Ding

Abstract This chapter presents nine dimensions of aspirations for fair development that are most relevant in present-day China, based on numerous qualitative data and many iterative discussions with various stakeholders. More than 5000 students from elite Chinese universities responded to a survey designed to assess their opinions about these dimensions. The results indicate that future Chinese elites care deeply about various issues related to fair development, but there are substantial differences among them in what exactly they consider to be important.

Keywords Fair Development • Fair Wealth • Bubble Theory

16.1 Introduction

Recognizing that a society built upon fairness has a better chance of survival and prosperity, the fair development (FD) doctrine states that the most critical principle of development should be to ensure fairness to all parties involved, both in the present and in the future (Ding 2013). FD is an alternative concept to sustainable development (SD; UN World Commission on Environment and Development, 1987: Chapter 2, p 41), which is defined as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs." While there is a large overlap between the two concepts, a society guided by FD will most likely become a sustainable society, while a society guided by SD may not necessarily become a fair society (Ding 2013).

One fundamental principle in FD is that different societies should be allowed to define what fair development actually means to them, because (a) different societies face different external environments, both human and nonhuman, which serve as the constraints and inputs for FD and (b) throughout long cultural histories, different societies have formed different norms on the meaning of fairness, which serves as

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the objective of FD. By definition, a one-size-fits-all set of FD requirements is thus unfair and should be avoided. On the other hand, some fundamental elements of fairness that should be universal may not be represented sufficiently in certain societies. Even in such cases, however, a fundamental principle of FD is that a society should be allowed to evolve on its own, except in cases involving crimes against humanity.

We performed extensive qualitative research based on both primary data (personal observations, interviews, focus groups) and secondary data (literature, Internet, social media, etc.) to understand what present-day members of Chinese society considered to be important dimensions of FD in China. Nine dimensions emerged from this effort: diverse values, critical thinking, essential ethics, cherished commons, welcomed strangers, well-rounded adults, protected weak, upward mobility, and second chances. We define these nine dimensions in the next section and supplement them with brief descriptions and examples. We then describe a large-scale survey we conducted with students from elite Chinese universities, with the goal of understanding the relative importance of each of these dimensions to the future elites of Chinese society. We end the chapter with some concluding remarks.

16.2 The Conceptual Framework

The conceptual framework described in this section is the outcome of extensive qualitative research. The goal was to identify specific issues the Chinese people would like to include if the FD doctrine is adopted in China, not as individuals but as a society. Certainly, there are large overlaps between the two; however, we want to emphasize that the dimensions identified in this chapter, while important and urgently needed, are not an exhaustive list of all dimensions of FD.

The process of identifying these critical dimensions was an iterative process of collecting, organizing, and summarizing primary and secondary data and asking others for feedback; we repeated this process until we were satisfied that the nine dimensions covered all new feedback. These nine dimensions are presented in Table 16.1.

16.2.1 Diverse Values

This dimension represents the Chinese aspiration to create a society in which different values systems in life are accepted and even celebrated. Traditionally, Chinese society has sought to uphold and follow a homogeneous value system. The Confucian way of life was the official (and only acceptable) value system under the feudal system for almost 2000 years, until the beginning of the twentieth century. Western ideas were introduced in the early 1900s, but the country was ravaged by

Table 16.1 The nine dimensions of FD aspirations

Dimension	Definition	Examples
Diverse values	Different value systems in life are accepted or even celebrated	Unmarried single life would be normal
Critical thinking	People, both individually and collectively, think independently and objectively in a rational and broad-minded manner when forming opinions and making decisions	People would not automatically believe what an expert says
Essential ethics	Essential ethics and moral standards are clearly defined and rigorously followed	Following rules would be considered a virtue
Cherished commons	Treat property that is not one's own with great care	People would not litter or damage public property
Welcomed strangers	Be kind to each other, even to strangers	People would follow the Golden Rule
Well-rounded adults	Children must grow and realize their potential prior to turning 18, then lead an independent life without relying on their parents	All youth would stay in school until age 18
Protected weak	Society takes care of the weak and disadvantaged	There would be no child beggars on the streets
Upward mobility	No artificial barriers to pursuing one's professional objectives	Gender-based career limits (e.g., different retirement ages) would not exist
Second chances	Provide a second chance if the regret and remedy are genuine	Business owners who bribed 10 years ago would be able to redeem themselves

wars, so they did not have major influence on society until the People's Republic of China was established in 1949. From 1949 until the late 1970s, China was again a country with a singular value system, dictated by the communist party. During this period, people who had material possessions were frowned upon (or even worse), and the people who had no money were considered to be the purest and best and held up as examples for others to follow. The opening up of China's markets in the late 1970s turned this values system on its head. Society turned in the opposite direction, albeit uniformly, in a single-minded pursuit of wealth and material possession.

After 30 years of amazing economic growth, and with widespread knowledge of how other societies operate, the Chinese people are hoping to build a society that accepts and even respects people with different life values systems. Instead of conforming to a uniform value system, whatever that might be, the Chinese want members of their society to appreciate that an individual has the right to determine his or her own pursuits and live whatever life makes him or her happiest.

Some people, especially members of the younger generation, no longer want to spend their lives accumulating material wealth like what their parents have done or to define success as being better than others. Traditionally, and even now, the Chinese guide their lives through comparisons. "Look at other people's children …"

is an often-used motivation to push one's own child to do as well (however that is defined) or better than others. Similarly, wives will use such comparisons to question or accept their husbands' actions and vice versa.

In personal lives, there is also a big yearning to develop a society that accepts alternative lifestyles. The Chinese traditionally place huge weight on producing offspring. Culturally, people who do not have kids are viewed as having committed a worse sin than mistreating their parents. This puts substantial pressure on young people to get married sooner rather than later so they can have children. Remaining single is not considered an equally desirable lifestyle.

16.2.2 Critical Thinking

The critical thinking dimension represents the Chinese aspiration to build a society in which people, both individually and collectively, will think independently and objectively in a rational and broad-minded manner when forming opinions and making decisions. Critical thinking is reasoning based on facts and logic instead of emotion, in a thorough, unbiased manner, and with an open mind that is willing to accept a conclusion that is different from what one would like to believe (or originally expected).

Several factors have hindered the development of critical thinking in Chinese society. The Chinese traditionally are accustomed to follow authority (such as an expert in a domain), and anything attributed to someone who is successful will automatically be considered correct. Throughout the education system, Chinese children have been trained to learn, memorize, and apply knowledge, in both natural science and social science. They have not been encouraged to develop views counter to those of authorities, and they have been taught not to question the authenticity (or completeness) of evidence used by authorities. Many are currently reflecting on this cultural norm in China. While some people have a deep mistrust of information from official channels (even to the point of cynicism, i.e., nothing from the government can be true), they blindly follow so-called opinion leaders and believe and spread what leaders say without thinking issues through for themselves.

Many people also tend to use a black or white dichotomy when they form opinions about a person or an entity. If a person did one thing wrong, then nothing can be good about him or her. Such subjective judgment tends to cloud objective evidence and bias thought processes.

Finally, the Chinese traditionally are not used to accepting different opinions, nor do they accept the notion that different people are entitled to different opinions or that there might not be a single correct answer. People have been discouraged from disagreeing with others, especially those in the mainstream; such persons have been considered "strange" and excluded from social circles. Their failure to "agree to disagree" has suppressed objective and independent thinking among members of Chinese society.

16.2.3 Essential Ethics

The dimension of essential ethics represents the Chinese aspiration to create a society in which essential ethics and moral standards are not only clearly defined but also rigorously followed. Ethics is what a society considers to be right or wrong, and morals are the counterpart for individuals. While they have evolved over time, ethics and morals have been the cornerstone of Chinese society for thousands of years, and violations of ethics and morals historically have been extremely shameful in Chinese culture. This has changed in the last 100 years, however; the fundamental fabric of ethics and morals was destroyed during the Cultural Revolution, and the single-minded pursuit of material wealth during the last 30 years has helped wipe out most of those that remained. Many Chinese are hoping for a return to some sense of normalcy in terms of ethics and morals and feel that they no longer know what is right or wrong anymore on many issues in China.

One such example is the exchange of favors. Chinese society has now effectively become a barter market. One trades what he has for what another person has, so that each of them can achieve Pareto improvement. While this is a great concept in theory, many of the things being traded are unethical or even illegal, not to mention morally wrong in most cultures (including traditional Chinese society). Government officials feel they are entitled to allocate favorable deals to businesses in exchange for money. Elementary school teachers will even exchange slots in popular schools for money or other favors from parents. Sometimes these barters are performed under the guise of offering a gift as an expression of appreciation, a traditional practice that has been hijacked for bribing purposes.

Another example is the societal legitimation of extramarital affairs. While societies without affairs are rare, an open affair culture has developed in China, especially among successful men. Many bring their lovers to gatherings of friends and associates—even business functions—causing great pain that must be endured by their spouses and children.

There is also a strange phenomenon in China, where people who follow rules tend to be laughed at. There is even a saying that "rules are fixed, but people are flexible," meaning that those who cannot circumvent rules are considered rigid and not smart. This has fostered a cultural sanctioning of behaviors ranging from back-door dealing to jumping lines, with no regard for ethics or morals.

Even simple personal interactions, especially between strangers, have devolved into incivility. Contrary to traditional teachings in China, the country of etiquettes, many members of Chinese society resort to vicious verbal fights in public places over even trivial issues, often using abusive and offensive language.

16.2.4 Cherished Commons

The cherished commons dimension represents the Chinese aspiration to create a society in which people treat property that is not their own with great care. The Chinese clearly separate what is theirs from what is not theirs, and their attitudes

toward these two can be completely opposite. On one hand, the inside of a Chinese home is always very clean; it is quite typical to clean the floor every day, and very often, people put on clean slippers when they are at home and leave the shoes they wear outside by the door. On the other hand, even though the inside of each apartment is spotless, the staircases in apartment complexes can be extremely dirty, because nobody wants to clean anything outside their homes. While the Chinese tend to preserve and reuse what they have at home, many do not think twice about littering or damaging public property. This mentality has contributed to firms' behaviors. Some firms consider it a necessary evil when they pollute the environment during production activities that create job opportunities and wealth, as well as tax income for the local government, because they do not consider the environment "theirs."

16.2.5 Welcomed Strangers

The welcomed strangers dimension represents the Chinese aspiration to create a society in which people are kind to each other, even strangers. The Chinese treat family, friends, and strangers in very different ways, even though according to traditional Chinese teachings, people are supposed to treat other people's elders and children as their own. A case in point is lying. It is assumed that strangers will not tell you the truth, unless proven otherwise; as such, strangers cannot be trusted and thus there is no reason to tell them the truth, either. On the other hand, one should not lie to family and friends. Another related example is the lack respect for the dignity of those who have menial jobs, are of lower status, and/or are poor.

16.2.6 Well-Rounded Adults

The dimension of well-rounded adults represents the Chinese aspiration to build a society in which youth are given the best opportunity to grow and realize their mental and physical potential and develop valuable skills prior to turning 18. At the same time, those who are older than 18 should be mature enough to manage life on their own without relying on their parents or grandparents.

While a free 9-year education system (elementary and middle school) is in place in China, a substantial percentage of students drop out in middle school; this percentage is even higher in high school, which is not free. This almost always happens in rural areas in less developed regions, and substantially more girls drop out than boys. Many adolescent children (typically between 15 and 18 years old) go to work in larger cities. While a small percentage of children drop out because their families cannot afford the cost, the majority leave school due to the (false) view that continued education will not help them financially in life. This may be partially attributed to the structure of the K-12 education system, which is optimized to train kids who

will do well on exams to enter the best colleges in China, instead of helping children develop mental maturity and acquire life-enhancing skills and knowledge. Prematurely entering the job market before they are fully mentally and physically developed severely limits the value these children can create in their lifetimes. Compared to those who have completed 12 years of education, they have very few specialized skills and lack the ability to learn and adapt.

The flip side of this aspiration is for young people to become fully independent once they turn 18. Many adult children of the middle class and in cities have become lifelong dependents of their parents, relying on them for directions, guidance, and financial support. To some extent, the one-child policy has contributed to this phenomenon. Parents, and even grandparents, have been competing to "help" the future prince/princess of the family. Elders not only provide material support but also make decisions for members of the younger generation. These young adults are not capable of making decisions without checking with their parents and feel entitled to rely to their parents/grandparents financially until they die.

16.2.7 Protected Weak

This dimension represents the Chinese aspiration to build a society that takes care of its own weak and disadvantaged members, which is a sign of any healthy society. A major concern is healthcare. Patients incur substantial expenses and may even be denied treatment when they do not have enough insurance and cannot afford to pay for services out of pocket (especially those in rural areas). They also do not receive adequate quality of care, often receiving only limited attention from doctors who must take care of large numbers of patients.

Another concern is the number of children and seniors on the street begging. Some Chinese have dismissed these children and seniors as "fake" beggars who are just on the street to make money. In reality, as others pointed out, this attitude has promoted the presence of children and seniors on the streets (some children have even been stolen from families and forced into begging), which is not commensurate with the wealth and civil service structure in place in China, not to mention traditional values.

Moreover, many Chinese feel it is perfectly acceptable to make fun of or even embarrass people for not being "normal" or for being naturally disadvantaged, such as women who are not married by the time they reach their late 20s or people who are physically handicapped, overweight, or short in stature. Such individuals have been treated as if they are of lower status in some circles.

Over the last 30 years, China has undergone phenomenal economic development; however, the wealth is now concentrated among a very small number of individuals, and a huge gap exists between the haves and have-nots. Furthermore, the huge societal and environmental costs of this economic development are now being borne by the lowest ranking members of society—the poor who live in rural areas. For instance, the Chinese government provides so-called special-supply food

(among other things) to high ranking officials, while the general population is constantly concerned about the quality of the food they eat. This creates a stark contrast against the treatment of the weak and disadvantaged.

16.2.8 Upward Mobility

The upward mobility dimension represents the Chinese aspiration to build a society in which people are not restricted by artificial barriers when pursuing their professional objectives. Traditionally, Chinese have been able to change their lives by excelling in academics and going to the best universities, but limited job and business opportunities have made it much harder for them to change their lives through education. In addition to backdoor dealing in the job market, explicit and implicit discrimination based on attractiveness and height is common. Some employers justify these practices based on nothing more than their own preferences, while others claim that their customers expect to see employees with specific characteristics (e.g., flight attendants and nurses). Similarly, the regulatory and business environment is such that it is much harder for someone to start from scratch; people who start new firms tend be those who (or whose parents) have already accumulated wealth.

Women also face substantial obstacles to advancement in China. There is a commonly accepted division of family responsibilities: men handle external affairs and women handle internal affairs. In other words, men should go make money and women should take care of the children and the home. This has created a vicious cycle. Some women believe in this division and stop or slow down their careers after they get married and/or have children. This then generates a stereotyped reaction from employers who prefer men over women as they anticipate that women will not stay very long and will not be as devoted to their jobs. In addition, by law, women retire 5 years earlier than men. While this can be interpreted in many ways, it obviously places a limit on women's career paths, as well as their economic status. That said, China has more female business owners and senior executives (both in absolute number and as a percentage) than most other nations in the world; thus, members of Chinese society have demonstrated that they are willing to accept professional women who break from the stereotype.

16.2.9 Second Chances

This dimension represents the Chinese aspiration to build a society in which a person can be given a second chance and mistakes can be forgiven, as long as the person's regret is genuine and mistakes have been remedied to the best of his or her ability. Redemption is a concept that is part of Chinese culture, but like everything else in China, there is an opposite concept, which, in this case, is much more deeply rooted and upheld. The opposite concept is called "one tooth for one tooth,"

which essentially means that people must pay for what they have done in the past; forgiveness is not part of that teaching.

Many Chinese (especially government officials and business owners) are hoping, both publicly and privately, that society will give them a second chance. During the societal transformation that has taken place over the last 30 years, many have done things that were accepted at one point but are no longer acceptable now that rules and laws have been formalized and loopholes have been closed.

At one time, government officials thought it was normal to accept expensive gifts from others because "everybody" was doing it. In China, there is a saying, "law does not punish the masses;" if most officials were doing it, it was only natural for others to behave that way too, as long they were not too greedy and did not hurt anyone. But the current government is enforcing a zero-tolerance policy: anyone who has ever taken a bribe—no matter how long ago—could be harshly punished.

Similarly, many business owners are not proud of how they accumulated their first pots of gold during the initial stage of economic development, which often involved bribery in many different forms. Often, such behavior was encouraged and accepted during the early stages of economic development, when regulations and laws were not in place and the government promoted the "cat doctrine" (i.e., it does not matter whether it is a white cat or black cat; as long as it catches a mouse, it is a good cat). Many interpreted this doctrine to mean that as long as you are creating wealth and are not literally hurting people, anything goes. Many business people have now adopted ethical business practices, but their transgressions during that transition period in China could be used against them at any time to take away all of their assets.

This dimension thus embodies two aspects. First, people who have made mistakes should be encouraged to seek genuine redemption, to make amends to society and the people they have wronged. Second, society should be encouraged to give people second chances. While it is most relevant to the present, it will be a healthy element of society far into the future.

16.3 A Survey of College Students on Fair Development

Students enrolled in universities today will play a critical role in shaping China's future development. We thus conducted a large-scale survey of college students in elite universities (the so-called Project 985 universities, the best of the best, and Project 211 universities, a larger set of the best universities, including all Project 985 institutions). The objective of the survey was to assess how college students at these elite universities viewed various aspects of fair development in China and their general life values. (Note that their responses are not meant to be interpreted as representing the general Chinese population.)

We collected responses from 5033 students at 59 universities during the summer of 2014. Among respondents, 45 % were students at Project 985 universities, 50 % were students at Project 211 universities (excluding Project 985 institutions), and 5 % were students at non-Project 211 universities. We collected data from students in Beijing, Shanghai, and Nanjing on university campuses and collected the rest

online. Males (50 %) and females (50 %) are equally represented in our sample. In terms of age, 65 % of respondents were between the ages of 19 and 22, most of whom were undergraduates; 27 % were between the ages of 23 and 25, most of whom were Master's degree students; 6 % were between the ages of 26 and 30, most of whom were Ph.D. students; and the remaining 3 % were under 18. The sample included members of the Han majority (92 %, reflecting the proportion in the general Chinese population) and 28 ethnic minorities. The respondents were from all parts of China, including the east central region around Shanghai (26 %); the north central region around Beijing (30 %); the central region around Hunan, Hubei, and Henan (17 %); the south central region around Guangdong (6 %); the southwest region around Chongqing (7 %); the northwest region around Gangsu (7 %); and the northeast region comprised of the three northeastern-most provinces (7 %). Respondents also had a wide variety of majors, including engineering and technical sciences (52 %), humanities and social science (34 %), natural science (8 %), medical science (4 %), and agricultural science (2 %).

The survey was comprehensive and we only report results of a few of our analyses in this chapter. Our objective in reporting these selected analyses is to provide an overview of how these elite Chinese university students viewed the dimensions of fair development and whether substantial differences existed among them.

16.3.1 Guiding Principles in Life

First, we analyzed data on what our respondents believed to be important in life. We used Schwartz's value inventories (Schwartz 1992, 1994) with very minor modifications. We asked each respondent to rate each life principle from −1 to 7, with 7 being most important, 6 being very important, 3 being important, 0 being not important, and finally, −1 being opposite to their view. The results are presented in Fig. 16.1, where each horizontal bar represents the percentages of respondents who chose each of the eight possible ratings (from −1 to 7).

Most respondents rated principles related to personal welfare, such as *enjoying life* and *happiness*, as being extremely important; nearly 70 % rated these principles as either 6 or 7. On the other hand, many respondents seemed to be less concerned about certain principles related to personal character. For example, 5.7 % of respondents thought *uprightness* were either against their view (1 %) or not important at all (4.7 %), and another 11.5 % gave it a rating of either 1 or 2. In contrast to *enjoying life*, only 34.9 % rated *uprightness* as either 6 or 7.

16.3.2 Relative Importance of the Nine Dimensions

In the survey, we collected data on the relative importance of each of the nine FD dimensions identified through extensive qualitative research. We asked each respondent to allocate a total of 100 points across the nine dimensions, with more points

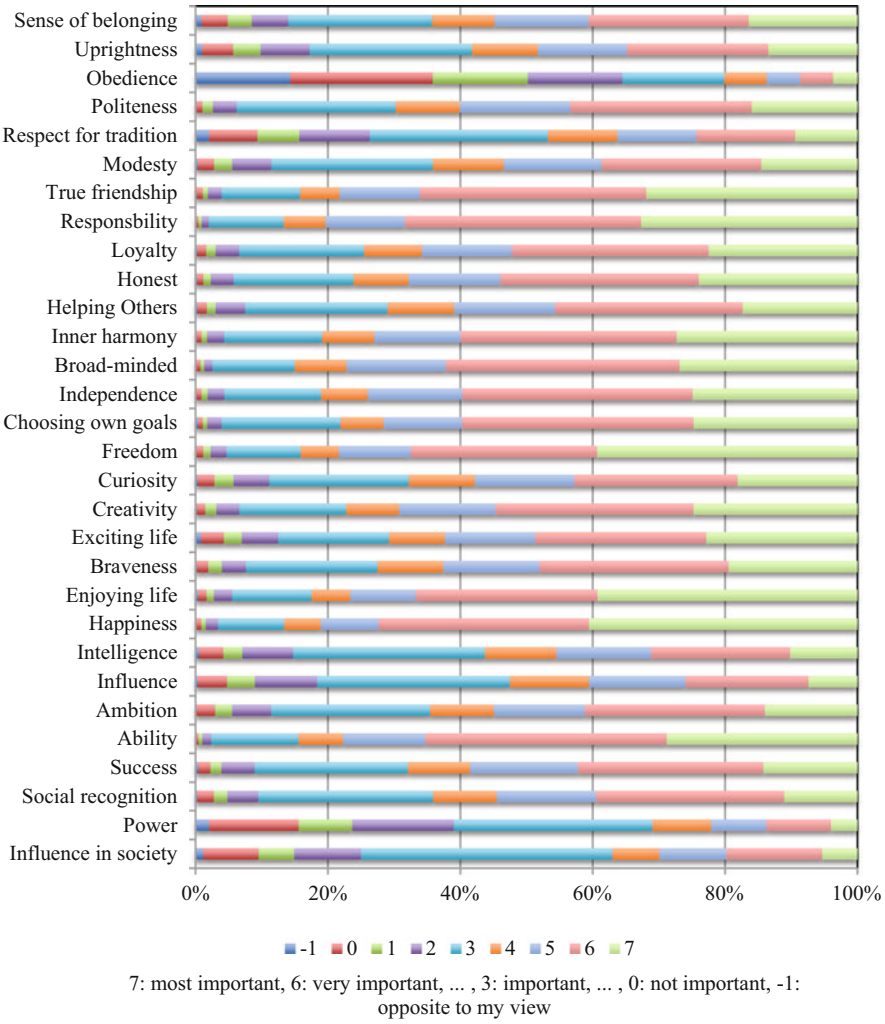

Fig. 16.1 The importance of various guiding principles in life

representing higher importance of that dimension to the respondent. This is a standard method used in preference measurement (Srinivasan and Park 1997; Vithala 2014). The results are presented in Fig. 16.2; each horizontal bar represents the percentages of respondents who allocated a number of points within a specific range (0–5, 6–10, 11–15, 16–20, 21–25, 26–30, and more than 30 points), essentially creating a discretized representation of the relative importance of each FD dimension.

Since 11 points can be considered an equal allocation (100/9), it is interesting to note that for 6 out of the 9 dimensions, nearly 50 % of respondents are on either side of 11 (0–10 or larger than 10). The three exceptions are *cherished commons* (35.1 %), *welcomed strangers* (22.4 %), and *second chances* (14.8 %). Nearly 40 %

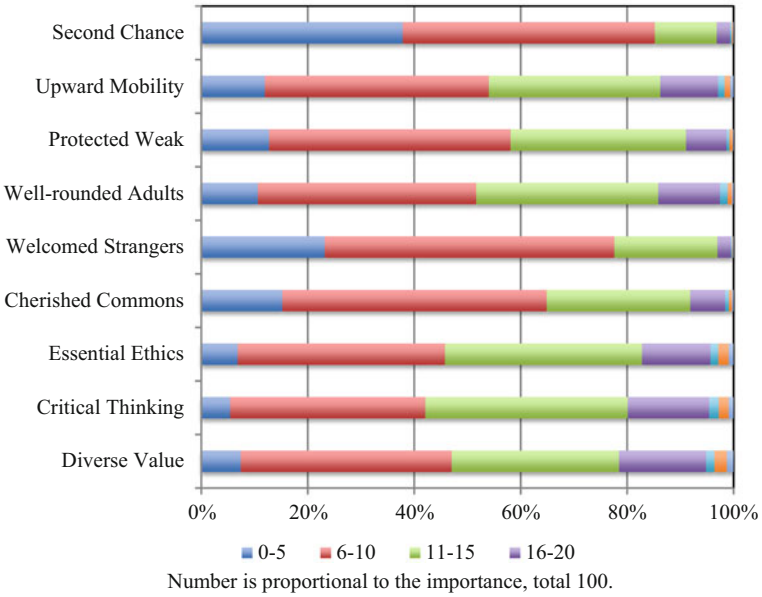

Fig. 16.2 Relative importance of the nine dimensions of FD

of respondents allocated less than 6 points to the domain of *second chances*. High point allocations (16 and above) were assigned to *diverse values* (21.5 %), *critical thinking* (19.9 %), and *essential ethics* (17.2 %), indicating that some people feel very strongly about these dimensions. As a matter of fact, these three dimensions appear to be extremely important to some people, with 3.6 %, 2.8 %, and 2.9 % respondents, respectively, allocating at least 26 points to them.

16.3.3 A Closer Look at the Diverse Values Dimension

We now examine respondents' preferences among various incarnations of *diverse values*, their most important dimension among the nine. While people may agree that diverse values are important, it is possible that they have very different views on how they should be manifested. The purpose of this analysis is to provide some insights into this issue. We collected similar data for the other eight dimensions, and results will be presented elsewhere due to space limitations here.

We asked each respondent to evaluate six different scenarios depicting societal acceptance of various value systems; one reflected the present state of society, and the other five each represented the present state of society plus one additional value system that had hypothetically become mainstream. Each respondent was asked to assign a value of 1 to his or her least preferred scenario and a value of 10 to his or her most preferred scenario and then rate the remaining scenarios relative to those preferences (multiple ratings of 1 and 10 were permitted) (Srinivasan and Park 1997;

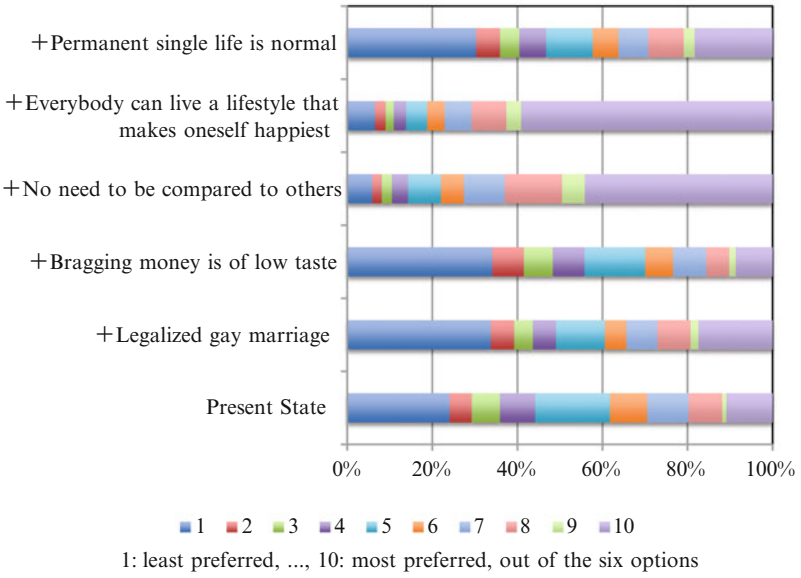

Fig. 16.3 Relative preferences among six scenarios depicting societal acceptance of different diverse values

Vithala 2014). The results are presented in Fig. 16.3, where each horizontal bar represents the percentages of respondents who chose each of the ten possible ratings (from 1 to 10).

The results indicate that while there are converging views, there are also very different perspectives on which diverse values a society should accept. Overall, many people did not consider the present state of society to be desirable: 23.9 % of respondents considered it to be the least desirable of the six scenarios, while 10.8 % believed it was the most desirable. Beliefs seem to converge around allowing everyone to choose a lifestyle that they believe will make them happiest (58.7 % rated this as the best out of the six), followed closely by a society in which individuals do not constantly need to be compared to others (43.9 % rated this as the best, and an additional 5 % rated it as the second best). Very few people (6.5 % and 5.8 %, respectively) considered these scenarios to be the worst.

Respondents, however, expressed divergent views on two other scenarios. Gay marriage appears to have elicited strong opposition, with 33.5 % rating it as the worst scenario (implying that it would be worse than the present state) and 17.3 % rating it as the best. Even more surprising, the scenario depicting a permanently single lifestyle also elicited strong opposition from our respondents: 30.1 % rated this as the worst scenario (implying that it would be worse than the present state), while 18.2 % rated it as the best.

The last scenario combined the present state with a social norm whereby bragging about money is considered to be tasteless. Over one-third (33.8 %) of respondents rated this scenario the worst, a much larger proportion than the 23.9 % who rated the present state the worst. Unlike the two related to marriage, there was a lack

of strong opposition among the respondents; the percentages of other ratings are all lower than those for the present state scenario. In other words, respondents felt that bragging about wealth is normal and should not be viewed as tasteless.

To provide a better understanding of the heterogeneity in respondents' relative preferences for the six scenarios depicting the acceptance of diverse values in society, we performed segmentation analysis using a statistical clustering algorithm. We present the ten-segment solution in Table 16.2.

The ten segments can be broadly grouped into five classes. The first class is comprised of segment 1 (content). This is the only group of respondents who assigned very high ratings to the present state scenario (average rating of 8.9) and rated no other scenarios highly; in other words, they indicated that they are very content. This class, however, only represents a small fraction of respondents at 6 %.

The second class includes segments 2–4. These are people who expressed strong opinions about gay rights and/or single rights and all three segments are quite small (each represents 4–6 % of the respondents). Respondents in segment 2 (gay, single rights) supported both gay rights and remaining single, while those in segments 3 (support gay, against single) and 4 (against gay, support single) expressed opposite views on these two scenarios. Respondents in segment 3 strongly supported gay rights (average rating 9.9) but were strongly opposed to remaining single (average rating 3.1), and ratings in segment 4 are almost exactly the reverse. This is quite surprising, as one might expect that a person who supports one scenario would be open-minded enough to also support the other.

The third class includes respondents in segments 5–7, who indicated that they have a strong desire to live for themselves. They assigned high ratings to the scenarios in which one does not need to be compared to others (average rating of 8.7) and can live a lifestyle that makes him happiest (average rating of 9.5). Like the second class, these three segments differ mainly in their views of gay rights and remaining single. While the respondents in segments 5 (live for self) and 7 (live for self, against gay) (18 % and 11 % of the sample, respectively) both supported single lifestyles, those in segment 7 expressed stronger opposition to gay rights (average rating of 2.3) than those in segment 5 (average rating of 3.4), and those in segment 7 were also substantially less content with the present state (average rating of 2.9) than those in segment 5 (average rating of 5.6). Respondents in segment 6 (live for self, against single) (13 % of the sample) had no problem with gay rights (rating this scenario slightly higher than the present state itself, 6.5 versus 6) but absolutely opposed single lifestyles (with the lowest rating in Table 16.2 at 1.1).

The fourth class includes segments 8 and 9. Respondents in both segments strongly opposed both gay rights and single rights, but differed in how they preferred to live their own lives. Respondents in segment 8 (choose lifestyle, against gay, single) (14 % of the sample) uniformly rated the ability to live a lifestyle that makes them the happiest to be the best possible scenario (average rating of 9.9), and respondents in segment 9 (no comparison, against gay, single) (12 % of the sample) uniformly rated the scenario in which one does not need to be compared to others as the best (average rating of 10). Respondents in neither segment considered the other scenario to be very important (unlike the segments in the third class).

Table 16.2 Heterogeneity of relative preferences among six scenarios depicting societal acceptance of different diverse values

Note: **Numbers marked in red are the most preferred scenarios (average rating between 8 and 10), and numbers marked in blue are the least preferred scenarios (average rating between 1 and 3). Segments with shaded backgrounds are relatively smaller segments compared to the others**

Segment	1	2	3	4	5	6	7	8	9	10
Values	Content	Gay, single rights	Gay rights; against single	Single rights; against gay	Live for self	Live for self; against single	Live for self; against gay	Choose lifestyle; against gay, single	No comparison; against gay, single	Anything goes
Frequency	281	306	231	195	881	657	531	716	599	600
Percentage	6%	6%	5%	4%	18%	13%	11%	14%	12%	12%
Present state	8.9	6.4	3.7	3.6	5.6	6.0	2.9	5.0	4.6	1.8
+Legalized gay marriage	3.4	8.9	9.9	2.6	3.4	6.5	2.3	2.7	2.5	8.7
+Bragging about money is in poor taste	6.7	2.2	3.1	2.8	2.2	6.2	7.6	3.2	3.4	3.8
+No need to be compared to others	4.9	7.9	4.8	3.9	8.9	8.9	8.8	5.3	10	7.7
+Can live a lifestyle that makes oneself happiest	3.4	5.0	4.5	5.6	9.5	9.2	8.7	9.9	6.7	9.6
+Permanent single life is normal	2.5	8.3	3.1	9.9	7.2	1.1	6.8	2.7	2.1	8.2

Finally, the fifth class includes segment 10, comprised of respondents for whom anything goes. Respondents in this segment (12% of the sample) indicated that they were extremely discontent with the status quo (average rating of 1.8 for the present state scenario) and welcomed all modifications. (They also felt that it is fine to brag about money; thus removing it led to only a small improvement over the present state.)

16.4 Conclusion

Due to cultural and historical uniqueness, FD in China has its own characteristics. We identified nine dimensions of FD aspirations based on extensive qualitative data collected from people from all walks of life. These dimensions represent what the Chinese consider to be urgently needed elements in FD; they are not meant to be interpreted as an exhaustive list of all FD dimensions in China. Our survey results, while not representative of the entire Chinese population, highlight that elite Chinese university students do not necessarily agree on the relative importance of these dimensions. Furthermore, substantial heterogeneity exists within each dimension in terms of the specific forms to be adopted. Our segmentation analysis of respondents' reactions to six different scenarios depicting the acceptance of diverse values in society reveals divergent preferences, some with strong opposition. This probably

reflects the fact that while all respondents were students at elite universities, they represented a true cross section of Chinese society, reflecting the excellent job members of the Chinese higher education system have done to recruit students who excel academically, regardless of family background, wealth, or social status.

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