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World Institute for Development Economics Research

Research in Progress 12

**A REVIEW OF WELFARE CHANGES  
IN ASIAN TRANSITIONAL ECONOMIES**

Lu Aiguo

April 1997

UNU World Institute for  
Development Economics Research  
(UNU/WIDER)

## Research in Progress 12

### A Review of Welfare Changes in Asian Transitional Economies

**Lu Aiguo**

April 1997

This study has been prepared within the UNU/WIDER project on Poverty and Well-Being in Asia during the Transition (a component of the research on Poverty, Income Distribution and Well-Being during the Transition), which is co-directed by Dr Manuel F. Montes, Senior Research Fellow, and Dr Aiguo Lu, Research Fellow.

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## ABSTRACT

In examining the welfare situation, this paper explores the relationship between economic changes and social development in Asian transition economies. Under the central planning system, achievements in human development in these countries were commonly greater than the level of economic development might have indicated. This pattern, however, no longer stands true during transition. Human development tends to suffer or not to have corresponding improvement not only because of economic performances, but also as a result of inadequate social policies. The research emphasises human welfare as the ultimate goal of transition, suggesting a need to move away from a one-sided focus on economic growth to a people-oriented approach through the adoption of policies which place the well-being of the population at the centre of transitional and development strategies.

In reviews of the economic performances of the formerly centrally planned economies, two 'macro-patterns' are often identified. One is that of the former Soviet Union and the Central and East European countries (the CEECs). Without exception, in all the CEECs the initial stage of market transition has been conspicuous for the sharp economic decline, and this trend did not change until the mid-1990s. While the economic decline in some of the CEECs bottomed out and the countries began to recover, the economies of other countries continue to slide. Overall, the so-called 'transitional economic recession' has become one of the most common characteristics of the transitional performance of the CEECs.

The other macro-pattern is that evident in some of the largest Asian transitional economies (the ATEs), such as China and Viet Nam, where reforms have been accompanied by sustained and rapid economic growth at a level which was unknown during the period of central planning. This macro-pattern represents a sharp contrast to the experience of the CEECs. Since this sort of performance has not occurred outside Asia, it has become popular to talk about an 'Asian approach', as opposed to a 'European approach', to economic transition.

The transition in the CEECs has also witnessed large-scale and widespread deterioration in social conditions (UNICEF 1993, 1994, 1995, Milanovic 1996). The worsening in social development indicators has been commonly viewed as an inevitable consequence of the severe economic decline. The concurrence of the two processes seems to have provided strong support for this simple causality. Social policies matter as well, but, compared with the severe impact of economic decline, the role of social policies is considered derivative or of secondary importance in the determination of the welfare changes.

In light of the above common perception, this paper aims to explore the relationship between the economic and social changes during the transition through an examination of the experiences of the ATEs. One central question is: If economic recession has indeed led to the deterioration in social conditions in the CEECs, is it the case that the economic growth in the ATEs has been automatically followed by rising living standards and improved human development? And if not, why not?

The paper is organized as follows. After a brief discussion of the patterns of economic and social development in the ATEs during the central planning period, the consequences of the transition in the ATEs in terms of social development are outlined. This is followed by an examination of the causes of the welfare changes. Finally, we analyse one of the central issues of the transition, that is, the issue of the need to move away from a one-sided focus on economic growth to a people-oriented approach through the adoption of policies which place the well-being of the population at the centre of transitional and development strategies.

Current studies of the welfare situation in the ATEs are far less comprehensive than those undertaken on the CEECs. This is at least partly due to the lack of systematic, reliable and comparable data. This paper faces similar problems. It is based on existing studies, information and data, which are published by various sources and rely on different methods. As a result, cross-country comparisons using the available figures may not be highly accurate, but this should not affect the larger picture of socioeconomic development in these countries that the paper sets out to paint.

'ATEs' in this paper refers to those Asian countries which were under a central planning system and which began to reform this system through the introduction of market mechanisms

at various times, mostly since the late-1970s. These countries include China, the Lao PDR, Mongolia, Viet Nam, and the central Asian republics of Kazakhstan, Kyrgyzstan, Uzbekistan, and Turkmenistan (henceforth, the CARs). The remaining centrally planned economies in Asia, such as North Korea (DPRK) and Tajikstan, are not included for various reasons. As of the mid-1990s, the DPRK has yet to implement reform measures which would indicate an obvious shift towards socioeconomic transition. Tajikstan remains a war-torn country, and this has rendered transition issues of secondary importance there.

Such a definition of the ATEs immediately makes it clear that there is no single, so-called 'Asian model', even if the measurement used is only post-reform economic performance. On many other accounts, the ATEs are far from being homogeneous, for there is a great diversity, for example, in reform approaches, policy sequences, social consequences, and so forth, not to mention the great differences in culture, geo-politics and history. In many respects, the diversity is greater among the ATEs than it is among the CEECs. In terms of transitional strategies and performances, the CARs and Mongolia appear to be closer to the CEEC model rather than the 'Asian model', although these countries are located in Asia. However, this does not pose a particular problem in the paper, since a definition of transition models is not a goal here. On the other hand, in addition to geographical location, the ATEs do share a few common socioeconomic features which set them apart from the CEECs. For example, the ATEs were and still are the lower income countries, for which development remains as crucial an issue as market transition.

## I THE PRE-REFORM ECONOMY AND WELFARE AND SOCIAL POLICIES

Compared with the CEECs, the ATEs are poor or relatively poor developing countries. At the onset of reforms, income levels in most of the ATEs were generally lower than those in the transitional economies in Europe (Table 1).

TABLE 1: PER CAPITA GNP OF THE ATEs PRIOR TO THE REFORMS, US\$

	1978		1990
China	230	Kazakhstan	2,600
Viet Nam	170	Kyrgyzstan	1,570
Lao PDR	90	Tajikstan	1,130
Mongolia	940	Turkmenistan	1,690
		Uzbekistan	1,340

Sources: Figures for the CARs from Pomfret (1995), chapter 4; for the remaining countries, from World Bank (1980), pages 110-11.

These figures may not be very accurate, but the fact that the economic status of these countries in the world income hierarchy is low is unaffected. According to the international income scale, the ATEs can be divided into two groups. The East Asian group, which includes China, Viet Nam and the Lao PDR, was among the poorest in the world in the late 1970s, at the time when China formally embarked on the road of reform. In the case of Viet Nam and Laos, no radical improvement in per capita GNP took place between the late 1970s and the mid-80s, when economic reforms were officially undertaken. The per capita income in these countries continues to be very low to date. The CARs and Mongolia were not as poor. On the eve of the transition, they ranked as low-middle income countries. Among them, Mongolia was the

poorest, as shown by the above figures, but its per capita GNP may actually have been lower still. For example, estimates put forward by others place the per capita GNP of Mongolia in the range of \$522 to \$880 in the late 1980s (see Kim 1996). In the early 1990s, when radical changes began to sweep the entire former Soviet bloc, the per capita GNP of the CARs, with the exception of Kazakhstan, remained lower than that of all transitional economies in Central and Eastern Europe.

On the other hand, compared with most market economies at similar income levels, a relatively good performance in social development was recorded in all the ATEs prior to the transition. Because of the low or relatively low income levels, the pre-reform ATEs faced resource restraints in welfare provision. Especially in the poorest ATEs, per capita calorie intake, the access to consumer goods and quality housing, the consumption of public utilities and so on were low, and a relatively large proportion of the populations were poor. However, considering the available resources, people in the ATEs enjoyed a large amount of social protection. Poverty was widespread, but the income gap remained relatively narrow. Other important social development indicators, such as life expectancy and educational attainment, were generally more positive among the ATEs than they were in market economies with the same or even considerably higher per capita incomes.

China, the largest centrally planned economy among the ATEs, made considerable progress in social development in the first three decades after 1949. Measured by social indicators such as life expectancy, infant mortality and educational attainment, China forged way ahead of most market economies at similar income levels and surpassed a number of countries with per capita incomes many times greater.

‘Analyses of anthropometric data and morbidity patterns confirm that China has achieved a remarkable transition in health and nutrition’ (Drèze and Sen 1989, page 204). Many of the social indicators for China reached the average levels for middle income countries. For instance, life expectancy at birth increased from less than 40 years at the beginning of the 1950s to approximately 65 years in 1978.

In the 1980s the GNP per capita in Viet Nam was lower than that in China in the late 70s. Because of the country’s overall poverty, there were chronic food shortages, and the population suffered from widespread malnutrition. The incidence of malnutrition, particularly as reflected in the height-for-age and weight-for-height indicators for children, confirms that the most serious health problem in Viet Nam was the lack of adequate amounts of food (John Mellor Associates 1993, Fford and de Vylder 1996). The level of well-being, as measured by calorie intake, consumption of goods, access to safe water and so forth, was low. However, indicators show that the health situation in the country had improved significantly during the decades since independence. Life expectancy reportedly rose from 42 years in 1960 to 59 years in 1983, and the infant mortality rate declined from 165 per 1,000 live births in 1960 to somewhere between 35 and 64 in the mid-80s. The people in Viet Nam were living longer than were people in countries such as Algeria, Brazil, Iran and Peru, all of which had per capita incomes more than ten times greater than that of Viet Nam (Fford and de Vylder 1996, page 234). Overall, the social development in Viet Nam prior to the reforms was more like that in a middle income country (for example, the Philippines) than to that in a low-income country.

The Lao PDR, established in 1975, had the shortest and most unsuccessful central planning experience among the ATEs. Prior to the reforms, Laos was poorer and less developed than Viet Nam, with a very weak industrial base and virtually no heavy industry.

Little information on social development indicators before 1985 is available. Despite some progress after 1965, human development in the Lao PDR in the late 1980s and early 90s remained poorer than that in Viet Nam (Table 2).

TABLE 2: ECONOMIC AND SOCIAL INDICATORS FOR LAOS AND VIET NAM

	Laos	Viet Nam
Population (millions)	4.6	70.9
GDP per capita (\$)	230	220
Life expectancy at birth (years)	50	63
Infant mortality (per 1,000 live births)	101	39
Adult literacy (%)	54	88
Urban population (%)	19	20
Population growth rate (%)	2.9	2.0

Source: UN, World Bank and Asian Development Bank data for the most recent year (1990 for literacy, 1991 for mortality and life expectancy at birth and 1993 for other statistics) from Pomfret (1996), page 61.

Mongolia, too, fared quite well in terms of social development, although the gap between the social development indicators and per capita income was not so wide. Before the transition, the official figure of \$880 per capita GNP ranked Mongolia among the lower-middle income countries. Because of serious measurement problems, the size of Mongolia's GDP may have been overestimated (Pomfret 1996, page 79). But even if Mongolia were classified as a lower-middle income country, its human development record was more favourable (Table 3).

TABLE 3: HUMAN DEVELOPMENT INDICES\*

	Mongolia	All Countries	LDC	DC
Life expectancy at birth (1990)	62.5	62.8	50.7	65.5
Daily calories in % of requirement (1984-86)	116	107	89	113
Access to safe water in % of population (1985-88)	65	62	34	--
Primary and secondary school enrolment, % (1986-88)	95	70	41	78
Mean years of schooling (1980)	6.0	3.5	1.4	5.4
Female/male ratio in school enrolments (1980)	90	53	40	66
Female/male ratio in labour force (1988)	83	52	46	57
Per capita GNP (\$, 1988)	880	710	230	3,410

Source: UNDP (1991), cited in Kim (1996), page 316.

\* 'LDC' = least developed countries, DC = developed countries.

Under the central planning system, Mongolia achieved significant improvement in the quality of life of its people. As the above table shows, the major social indicators were not only better than the average for all countries in the world, but they were also better than the average for the developed countries in some areas. Mongolia's achievement in education was especially pronounced and was far better than that of China. Eighty-nine per cent of all students had completed the eighth grade; 50 per cent had completed the tenth grade, and 16 per cent of the work force had received higher education. With a per capita GDP which was not particularly high, Mongolia achieved a literacy rate of 97 per cent among the population above 10 years of

age. In 1990, it had 88.8 medical personnel and 119.5 hospital beds per 10,000 population. The nutritional standards were adequate and comparable with those in middle income countries. Infant mortality (60.6 per 1,000 live births) and maternal mortality (1.44 per 1,000 live births) were high, but there had been substantial progress over the years (MRIM 1994, cited in Abeywickrama 1996, page 27).

The CARs had far higher per capita incomes than did the rest of the ATEs, although within the USSR they were the poorest republics. For instance, if one sets per capita income in the USSR at 100, then the respective index in 1988 was 93 for Kazakhstan, 62 for Uzbekistan, 71 for Turkmenistan, and 72 for Kyrgyzstan (IMF et al. 1991, page 231). Poverty in the CARs was more pronounced than was the USSR average. It was reported that in Uzbekistan, significant numbers of people were living in poverty during the Soviet era. According to a 1989 household survey, about 44 per cent of the population were living below the official Soviet poverty line, of which 16 per cent subsisted on incomes at less than two-thirds of the value of the line.

However, compared to the East Asian transition economies, not to mention neighbouring countries such as Afghanistan, the CARs had reached higher standards of human development (Table 4). Life expectancy had improved steadily. In Uzbekistan, for instance, life expectancy had risen since the 1970s from 67.3 to 69.8 years, thus running counter to the downward trend in Russia from 67 to 64 years over the same period. Infant mortality continued to improve, from 47 per 1,000 live births in 1975 to 34.6 in 1990 and then to 26 in 1994. However, serious problems, such as high maternal mortality, persisted. In particular, the literacy rates and the levels of education were very high, largely as the result of the Soviet education and health care systems.

TABLE 4: HUMAN DEVELOPMENT INDICATORS, THE CARS, 1990

	Life expectancy	Adult literacy rate	Mean years of schooling
Kazakhstan	68.8	93.0	5.0
Turkmenistan	66.4	93.0	5.0
Uzbekistan	69.5	93.0	5.0
Kyrgyzstan	68.8	93.0	5.0

Source: UNDP (1993), pages 135-36.

The experiences of the ATEs under the central planning system indicate that there was an obvious gap between economic level and social development that was clearly in favour of the latter. The degree of this general 'imbalance' may be roughly measured through a comparison of a country's ranking in the world in terms of economic development and its ranking in terms of social development. For example, at the end of the pre-reform period, China ranked as the 22nd poorest country in the world (World Bank 1980, pages 110-11), but, measured according to human development index (HDI) values in 1980, it ranked as the 51st country from the bottom in terms of human development, up from 45th from the bottom in 1960. In addition, China was among the dozen or so countries in the world that moved from the low human development level in 1960 to the medium human development level in 1980. Moreover, China's advance was the most substantial among the countries in this relatively successful group (UNDP 1994, page 105).

'...over a long period of time, China has invested liberally in human development. So, despite its low per capita income, it falls in the medium HDI category. China also has the largest

positive gap (+49) between its HDI rank and its GNP per capita rank, showing that it has made judicious use of its national income' (UNDP 1994, page 100).

For the discrepancy between per capita income and human development in other ATEs, the following information from the UNDP human development index provides a fairly comprehensive picture (Table 5).

TABLE 5: THE GNP RANK AND THE HDI RANK OF SEVEN COUNTRIES

	GNP rank	HDI rank	HDI rank minus GNP rank
Lao PDR	9	46	37 (1987)
Viet Nam	16	62	40 (1987)
Mongolia	96	100	4 (1990)
Kazakhstan	53	54	1 (1990)
Kyrgyzstan	81	83	2 (1990)
Uzbekistan	68	80	12 (1990)
Turkmenistan	51	66	15 (1990)

Source: UNDP (1990), (1993).

To various degrees but without exception, the pre-reform ATEs had better social development records than their respective income levels would indicate. The discrepancy was particularly pronounced for East Asian transitional economies. As in other centrally planned economies, the relatively good social development records in the ATEs were an outcome, first of all, of the official ideology which emphasized that human development based on equitable income and welfare distribution was a development priority. Second, there was a strong support system and government policies to buttress the official commitment to social development. Education and health services were significantly better than in most other countries at similar income levels. Welfare systems were supported by nationwide institutional establishments, which not only functioned as agents to carry out welfare programmes, but also oversaw the relatively equal coverage of education, health care and other social services.

The progress in social development in the ATEs was achieved largely through state-sponsored social welfare measures. There were essentially two types of state-sponsored welfare provision: the Soviet type and the East Asian type. The CARs were constituent parts of the Soviet Union, and welfare provision before independence was therefore a function of the overall Soviet welfare system. Mongolia was known as the '16th republic' of the USSR for its close political relations and high degree of economic integration in the Soviet system. Mongolia possessed a welfare system similar to that of the Soviet republics, in which education and health care services were run by the state and provided free. Privately owned housing did not exist. Urban housing was owned and allocated by the state, and rural housing belonged to cooperatives. Utilities (electricity, heating and so on) were furnished with zero marginal charges. Public transport and food were heavily subsidized. In these countries, full employment was largely guaranteed; education and health care services were free; lifetime pensions were granted to all employed persons, and women were offered virtually equal opportunities in employment. These provisions served as the foundation for the remarkable attainments in human development.

For the relatively low income region of central Asia, resources from outside the region within the USSR played an important role in supporting this comprehensive welfare system. Although net inter-republic resource flows in the former Soviet Union are difficult to

disentangle, the CARs are likely to have been net beneficiaries of the resource redistribution among the republics (Pomfret 1996, page 91). Largely because of extensive state employment and the provision of various social benefits through enterprises and farms during the Soviet era, a sense of security was enjoyed by people in the CARs. On the eve of the economic transition, these republics inherited a fairly well-developed Soviet system of social insurance and assorted social assistance measures.

In the poorer East Asian transitional economies, the role of the state in welfare provision was not as comprehensive as it was in the CARs and Mongolia. While the state normally took full responsibility for the welfare of employees in the state sector, the larger part of the population outside the state sector, that is, the rural population, was left out of state provision. Rural populations had to rely mainly on local resources and rural institutions, that is, the collective or cooperative organizations, for welfare support. Rural collective frameworks, such as the commune system in China and the agricultural cooperatives in Viet Nam and the Lao PDR, were responsible for the satisfaction of the basic needs of their members through the mechanism of the sharing of resources within the respective administrative boundaries. Admittedly, welfare coverage in the non-state sector was poorer in both quantity and quality than it was in the state sector, and this commonly resulted in less favourable welfare conditions among rural populations. Nonetheless, it ought to be remembered that the availability of the collectively sponsored welfare services, even at low coverage, made a great difference among low-income rural populations. Precisely because of the development of this organizational mechanism, the East Asian transitional economies were able to perform well in the area of human development, despite the agrarian nature of these societies prior to the reforms.

Unlike the Soviet type, the East Asian type of welfare provision, which combined direct provision by the state with collective sponsorship, worked to a great extent in a decentralized manner. The differences in access to resources between urban and rural areas, as well as among rural localities, contributed to the high degree of regional variation in social development. Nevertheless, judged by performance, the governments in the ATEs did relatively well in the utilization of natural and organizational resources to improve the well-being of populations.

However, despite the achievements, both the Soviet type and the East Asian type of welfare provision were not without problems. In general, the most serious and common problem was the severe resource constraints, which could not be reduced as significantly as expected because of the inadequate economic growth. This was particularly true in the East Asian transitional economies, in which living standards remained low, and the efforts to eliminate widespread poverty were met with great difficulties. Given their resources, an important issue for Mongolia and the CARs was the sustainability of the relatively comprehensive welfare coverage. This problem became more urgent and obvious after independence, when Soviet subsidies dried up as the result of the collapse of the USSR at the same time that inefficiencies and budget pressure were growing. For all or some of the ATEs, the potential for further improvements in welfare was also limited because of such factors as the inefficiencies in resource utilization, the lack of universal coverage, and the bureaucratization of welfare institutions. One of the basic lessons is that the relative egalitarian income distribution and relatively advanced welfare services in the ATEs under the central planning system offset to a great extent the negative welfare impact of the relative economic backwardness of these countries, but were not sufficient as substitutes for the lack of dynamic economic growth.

## II ECONOMIC TRANSITION AND WELFARE CHANGES

The onset of the economic transition in the ATEs varied from country to country, as did the first initiatives in the new economic course. China was the pacesetter, undertaking economic reform in 1978.

Following a few years of spontaneous 'fence-breaking' and the relaxation of central control over the economy, Viet Nam and the Lao PDR began official reform programmes in 1986.

In 1991, more than a decade after China's first reforms, strong external shocks were largely responsible for opening the way to a more radical economic transition in the CARs and Mongolia. The sweeping changes in and the ultimate collapse of the Soviet Union left these countries no alternative but to modify immediately the economic and political structures so closely associated with the Soviet system.

For the East Asian transitional economies, the push for change came mainly from within. The accumulated problems of central planning, which resulted in the stagnation of income and less than satisfactory economic growth, propelled governments to adopt gradual yet far-reaching economic reforms.

### 1. Economic growth

The ATEs took diverse approaches towards reform, ranging from the so-called 'gradualism' or 'incrementalism' in China to the drastic 'revolution' in countries such as Mongolia. Transition is not merely a matter of economic change. In the CARs and Mongolia, in particular, because of the sudden external shocks generated by the disintegration of the USSR, economic transition has had to proceed hand in hand with nation building. The East Asian transitional economies, on the other hand, have managed to maintain political stability while pursuing reform. In all the ATEs the socio-political situation has been crucial in the formulation of transition strategies and in limiting the policy options available to governments.

With regard to economic performance, a marked difference exists between the East Asian transitional economies on the one hand and the CARs and Mongolia on the other (Table 6).<sup>1</sup>

TABLE 6: ESTIMATES OF REAL GDP GROWTH RATE, 1985-95, AND PER CAPITA GNP, 1994

1985-92 average*	GDP Growth Rate (%)			GNP per Capita 1994 (US\$)
	1993	1994	1995	
China	9.6	13.5	11.8	10.2
Viet Nam	4.9	8.1	8.8	9.5
Lao PDR	4.7	5.9	8.1	7.1
Mongolia	0.8	-3.0	2.3	6.3
Kazakhstan	-14.9	-12.9	-25.4	-8.9
Kyrgyz Republic	-15.9	-15.6	-26.5	-6.2
Uzbekistan	-6.1	-2.3	-3.4	-2.7

Source: ADB (1996), page 204.

\* Refers to 1986-92 for the Lao PDR and Viet Nam and 1992 for Kazakhstan, the Kyrgyz Republic and Uzbekistan.

<sup>1</sup> See also the data on the growth of GDP in selected ATEs during the transition period in ADB (1996), Figure 2, page 20.

The East Asian pattern of economic performance involves a combination of transformation and growth. China, Viet Nam and, to a lesser extent, the Lao PDR have witnessed the acceleration of economic growth since the early years of reform. In the nearly two decades since its first reforms, China has registered a tremendous 9 per cent annual growth rate. Viet Nam has had a slower start, but in the first half of the 1990s the GDP growth rate reached 8-9 per cent in that country. The economy of the Lao PDR has also produced positive growth since the reforms, although the growth rate has not been as high as that in either China, or Viet Nam. Official estimates indicate that the annual growth rate was an average 4.5 per cent over 1987-91 and that it has been higher since then.

Meanwhile, in the CARs and, somewhat less, Mongolia, radical transition measures have led to severe economic contraction, and there has been a substantial erosion in GDP and standards of living during the initial stages of the transition. The extent of economic decline has varied. The output drop in the CARs has been generally milder than that in the former USSR as a whole, while it has been less dramatic in Uzbekistan and Mongolia than in Kyrgyzstan and Turkmenistan. In particular, in 1992, as inter-republic trade in the former Soviet Union diminished, output began to fall more rapidly in all of the newly independent CARs (Pomfret 1996).

GDP change has made a significant difference in the material lives of people. In the transitional economies exhibiting positive economic growth, as average income has risen, quality of life has improved. Poverty has been reduced substantially in both China and Viet Nam. The chronic hunger faced by a large proportion of the people living in the high population density regions in the north of Viet Nam has eased.

On the other hand, because of the drop in GNP, income per head in the CARs and Mongolia has decreased, and the negative effect has become quite evident in changes in the profile of diets. Expenditure on bakery goods and vegetables has remained stable, but the consumption of meat and especially dairy products has fallen. There was a significant change in the structure of diets in the CARs beginning in 1992, when starchy foods came to account for two thirds of caloric intake, while the protein component of diets declined sharply. In Turkmenistan, the consumption of dairy products during the first three quarters of 1992 was only about two thirds of that of the comparable period in 1991 (Pomfret 1995).

## **2. Income distribution**

In terms of economic performance, the experiences of China, Viet Nam and the Lao PDR have formed the so-called 'Asian model', whereas the experiences of the CARs and Mongolia appear to fit more closely with the 'East European model'. However, the welfare changes in these countries do not seem to reflect entirely these patterns of economic performance.

Despite the disparity in economic performance, the ATEs have shared a common feature during the transition: increasing inequality in income distribution. In this respect, positive or negative economic performance does not seem to have made an essential difference; instead, the difference seems to be apparent mainly in terms of the degree and speed of the growth in income inequality.

On the eve of the reforms, a characteristic of income distribution in China was the coexistence of a wide income gap between urban and rural areas and highly egalitarian income distribution within each area. Largely due to the conspicuous rural-urban income gap, the overall Gini coefficient in China was higher than that in other centrally planned economies of the former Soviet Union and Eastern Europe, although it was lower than that in developing market economies.

The economic reforms have brought noticeable changes in China. Income inequality is on the rise. While in the past the inequality was largely produced by differences between rural and urban areas, it is now being driven by a widening gulf between the rich and the poor, a marked divide between coastal and inland regions and an even more obvious chasm in living standards between rural and urban populations (Ahmad and Wang 1991, Griffin and Zhao 1993, Wei 1996, Lu 1996, Zhang 1997).

Due to problems with official data and the lack of alternative information sources, it is difficult to make an accurate assessment of income inequality in Viet Nam. However, studies have generally agreed that, amid the substantial improvement in overall standards of living, income gaps since the reforms have been widening in Viet Nam.

In the ATEs which have experienced economic recession, economic decline has led to a substantial deterioration in the living standards of large portions of populations and shattered the sense of income safety for all. Income inequality has become worse. Not only the newly rich, but also the newly impoverished have emerged.<sup>2</sup>

Studies have found that the distribution of income in the CARs became more unequal after the collapse of the central planning system in 1991 (for instance, see Pomfret 1996). According to a World Bank estimate, the Gini coefficient increased from 9.33 in 1987-88 to about 50 in 1993 in the Kyrgyz Republic (World Bank 1996a, page 69). Even when the economic situation in some CARs began to improve in the mid-1990s, income inequality continued to rise. For example, in Kazakhstan, from January to November 1995, real per capita household income reportedly went up by 6 per cent, signalling the end of the fall in living standards (Interfax 1996a, page 29). However, among a significant section of the population living standards remained low. Differences in food consumption between poor families and more well off families had been customarily marked by the type of foodstuff rather than by caloric intake. But in the mid-1990s, the consumption of food by poor families became not only qualitatively differentiated, but also quantitatively differentiated. Relative to more well off families, poor families in rural areas consumed 72 per cent less fruit, less than half the vegetables, meat and eggs, and 17 per cent less bread and potatoes.

The fact that income inequality increases following economic transition regardless of economic performance is well recognized. It has been the case in the CEECs as well (World Bank 1996a, pages 68-70). Rising inequality is frequently said to be caused by factors such as wage liberalization, a boost in the incomes earned in the private sector and mounting individual wealth.

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<sup>2</sup> In a sign that there is a class of newly rich, the first Mercedes showroom opened in Almaty, Kazakhstan, in the summer of 1993.

The attitudes towards greater income inequality vary widely. For some, income inequality is a necessary consequence of the transition, and in transitional economies the current level of income inequality has been viewed as tolerable or reasonable. Inequality is said to be good for economic efficiency, since 'greater disparity of wages, income, and wealth is – up to a point – a necessary part of transition, because allowing wages to be determined by the market creates incentives for efficiency that are essential for successful reform' (World Bank 1996a, page 66).<sup>3</sup>

Given the prevalence of such ideas in dominant policy making circles, policies to deal with income problems have mostly centred on the issue of poverty. According to this mainstream thinking, as long as the economy is growing and as long as governments are able to restructure social safety nets to provide effective poverty relief, the issue of inequality should not be a particular concern. In contrast, there is a growing body of economic literature which argues that equality is not only morally desirable and a necessary condition for the maintenance of social stability, but also actually good for economic growth (Alesina and Perotti 1996, Birdsall, Ross and Sabot 1995). Between these two opposing positions, others have tried to look for a balance (for example, see Fforde and de Vylder 1996).

In the ATEs, widening income inequality has become a concern among the people, if less so among some reform-minded policy makers. The socialist period has left a legacy of strong egalitarianism, which implies a relatively low degree of public tolerance for income inequality. Moreover, unlike the CEECs, a number of governments in the ATEs continue to link their legitimacy to socialism, in which equality is a core concept. In the case of China, 'common prosperity' has been the banner slogan of the reforms under which the government has been mobilizing mass support. The reality that continuous economic growth leads not to 'common prosperity', but to a continuously widening income gap raises doubts as to the extent to which income disparities can be encouraged in the name of efficiency or to which development can be sustained without causing social discontent and thereby undermine the reform consensus.

The experiences of the ATEs suggest that rising income inequality has had little to do with macroeconomic performance. Depending on the extent and speed of the rise in income inequality, the social character of the transitional economies is being reshaped. The drastic growth in income inequality has transformed some of the formerly centrally planned economies from relatively egalitarian into highly polarized societies. A notable example is Russia. In just a few years, the inequality in Russia has reached a level comparable to that in Latin America, a region with one of the most lopsided income distributions in the world. The income inequality being observed in the ATEs has not yet become so conspicuous, but the tendency is unmistakable. This has posed a difficult problem for the governments of all the ATEs that have been struggling, on the one hand, to maintain social stability, which may be threatened by the rising inequality, and, on the other hand, to pursue market reforms, which continue to polarize incomes.

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<sup>3</sup> The problem with the analysis of the World Bank (1996a) is that it treats inequality in the same way as it does poverty, thus creating considerable confusion. While it may be correct to say that, 'The key to containing and reducing poverty, therefore, is resumed growth', (World Bank 1996a, page 67), the same cannot be said of inequality. The World Bank concedes that 'income inequality is not out of line with that in comparator market economies and therefore may not fall significantly' (World Bank 1996a, page 67).

### 3. Poverty

It is well established that poverty takes many forms and is determined not only by low per capita income, but is also characterized by 'inadequate access to and control over basic social and economic resources and opportunities that can develop human capabilities necessary to participate in and contribute to society' (UNDP 1996, page 3). To eradicate poverty is to establish the provision of basic needs for all. With respect to material provision, the elimination of poverty necessarily entails the eradication of hunger and malnutrition and the establishment of food security, universal access to education, employment, and health care services. To alleviate poverty requires not only economic growth, but also a wide participation in the benefits of this growth by the population.

The ATEs have had a range of experiences with poverty during the transition. The negative growth which occurred in the CARs and Mongolia has contributed to a rise in the incidence of poverty in those countries. As output has shrunk, general income levels have dropped, and people at the low end of the income scale have slipped into poverty. Moreover, as might have been expected, because of the decline in state revenue following economic contraction, governments have faced greater pressure to cut public spending on social provisions, which have usually helped those people most in need. This sudden, widespread, but relatively shallow poverty emerging in transitional economies has been labelled 'transitional poverty'.

In transitional economies such as China and Viet Nam in which growth has been rapid and broadly based, poverty has declined substantially. These countries have managed to reduce poverty at the very beginning of the reforms and throughout the early years of reform. However, the process of poverty reduction even in countries in which economic growth has been sustained and rapid has not been linear.

During the initial phase of rural reforms in China, 200 million people were lifted out of poverty. After the mid-1980s, as reforms began to move further towards a market orientation and touched off the restructuring of the entire economy, including the urban and industrial sectors, the number of the poor stopped declining, even though economic growth was being maintained. This situation lasted nearly a decade. It was not until the mid-1990s, after tremendous efforts had been undertaken by the government via the implementation of poverty reduction programmes and a wide range of public works (Zhu 1996, 1997), that, out of a total population of 1.2 billion, the number of the poor had slowly fallen from 70-80 million to 65 million.<sup>4</sup> Thus, in China, according to the World Bank (1996a, page 69), the share of the population living below the poverty line fell by 24 per cent during 1978-1985 and then rose by 1 per cent during 1985-93.

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<sup>4</sup> The share of the poor in a population is affected by the definition of the poverty line. For example, if the poverty line is raised from \$0.60 to \$1.00 of income per day, then the population deemed to be poor in China would be about 300 million, instead of less than 100 million (see World Bank 1996c). Likewise, based on a 'common' poverty line for the CEECs, the share of the population living below the poverty line in the Kyrgyz Republic in 1993 was 76 per cent when measured in terms of income, but only 57 per cent when measured in terms of expenditure. If one uses a lower, country-specific poverty line, the poverty head count was between 30 and 45 per cent (World Bank 1996a, pages 69-70).

In Viet Nam strong economic growth during the transition process has contributed to the reduction of the share of the poor in the population from 75 per cent to 55 per cent between 1984 and 1993.<sup>5</sup>

One characteristic of poverty in the ATEs is that it is generally 'shallow', and people are often moving back and forth, into and out of poverty. The members of large or single-parent families, the unemployed, those lacking education, the elderly, and people without access to assets (for instance, access to land in Armenia and Ukraine) are most likely to be poor in the CEECs (World Bank 1996a, page 71).

In China and Viet Nam the risk factors seem to be different. For example, most of the remaining poor in China are concentrated in remote, resource-deficient areas, which are usually populated disproportionately by minorities. In these areas the natural resources, particularly land, but also water, are meagre even for subsistence production. Existing anti-poverty programmes have not been very effective in dealing with these problems, as indicated by the stagnation in poverty head counts. The Chinese government has set the goal of eliminating poverty by the year 2000. This will require a drop in the number of the poor of more than ten million people each year. This is a formidable task, given the slow progress made since the mid-1980s.

Economic performance has proved to be the most crucial factor in the elimination of poverty. The achievements in poverty reduction in countries in which economic growth is strong, such as China and Viet Nam, are remarkable, whereas in the ATEs facing economic recession poverty has been on the rise. Nonetheless, experience also suggests that economic growth alone is not sufficient to ensure continuous decline in poverty. For people with little education and few skills, for the aged and for children without sufficient family support, economic growth is even less an immediate solution. Social interventions in the form of government programmes and public assistance need to be strengthened to help the especially vulnerable. In the long run, a combination of sustained, broadly based economic growth and social and government support measures is necessary for the elimination of poverty and the improvement of living standards so that an entire population can live decent lives in dignity.

#### **4. Employment**

Full employment and life-long job security were the key element in the social safety nets in the ATEs prior to the reforms. However, full employment under the centrally planned systems of Asia cannot be taken at face value. In China the underutilization of the labour force, or disguised unemployment, was a serious problem in the pre-reform era. Job shortages existed in the CARs for years before the onset of the transition. Related problems, such as low labour force efficiency and the lack of labour mobility, were rampant. Likewise, in the case of China and Viet Nam, in which rural residents represented the vast majority, full employment did not mean that welfare conditions were the same in rural and urban areas. As a general rule, the work-related benefits falling to rural populations remained much inferior to those available in the state sector or in larger towns and cities.

In the CARs and Mongolia, unemployment mounted steadily during the early years of the transition (Tables 7-8).<sup>6</sup> The serious economic recession has usually been blamed for this

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<sup>5</sup> The World Bank (1996a, page 69) gives the reduction as 20 per cent between 1985 and 1993.

trend. When there is a sharp decline in output, job opportunities shrink. It was thus anticipated that, when the economic situation improved, job opportunities would appear, thereby easing the pressure of unemployment. However, this has not occurred. In Kyrgyzstan in 1995, for example, although the declining trend in GDP that had been evident between 1992 and 1994 was significantly slowed, the labour market did not rebound accordingly, and unemployment continued to rise (Interfax 1995a, page 22).

TABLE 7: THE REGISTERED UNEMPLOYED AS A PERCENTAGE OF THE LABOUR FORCE

	1992	1993	1994	1995	June 1996
Kazakhstan	0.4	0.5	0.8	1.5	3.7
Kyrgyzstan	0.1	0.2	0.4	1.9	4.6
Uzbekistan	0.1	0.2	0.2	0.3	0.4

Source: For 1992, OECD (1994); for 1993-96, OECD (1996), page 26.

TABLE 8: EMPLOYMENT BY SECTOR IN 1994, %

	Public	Private	NGOs	Joint ventures	Mixed enterprises
Kazakhstan	63.0	26.4	0.4	0.3	9.9
Kyrgyzstan	50.1	47.2	0.5	0.2	2.0
Turkmenistan	51.8	47.0	0.4	0.2	0.6
Uzbekistan	52.0	47.7	0.3	0.3	n.a.*

Source: Interfax (1995b), page 18.

\* Not applicable.

Conventionally, growing unemployment is most closely associated with economic distress. However, in the ATEs during the transition, unemployment has been climbing without exception and regardless of economic performance. It has already become an important component of economic and social life and is having a great effect on the well-being of entire populations, not just the unemployed.

The term 'transitional unemployment' has been used to describe the situation in transitional economies whereby, though declines in output contribute to increases in unemployment, it is the restructuring of the planning economy in general and of the industrial sector in particular that causes unemployment to rise. Indeed, economic transition entails a repositioning of the state and private sectors, adjustments in the industrial sector, outward reorientation of an economy, and so forth. This process, in turn, requires restructuring in the labour force. Problems such as over-employment or hidden unemployment under socialist full employment

<sup>6</sup> The unemployment figures present problems of comparison partly because of differences in statistical methodologies and, perhaps more importantly, partly because unemployment registration systems are only in the initial stages of development as the ATEs try to cope with the implications of the phenomenon. Usually, real unemployment levels are more severe than the officially reported figures indicate. Therefore, a change in the methodology of measurement can have a considerable impact. For instance, the official registered unemployment rate in the CARs would have been at least twice as high if unemployment had been measured using the ILO method, which defines the unemployment rate as the share within the economically active population of those citizens who are without work, but who are available for work and actively seeking jobs. In Kyrgyzstan, the official unemployment rate was 4.5 per cent in September 1996 (Interfax 1996b, page 5). According to the ILO definition, the actual unemployment in Kyrgyzstan should have been 7.9 per cent at that time.

have been exposed, and a large portion of the labour force has become redundant, as the state sector in virtually all transitional economies has been shrinking. In addition, new employment creation by the state sector has been generally limited due to a sharp reduction in output, or a decline in the relative significance of the state sector in the overall economy, or both. A solution to transitional unemployment therefore depends not only on renewed and sustained economic growth, but also on the capacity of the non-state sector to absorb the labour force which the state sector has been shedding.

Thus, in the CARs, rising unemployment has as much to do with economic transition as with economic recession. The growing unemployment in these countries has everywhere been created also by restructuring and company shutdowns. In Kyrgyzstan, almost 80 per cent of industrial enterprises surveyed in late 1995 had sent workers home on extended leave during the first nine months of the year, and over 50 per cent of these workers had been sent home for more than 15 weeks (Interfax 1995a, page 22). The employment prospects do not seem promising in the short run, as nearly 40 per cent of companies were reportedly contemplating further job cuts because of problems in supplies and sales. Only 7 per cent had plans to hire more workers. In general, labour demand remains low, and the gap between supply and demand appears to be wide, with 42 applicants for every vacancy. A similar situation has been observed in Mongolia, where, according to official figures, unemployment rose from 3.2 per cent to 3.6 per cent in 1990-91 (Kim 1996).

Despite its record breaking economic growth, China has also been facing mounting pressure from unemployment. Between 1983 and 1992 the official unemployment rate fluctuated between 1.8 per cent and 2.5 per cent, except in 1989, when it reached 2.6 per cent. Then, in 1992 it began a steady climb, from 2.5 per cent in that year to 2.6 per cent in 1993, 2.8 per cent in 1994, and 2.9 per cent in 1995 (Lu 1996, pages 60-70).<sup>7</sup>

In Viet Nam, as in China, dynamic economic growth has not prevented a rise in unemployment. The adoption of a more market-oriented system has been accompanied by mounting unemployment, as well as increasing domestic and international migration. Urban unemployment in early 1995 was estimated at over two million, and the unemployment rate was as high as 25 per cent in some urban areas (ADB 1996, page 28). In the course of drastic, wholesale pruning in the state sector, between 1986 and 1994 about one million workers lost their jobs at state enterprises and in government service, and, despite the rapid growth of employment in the non-state sector, overall unemployment is rising and now stands at an estimated 7 per cent (Jansen 1997).

Although growing unemployment is a universal phenomenon in the ATEs, economic performance and the nature of reform policies are playing an important role in the speed, scale and character of the unemployment in each country.

While the economies of the CARs and Mongolia have declined sharply, the rise in unemployment has been much less dramatic. That is to say, compared with the severity of the

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<sup>7</sup> To a considerable extent, the official unemployment rates underestimate the actual situation partly due to the government's restrictive definition of unemployment and incomplete unemployment registration. More importantly, the official unemployment rate covers only the urban sector, thereby leaving the huge rural surplus labour force uncounted. The number of rural migrant labourers seeking jobs outside their home areas has been estimated in the range of 70 million to 90 million individuals.

drop in output, unemployment rates have remained low. The governments in these countries have been reluctant to resort to mass layoffs, and state firms have been encouraged to maintain the labour force. The financial difficulties involved in this effort have been limited because the methods used to achieve this goal have consisted of reducing or even eliminating wage payments, while continuing to provide certain job-related benefits. In such a way, workers have remained formally employed, although they are working less or not at all. Many workers have taken jobs in the non-state sector in order to earn cash. At the same time, because the expansion of the non-state sector in these countries has been relatively slow, workers have generally lost income, living standards have deteriorated, and poverty has increased.

In China the dynamics of the rise in unemployment have been different. The government has taken a prudent approach towards reform in the state sector. Indeed, state-sector employment continued to grow until 1993 and declined only very slightly thereafter. However, the ability of the state sector to provide employment has considerably weakened. Thus, while the state sector accounted for about 70 per cent of all new jobs in urban areas during the first phase of urban reform in 1985-90, by 1993 it was providing only 9 per cent of the new urban jobs. The engine of employment growth had become the non-state sector, particularly the township and village enterprises, among which employment levels were climbing ten times more quickly than they were in the public sector. Still, a major problem with this 'alternative' employment was the relatively low pay and welfare benefits compared with employment in the state sector. The pay in the state sector, including benefits, was roughly 60 per cent higher than it was in the non-state sector (World Bank 1996a, pages 73-74). Thus, while in China it may be easier for the average worker to find a job in the non-state sector than it is in the CARs, this advantage is somewhat offset by the lower wages and benefits.

State-sector employment in Viet Nam fell significantly, although it has been relatively small in the first place, accounting for less than 15 per cent of total employment. As in China but on a different scale, the expansion of the non-state sector has created alternative employment for the labour force, including workers who have lost their state jobs.

Changing patterns in employment and unemployment in the ATEs have been brought about by the restructuring of state-owned enterprises, by the dynamics of the non-state sector and by greater labour mobility. As the transition continues, transitional unemployment is unlikely to vanish. As labour markets adjust to the emerging economic structures, unemployment benefits and social security programmes will have to be modified. In China, for instance, the increased labour mobility has rendered enterprise-based social security systems problematic. This will mean that the eligibility requirements for employment-related benefits, unemployment compensation, insurance and retirement pensions will have to be reexamined.

## **5. Human development**

Education, health and long life are essential if people are to be able to participate fully and meaningfully in the economy and society. In this sense, the initial outcomes of the reform process in the ATEs have been mixed at best. In those ATEs in the throes of economic recession, the effort at human development has weakened, and, if declining economies continue to impose resource constraints, there may be long-term effects on populations. In

those ATEs experiencing economic growth, progress in human development has been uneven or nonexistent.

Prior to the reforms, the record of the ATEs in human development was relatively good given the low levels of income. This can be largely attributed to government investments in social programmes to promote human capacity building. However, with the transition, these programmes have met with many difficulties, which progressive social policies alone, even the most consistent ones emphasizing equitable access to welfare provision, have not been able to overcome.

In China, on the eve of the reforms, the health status of the population was remarkably good despite the income constraints. This was the result of rising living standards and government social policies which fostered improvements in diets, access to clean water, sanitation, housing, and other public services.

However, reforms in the ATEs have necessitated changes in the institutional framework of welfare provision, and China has been no different.<sup>8</sup> In China (and Viet Nam), as pre-reform institutions such as rural collectives and state-owned enterprises have collapsed or been restructured, responsibility for the management of welfare provision has been shifted to emerging market-oriented institutions, while users are being required to cover the service costs. Thus, as universities have begun to charge tuition and hospitals and expensive private service providers such as kindergartens have started to institute fees or demand greater fees, higher quality education and health care facilities are increasingly becoming available only to those who can afford them.

Therefore, the attempt must be made in China and elsewhere to guarantee that reform-induced economic growth is sufficiently widely based so as to assure broad access to adequate social services for the great majority of the population. Only in this case, can improvements in social development be anticipated.

As of now, the initial assessment is not entirely positive, the achievement in human development appears to be a long way from matching the advances in economic performance. Although health status as measured by indicators such as life expectancy at birth and maternal mortality continues to improve (Lu 1996, pages 22-24), when observing these changes, one must bear in mind that some of these indicators measure long-term cumulative trends, which might not be reversed even by rather dramatic economic or social changes over the short term (Preston 1975, Rodgers 1979, Murray and Chen 1992).

More relevant, perhaps, are the findings of a number of studies which suggest that health gains measured by other indicators, such as infant or under-5 mortality rates, were already being lost in the early 1980s (Banister 1987, page 116, World Bank 1996a, page 127). In terms of the under-5 mortality rate, by the late 1980s China was falling behind countries at similar income levels. The incidence of non-communicable diseases is rising rapidly. The death rate from lung cancer is going up by 4.5 per cent per year, and the death rate related to hypertension is climbing by 8.7 per cent per year (World Bank 1996a, page 127).

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<sup>8</sup> Perhaps for this reason, economic reforms in China have always been referred to as 'institutional reforms', or 'economic institutional reforms'.

Moreover, the improvements in certain indicators mask the fact that rural populations are not benefiting in equal measure. In some poor and remote rural areas, child malnutrition, maternal mortality and infant mortality remain extremely serious problems. Infant and maternal mortality rates in rural areas were reportedly 50 to 100 per cent above the national averages. In some of the poorest villages, infant mortality rates were 3.5 times greater than those among city dwellers. Many of the rural poor are unable to receive proper medical treatments because they cannot afford them (World Bank 1996a, page 127).

In education, the improvements have been steady since the onset of the reforms. Between 1982 and 1990, the illiteracy rate declined from 21 per cent to 13 per cent for men and from 49 per cent to 32 per cent for women. Illiteracy fell by 4 per cent from 1990 up to the mid-1990s. On the other hand, if women's education can be viewed as a gauge of general educational achievements, then China has not done well during the reforms. The ratio of illiteracy among women in total illiteracy actually increased slightly, from 69 per cent in 1982 to 70 per cent in 1990 (Lu 1996, pages 24-25). The illiterate population is overwhelmingly concentrated in rural areas. In some of the poorest rural villages, half the boys and in some minority areas nearly all the girls are not attending school and will not become literate. For example, in a poor village in Tingxin country, less than half (30 out of 70) of the school-age children were attending elementary school. In another village of the same county, none of the 50 children have attended school in the four years since the local elementary school had to be closed down (World Bank 1996a, page 124).

To be sure, unequal capability attainment among rural and urban populations has historical roots to the extent that the situation was not essentially different before the reforms. However, based on the resource allocation mechanism of the collective farming system, great progress was made in the countryside during the central planning period. A portion of collective incomes was allocated to finance social services for commune members, including primary health care, vaccinations, birth control, and maternal health care. The collapse of the commune system eliminated in some regions and fundamentally weakened in others the financial ability of rural communities to provide public goods. A system of cost recovery rapidly replaced collective safety nets, creating problems of access for the large majority among rural populations, particularly the poor. Attempts to establish alternative mechanisms were so slow in coming – they were not initiated until the mid-1980s – that some of the previous gains were not retained.

The experience in Viet Nam has been similar to that in China. Before the reforms, Viet Nam established a universal educational framework despite the poverty of the country. About 4 per cent of the state budget went to education, mainly to cover the salaries of teachers and the cost of textbooks. Rural communities or districts usually took responsibility for the construction of schools. Generous material and organizational investment in education resulted in high literacy and student enrolment rates. Indeed, the record in education of Viet Nam was better than that in China. Illiteracy was practically eliminated in the northern and central regions. Notable progress was also made in the south, although the level of literacy remained lower than it was in other parts of the country.

The health status of the population was improved significantly. Life expectancy at birth rose from 42 years in 1960 to 59 years in 1983, and the infant mortality rate declined from 165 per 1,000 live births in 1960 to somewhere between 35 and 64 per 1,000 in the mid-1980s (Fforde and de Vylder 1996, page 234). This achievement can to a large extent be attributed to the

existence of a nationwide primary health care network, which linked communal health care centres. The network formed the backbone of Viet Nam's health care system and created easy access for the rural population. About 90 per cent of the people in rural areas in the Red River Delta and 40 per cent in the Mekong Delta were covered by the health care centres. As in China, the system also had an urban bias. Some rural areas were poorly served, whereas virtually all city residents had access to health care services.

On the eve of the reforms, the most serious health-related problem in Viet Nam was the lack of adequate food supplies. More than half of all children were affected by malnutrition to varying degrees, and the estimated calorie intake per capita was 20 per cent short of the recommended daily level (Fforde and de Vylder 1996, page 233). To boost food production and consumption was therefore essential in Viet Nam, and, indeed, the country has made remarkable progress in these areas during the reform period. Agricultural production has been climbing at an annual rate of between 2 and 4 per cent. In a rather short time, Viet Nam has emerged as an important rice exporter. The jump in food supplies has led to better, more adequate diets and created conditions favourable for a general rise in health status.

Nonetheless, the reforms in Viet Nam suggest once again that economic growth does not automatically translate into more welfare and enhanced human capability. There have been worrying signs of deterioration in social development. The dismantling of the collective social security system has affected a large swath of the population, especially the vulnerable. There have been ups and downs in the public expenditure in health care and education. User fees have become common at health care centres and primary schools. By 1991 education in Viet Nam could no longer be called 'free', because the families of pupils were being required to support schools by paying various fees. Due to state budget constraints and the lower salaries offered to teachers, staff shortages became a problem in many places. As school management has become further decentralized and local authorities and rural communities have taken greater responsibility for education, including the feeding and housing of teachers, the education system has come to depend on the availability of local resources and the initiative of local authorities and communities. Not surprisingly, signs of deterioration in education began to appear. For instance, illiteracy rates rose once more in certain parts of the country, and relatively more girls were dropping out of school, because families, now forced to pay for education, were tending to save money by favouring education among male offspring.

Difficulties have occurred in the maintenance of primary health care services as well, largely because of the decline in state financing. During the reforms the government has assigned the highest priority to the production sector, and expenditure on health care services and education have been side-tracked. Budgetary austerity at the central and local levels has meant that the financial burden of education and health care has been shifted onto individuals and local communities.

Regional gaps in access to education and health care and in service quality have been widening. If this trend continues, the admirable progress achieved in basic education and health status in the country will be endangered. As in some of the other ATEs, but especially China, one might call the reforms a success in terms of economic growth, but not in terms of social development. The lesson is that advances in social development in parallel with economic growth will require focused efforts and appropriate investment.

Several indicators in some of the CARs have improved. This has been the case for life expectancy in Uzbekistan and Turkmenistan, and infant mortality in all the CARs except Turkmenistan between 1991 and 1994 (Pomfret and Anderson 1997, World Bank 1996a, page 172). In Kyrgyzstan, the death rate began to fall in 1995, largely as the result of declining infant mortality and fewer deaths from circulatory diseases.

However, in general, while the lack of information makes it hard to assess the overall situation in the CARs and Mongolia, it is nonetheless clear that all these countries have experienced deterioration in human development since the onset of the transition. In some of the CARs during the early stages of the transition the birth rate declined, and the death rate rose. Large-scale emigration has represented a further hazard for the health status and education of populations, but especially the migrants.

One of the most serious health problems has been the sharp rise in the incidence of disease. During the summer of 1993, there were outbreaks of cholera in Uzbekistan, Kazakhstan and Kyrgyzstan. The incidence of infectious diseases was still high in Kyrgyzstan in 1995. Despite immunization campaigns, the number of cases of diphtheria climbed by a factor of more than three during the first 11 months of 1995 relative to the same period in 1994 (645 cases versus 209 cases). The number of cases of mumps rose by 100 per cent on average, and from 300 to 700 per cent in some regions. The incidence of syphilis also mounted (Interfax, 1996c, page 27). Likewise, in Kazakhstan the incidence of infectious diseases rose between 1994 and 1995. The increase in the rate of incidence in 1995 was 20 per cent for scabies and tuberculosis, 50 per cent for viral hepatitis, 160 per cent for diphtheria, and 280 per cent for syphilis (Interfax 1996a, page 32).

In the CARs, the erosion in maternal mortality rates has been dramatic. The immediate causes include the lack of contraceptives, and the high rates of abortion. However, the much larger background cause is the deterioration in socioeconomic conditions which has weakened the provision of health care services.

Thus, in Mongolia the rise in maternal mortality rates has been rapid, and the overall health status of women, particularly mothers, has been especially affected by the collapse of the health care system. The maternal mortality rate jumped from 120 deaths per 100,000 live births in 1991 to 200 in 1992 and 240 in 1993. The problem is more serious in rural areas. In 1992, rural women accounted for 70 per cent of all births, but 83 per cent of all maternal deaths. The significant indirect causes of the increase in maternal mortality were the decline in living standards and poor nutrition (ADB 1996, page 29). One important direct cause was the fiscal crisis, which led the government to cut health care expenditures drastically. This resulted in the closure of maternity rest homes, which offer pregnant women medical advice and treatment and which were an important factor in maternal care before the transition. Pregnant women in rural areas could live in the homes starting two weeks prior to delivery. Cuts in health budgets also generated a severe shortage of fuel and spare parts for vehicles and delays in transportation to medical facilities. This was particularly detrimental for rural women, who must travel an average of 44 kilometres to reach the nearest hospital.

Compared to China and Viet Nam, the CARs and Mongolia had more extensive state-financed welfare systems during the socialist period. However, this high level of state support rendered the systems more vulnerable to sudden economic changes. In the worsening macroeconomic situation and the financial crisis linked to the transition, social programmes have usually been

among the first casualties of budget cuts. However, the public in these countries has also been playing a role in government decisions on social spending cuts. For instance, in Mongolia, demands by workers to boost pensions and halt layoffs in the state sector and in enterprises forced the government to raise pension payments and the number of pension recipients substantially in January 1991 (Kim 1996, page 379). However, the lack of economic growth and the new role of the market crippled the government's ability to protect the previous welfare gains. Under the severe budget constraints, education and health care appeared too expensive for the government to maintain.

By the mid-1990s, many indicators of human development in the CARs and Mongolia were no longer more favourable than those in China and Viet Nam, although the latter had much lower per capita incomes (Table 9). The Lao PDR was the furthest behind among the ATES.

TABLE 9: SOCIAL INDICATORS FOR SELECTED ATES

	Life expectancy		Infant mortality rate (per 1,000)	Maternal mortality rate (per 100,000)	Adult literacy rate (%)		Gross primary enrolment (%)	
	male	female			male	female	male	female
China	68	71	31	95	87	68	125	116
Kazakhstan	64	73	31	55	99	96	...	...
Kyrgyz	62	70	37	63	99	96	...	...
Lao PDR	50	53	97	300	65	35	112	84
Mongolia	62	65	60	240	98	96	96	100
Uzbekistan	66	72	37	34	98	96	...	...
Viet Nam	65	69	36	120	92	84	105	99

Source: ADB (1996), page 27.

## 6. Crime

Rising crime has been a common feature of the transition in virtually all the ATES. Rapidly growing crime rates during the early stages of the transition and the maintenance thereafter of the relatively higher rates have been a general tendency.

In China, crime rates have been climbing since the onset of the reforms and reached a plateau in 1988-89. Two tendencies have been especially pronounced in crime in China. The first has been the emergence and then upsurge of organized crime, which has involved a wide range of criminal activities. Second has been the revival in more 'traditional' crimes such as drug abuse and drug trafficking, prostitution, the abduction and trafficking in women and children, the cross-border smuggling of goods and people, and illegal possession of weapons. Crime appears to be a more serious problem in coastal and border areas, where the socioeconomic transition has been most vigorous.

In the early 1990s the government began to crack down on crime with greater resolve. The initial results seemed good. However, it is not clear whether the upward trend in crime has actually been halted. Thus, for example, the 30 per cent drop during the first nine months of 1992 in the number of crimes reported may have been the result of changes in statistical methods and the use of more stringent criteria for the initiation of criminal investigations. Indeed, the number of cases tried in court during the same period actually increased, and among these cases major crimes, including murder, rape, robbery, vehicle theft and drug

trafficking, grew more quickly than did the overall crime rate. Similarly, in 1993-94, despite a slowdown in the rise in the overall crime rate, the number of major felonies was still swelling (Lu 1996, pages 29-30). Numerous surveys reveal that the growing crime rate remains a top concern among Chinese citizens.

Crime rates surged in the CARs during the transition. In Kyrgyzstan 50 per cent more crimes were reported during the first nine months of 1992 than during the corresponding period in 1991. In 1993 the increase was even more striking, and in 1994 the number of crimes was still going up by 32 per cent. More of these crimes involved weapons or violence, including homicide, assault and rape, and there was more organized crime.

In 1995 the growth in the crime rate seemed to slow in Kazakhstan and Kyrgyzstan (Interfax 1996a, page 32, 1996c, page 28). The total number of registered crimes fell in the two countries, including most serious crime, except for the theft of personal property in Kyrgyzstan and drug-related crimes in Kazakhstan.

In 1996, as in the CIS on average, the number of registered crimes declined in Kazakhstan, Kyrgyzstan and Uzbekistan, although the number continued to rise in Turkmenistan. Meanwhile, certain types of crime were becoming still more frequent. In 1996, Turkmenistan recorded a 10 per cent increase in first-degree murder. The number of rapes went up by 18 per cent in Kazakhstan, 13 per cent in Kyrgyzstan and 23 per cent in Uzbekistan. The number of muggings and armed robberies soared by 23 per cent in Kazakhstan and 30 per cent in Turkmenistan, and drug related crimes were becoming more common in almost all these countries (Interfax 1996d, page 15).

The causes of the rise in crime in the ATEs are complicated. One of the most direct and common contributors has been the weakening ability of the state apparatus to fight crime. Virtually all governments in the ATEs faced financial constraints on police enforcement. Sharp economic decline in the CARs and Mongolia created difficulties in maintaining and strengthening law enforcement. In economically booming countries such as China, problems with decentralization and inadequate tax collection contributed to the financial constraints.

Another factor was corruption. For instance, in Kyrgyzstan the government response to the crime wave was ineffective not only because of a lack of resources, but also because of corruption among law enforcement officials. Likewise, in Kazakhstan police often seemed more concerned with their own illegal moneymaking activities, such as using their authority to extract 'tolls' from motorists, than they were with fighting crime (Pomfret 1995, chapter 4).

Meanwhile, the motive of economic gain appears to account for a large portion of the increase in crime. Theft, which represented more than half of all registered crimes, rose considerably. The number of people reporting confidence tricks climbed by 10 per cent in Kazakhstan, Kyrgyzstan and Uzbekistan during the first half of 1995 with respect to the same period the previous year.

Finally, the higher crime rates reflect the growing tensions created by the broader social outcomes of the transition, including the widening income gap, rising unemployment and the acceleration in social stratification in all the ATEs. These causes have been exacerbated in some countries by ethnic conflict and large-scale migrations. The rise in crime, like the

renewed outbreaks of communicable disease, is a further symptom of the social disruption which has augmented the sense of insecurity in the ATEs.

## 7. The status of women

Gender equality serves as an important indicator of overall well-being in all countries. Women everywhere experience discrimination. Health indicators, adult literacy rates, school enrolment ratios, and the percentage share of earned income are consistently lower among women than they are among men in most countries. Political representation and participation, legal rights, and access to and control over economic resources are all fields in which equality has yet to be achieved. Empirical evidence shows that in countries where there is greater gender equality, welfare in general is likely to be better.

Women fared far better under the socialist systems of the ATEs than they have under the market economies in the region. Under socialism, gender equality was considered a development priority, and policies were implemented to improve the access of women to education, maternal and child health care, political life, and employment. Women, like men, were expected to work full time, and for this to become a reality public or enterprise-based child care and health care services were commonly developed, at least in urban areas.

The conditions among rural women were generally less favourable. This was due to a number of factors, including urban-rural differences in institutional set-ups and welfare systems, urban-rural disparities in income distribution and income levels, and stronger gender-biased traditions and customs in rural areas. Nonetheless, efforts to draw large numbers of rural women into the labour force in the formal sector of the economy produced remarkable results in the enhancement of women's position in the workplace and in the home.

Likewise, in general, though none of the ATEs achieved full gender equality prior to the transition, the progress was admirable in terms of such indicators as labour force participation, relative earnings, literacy level, and health status.

The transition has affected women differently than it has men in a number of ways. It appears that in countries where the transition has been accompanied by growth, the welfare of women has improved in some aspects, but worsened in others, whereas in countries experiencing sharp economic decline, the adverse effects have been more pronounced among women than among men. In general, it is likely that the transition has had a negative impact on the economic independence and political representation of women.

One of the most important areas in women's welfare is employment. Unemployment has risen in virtually all the ATEs, and this has meant that increasing numbers of women have dropped out of the labour force. In all the ATEs, women have accounted for a larger share of the layoffs linked to economic restructuring, especially in state-owned enterprises. When firms have faced pressure to reduce the labour force, women have usually been the first to go. The re-employment opportunities have been relatively fewer for women. Under the inherited social legislation, female workers in the state sector are entitled to a number of protective measures, such as maternity leave or childcare leave, that have made them appear relatively more expensive to retain or hire. As the competition for markets has heated up among enterprises, including state enterprises, profit-making has become a top priority which has often

overshadowed the issue of gender equality. Moreover, women's employment has been constrained by labour market discrimination. In China, for instance, a 'male only' qualification has from time to time appeared in announcements of job openings.

In China and Viet Nam, rapid economic growth has led to the creation of new jobs, which have somewhat offset the job losses among both men and women, especially in the state sector. Women have begun to have greater freedom of choice in employment, as the transition has introduced a wider variety of income earning opportunities, such as self-employment and employment in the rapidly expanding non-state sector. In China, the higher earnings in factories outside the state sector relative to the earnings possible in the countryside have drawn large numbers of rural residents, including women, to urban jobs. The working conditions in many such places, especially in joint ventures and foreign funded factories, have not always been good, and discrimination, including wage discrimination, against female workers has been rather common. Newly hired female industrial workers in the non-state sector have been facing a very arduous battle against gender discrimination, in addition to the common struggle of ordinary workers to improve their working conditions.

Despite the fact that women have lost ground to men in employment and in some other areas, female labour participation in the ATEs has generally remained high (Table 10).

TABLE 10: WOMEN'S SHARE OF LABOUR FORCE, %

Uzbekistan	42	China	43
Kazakhstan	45	Viet Nam	47
Kyrgyz	45	Lao PDR	45
Mongolia	45		

Source: ADB (1996), page 27.

A high female labour participation rate is generally considered a positive sign of gender equality. In the case of transitional economies, however, the 'rewards' of women's employment should also be measured. For rural women in China and Viet Nam, the return to family-based production has created greater workloads for women without producing a corresponding improvement in women's welfare. In urban areas in all the ATEs, wage differentials have persisted between women and men.<sup>9</sup> In some of the CARs, income among women has become more unfavourable, while the wages in sectors where women predominate are among the lowest. In Kazakhstan, wages in the social sector are only 55 per cent of the average wage, while incomes in agriculture are only 31 per cent of the industrial wage (ADB 1996, page 29).

Similarities exist between China and Viet Nam in patterns of rural migration. In both countries, a common division of family labour in the countryside has emerged by which

<sup>9</sup> Survey data in 1988 in China show that the wage gap between men and women in the urban sector and the per capita income gap between men and women in rural areas were not substantial. Moreover, no severe poverty differences were observed between men and women in either 1988 or 1995 surveys (Knight and Song 1993, Gustafsson and Li 1993, Li 1996). However, these results are subject to various interpretations, since the conclusion concerning the rural per capita income gap, for instance, was based on the assumption that there was an equal distribution of incomes among households. Yet, as has been pointed out, the very small proportion of single-mother households in China, especially in the countryside, is a contributing factor in the seemingly non-substantial income gap between rural men and women.

women have remained in agriculture, while men have moved away in search of non-farm work. In many areas in northern Viet Nam during the 1980s, the proportion of women in the rural labour force averaged around 70 per cent (Fford and de Vylder 1996, page 229). This 'feminization of agriculture' has also been observed in rural China. While rural women may thus acquire more economic autonomy because of their greater control, in the absence of men, over decision making in farming, as well as in the allocation of family resources, the workload of these women both in the fields and at home has become heavier.

The economic decline in the CARs and Mongolia has represented a special hardship for women. Employment and income have dropped off among women more than they have among men. In particular, the government expenditure cuts on social programmes have had a doubly adverse effect on women. First, they have boosted female unemployment, since women are a majority in jobs in the social services for which expenditures have been cut most severely. In the CARs, 80 per cent of the employees in the social services and 65 per cent of those employed in the administrative services were women.

Second, the reduction in the provision of social services has hurt women more than it has hurt men since women have the primary responsibility in childbearing and in the care of the young, the sick and the elderly that these services help provide. The closure of kindergartens, day-care centres and clinics has increased the work of women in the home, and this burden has in turn reduced women's prospects for employment (ADB 1996, page 28). For example, in Kyrgyzstan about 60 per cent of the registered unemployed in 1995 were women and almost three quarters of them had children under 14 years of age.

In China and Viet Nam rural women have been far less dependent on state-provided social services for the care of children, the sick and the elderly than their counterparts in the CARs and Mongolia. However, the primary health care provided by the collective system was essential for general health status, including women's reproductive health. The collapse of the commune system and cooperative health services has meant that in many rural areas women face difficulties in obtaining these services. The maternity and infant mortality gap between urban and rural areas is a manifestation of the inferior health conditions among rural women.

Education has become less readily accessible to many women during the transition. Women's education has been more adversely affected by the rising cost of schools than has education among men (see earlier). In China and Viet Nam girls outnumber boys among school dropouts in rural areas. Educational attainment has remained high in the CARs and Mongolia, but it has become more difficult to maintain this achievement because education in these countries are confronted by financial constraints, and alternative sources of non-state financing have not emerged or are very inadequate in a situation of a serious economic recession.

## **8. A short summary**

There has been a mixed package of welfare outcomes during the transition in the ATEs. To be sure, economic growth or the lack of it has been a decisive factor in the changes in such basic welfare conditions as per capita income, nutrition and level of poverty. In China and Viet Nam, rapid economic growth has resulted in higher household incomes, greater access to consumer goods, improvements in diets, and rising living standards, as well as sharp reductions in poverty. The achievements in poverty alleviation are indeed remarkable,

underlining the fact that reform-induced growth has benefited the most disadvantaged in the population. In those countries which have suffered through economic recession, little hope of such improvement has been available to the majority, and poverty has increased. However, economic performance has not represented a clear dividing line between countries which have gained from the transition and those which have been the losers. Many other social indicators, such as life expectancy at birth, school enrolment rates and health conditions, are showing trends which do not depend only on economic growth. Furthermore, in terms of social cohesion, relative economic performance appears to be even less relevant, since in this respect there seems to have been deterioration everywhere in the ATEs. The Asian transition shows once again that economic growth alone is insufficient to produce human betterment in all its facets.

Welfare performance during the transition has frequently been compared with the record of the socialist past. The purpose should not be to argue against reform, since the problems of the central planning system have been amply exposed and analysed. The comparison should be made to demonstrate the direction and the degree of welfare changes and to highlight the importance of non-economic factors in development.

### **III SOCIAL POLICIES AND INSTITUTIONS**

Economic reform unavoidably entails social changes, which government policies are designed, belatedly or in advance, either to encourage, or to counteract. During the central planning period, the governments in the ATEs placed high priority on the provision of social services, offering generous benefits to populations. The relatively high welfare standards in the pre-reform era are testimony to these people-oriented priorities. The past experiences stand in contrast to the reform policies focusing on growth that are believed by many to be the only source of welfare improvements.

The social policies implemented during the transition in the ATEs have, in a broad sense, been adopted to overcome problems inherited from the socialist welfare systems, such as low efficiency, and to accommodate emerging market-oriented economic structures. Governments in economic recession have often been forced to undertake temporary measures to deal with the urgent pressure of shrinking resources. As an integral component of the general reform agenda, social policies during the transition have shown a common tendency to facilitate the role of the market in resource allocation in both the economic sector and the social sector. Hence, irrespective of economic performance, the ATEs have moved in a similar direction in reforming existing welfare systems.

In all the ATEs, policy makers have made great efforts to evaluate and adjust the provision of services in education, health care and social welfare. The role of the public and private sectors in supplying these services has been constantly redefined with respect to organizational structure and financing mechanisms. Various cost recovery schemes and methods to encourage the participation of the non-state sector in social services and social insurance have been tried. As this process has been on-going, the slowly evolving market structures have been intermingled with the old welfare systems. The speed and the extent of the modification of these old welfare systems have varied widely. In general, the success or failure of government policies can be measured only on the basis of the end results, that is, by human

development indicators, provided that the time lapse between policy implementation and outcomes is taken into consideration.

In the pre-transition ATEs, although the orientation of social policy was similar, the basic welfare systems were very diverse, ranging from the Soviet-type welfare states of the CARs and Mongolia, to dual or 'split' welfare provision involving separate rural and urban systems in China and Viet Nam and to the minimal welfare system in the Lao PDR. In all these countries, reforms have been implemented in every area of social service and provision, including retirement, unemployment, housing, education, health care, and social assistance for the most vulnerable groups.

One tendency has been a retreat of the state from welfare obligations. Governments everywhere are reducing their role in the administration and coordination not only of the economy, but also of social welfare and protection measures. The character and speed of this retreat are being affected by the overall approach to transition. The most significant retreat seems to have taken place where the approach has been most radical.

In the provision of social services, one common step has involved adjustments in the budget allocations to, for example, education and health care. The governments of the CARs and Mongolia have been financially squeezed because of economic recession, but also because, following the collapse of the Soviet Union, outside assistance dried up.

It has frequently been said that the economic difficulties in these countries have rendered generous social welfare provisions no longer affordable. However, cuts in social spending, especially during the early stages of the transition, have been engineered even in those countries in which the economy has been growing. Therefore, the financial constraint cannot be the sole explanation.

Thus, in China and Viet Nam, while there has been strong economic growth, budget expenditure in specific areas of social provision have sometimes either stagnated, or been reduced as a proportion of GNP. The Chinese State Education Commission has reported that total government spending on education dropped from 2.52 per cent of GNP in 1994 to 2.46 per cent in 1995. While total state spending rose 26 per cent during that period, education outlays grew only 16 per cent (*Far Eastern Economic Review* 1997, pages 23-24). Likewise, in the health sector, although total government expenditure has been climbing since the onset of the reforms, the share of health expenditure in the total government budget has been declining, from 3.1 per cent in 1980-85, to 2.53 per cent in 1986-90 and 2.36 per cent in 1991-94 (Yu 1997). In Viet Nam state expenditure on education and health care as a percentage of GDP fell off, although only very slightly, during the early reform years until 1989, when it began to increase (Jansen 1997).

The retreat of the state from the social sector has led to a chain reaction. Schools, medical centres and other welfare institutions which depended entirely on state financing now face great difficulties. Salaries in the social sector were already generally low, and the retreat has meant that they are falling further behind the pay being offered in the non-state sector or in other professional areas. There has therefore been an exodus of welfare personnel. A 1993 study of 121 universities and colleges in 22 Chinese provinces indicated a decline of 16.4 per cent in the total number of faculty that year. Two-thirds of the departures were accounted for by young or middle-aged people. At Beijing Normal University, the proportion of departing

faculty with master's and doctoral degrees jumped to 53.3 per cent in 1992 from 13.5 per cent in 1987 (*Far Eastern Economic Review* 1997, page 23). In Viet Nam and the CARs, a considerable number of educators and medical personnel have left their low-paying jobs in the social sector or left the country altogether (ADB 1996, pages 27-28).

Insufficient state funds have created difficulties in the maintenance and improvement of health care and educational facilities, and this has contributed to the collapse of services in some places and to a decline in service quality in others. Service providers from the non-state sector have sometimes emerged, but usually they have been too limited in number and in coverage to replace state services, and they have often been too expensive for ordinary citizens. In response to the financial difficulties, public-sector schools and health care institutions have begun to charge fees. Student expenses have become substantially higher.

There appears to be a similar tendency among the CARs. For example, in Uzbekistan public expenditure on health care fell from 5.9 per cent of GDP in 1991 to 4.7 per cent in 1993 and on education from 11 per cent of GDP in 1991 to less than 9 per cent in 1994 (Pomfret and Anderson 1997), although public expenditure as a proportion of GDP remains high by international standards.

The welfare impact of budget cuts depend on a number of factors, including the scale and speed of the cuts. In general, the more social services previously relied on state financing, the more severely they are likely to be affected. It is crucial that alternative resources be developed and tapped so as to replace the government financing. In this respect, China and Viet Nam have been doing rather well. The market opportunities opened up by economic reform and growth have allowed social-sector institutions such as hospitals and schools to engage in income generating activities to increase financial self-sufficiency. Economic growth has raised individual incomes and the purchasing power of the population. In China, while the share of health expenditure in the state budget fell, total health expenditure rose by about 20 per cent each year in 1980-94, that is, more rapidly than GDP (Yu 1997). This growing health expenditure has been financed largely through resources outside the state budget, as shown by the fact that the share of state health expenditure in total health expenditure shrank from 32.8 per cent in 1978 to 22.4 per cent in 1993 (Wei 1996, page 17). The experience of the ATEs suggests that, while the role of the state undoubtedly needs to be modified, the state cannot afford simply to remain passive if past gains in human development are to be maintained and strengthened.<sup>10</sup> Reforms in public financing in the social sector should aim at enhancing rather than weakening the role of the state in social provisions, if not as a direct provider, then at least as a key promoter and regulator.

Another common tendency in the ATEs is that social policies are frequently out of step with economic and institutional changes, and this tends to create additional hardships for populations. In China and Viet Nam, the collapse of the rural collective system and social safety nets took place long before alternative mechanisms for welfare provision were identified. In China the commune system was dismantled in the late 1970s and early 80s, but it was not until the mid-1980s that serious efforts were initiated to re-establish social safety nets based on various welfare schemes. This left the vast rural population without organized social

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<sup>10</sup> For instance, see White and Shang (1996) for an analysis of the conventional wisdom that the 'role of the state must be reduced' in light of the Chinese welfare reforms.

welfare coverage and protection and may have been responsible for the stagnation or the worsening in a number of human development indicators during the early reform period.

In contrast, there has been no sudden and thorough destruction of welfare institutions in the CARs or Mongolia or in the urban sector in China and Viet Nam largely because of the fear of the social unrest which could arise due to the welfare losses. The gradual and rather prudent approach to reform in social welfare systems has undoubtedly helped prevent further deterioration in human conditions in the face of the drastic socioeconomic changes. The urban welfare system in China has been going through restructuring, but no radical welfare cuts have been introduced, and the system continues to provide the substantial subsidies essential to the maintenance of the living standards of urban populations. In 1995 the 'welfare income' of urban residents was equivalent to more than 70 per cent of the total disposable per capita urban income (*Guangming Daily* 1996, page 5). Welfare income was distributed by the state and by work units in the form of subsidies for housing, retirement, health care, education, transportation, price supports, in-kind payments, and other welfare provisions.<sup>11</sup> The structure of welfare provision has been going through changes. For example, between 1990 and 1995, spending on retirement as a proportion of total welfare subsidies climbed significantly, from 8 per cent to 18 per cent, whereas subsidies to compensate for price increases dropped sharply, from 9.6 per cent to 1.8 per cent of total welfare income (*Guangming Daily* 1996, page 5).

In China and Viet Nam, the huge gap between urban and rural welfare systems needs to be bridged. In the countryside, because of the disappearance of collective social safety nets, rural populations have become entirely dependent on the extended families for old age support and poverty relief. However, the family welfare function has its limits and is becoming inadequate as the trend towards smaller families and more labour mobility continues. Meanwhile, urban welfare systems are still highly fragmented. Workers in government agencies and state enterprises have access to comprehensive benefits and protection which are not available to employees in collective or private enterprises. The lack of universal coverage means that the government must formulate policies and regulations to create broadly based social welfare systems and safety nets. In the urban sector in China, the attempt has been made to reduce the fragmentation of existing systems by shifting the provision of welfare and social protection from enterprises to the city or provincial level. In the countryside, a number of unified social protection schemes, such as rural pension funds, is being created.

In the CARs and Mongolia, where welfare systems reached universal coverage long before the transition, the problem is to maintain social provisions while making adjustments consistent with the new role of the market as a dominant mechanism for resource allocation. Facing economic difficulties, governments have cut social expenditures so as to bring budgets under control and achieve macroeconomic stability. For instance, Kazakhstan eliminated the indexing of social benefits to cost-of-living increases and tightened eligibility requirements in order to reduce the government fiscal deficit. However, while these measures have allowed the government to achieve some control over the budget, the process has left gaping holes in the social safety net (ADB 1996, page 28).

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<sup>11</sup> Of the total welfare income of urban residents, nearly 60 per cent (59.3 per cent) came through subsidies for housing, followed by 18 per cent for retirement payments, 9.3 per cent for health care, 7.6 per cent for education, 1.8 per cent to offset price increases, and 0.4 per cent for transportation. Goods distributed by work units accounted for 2.6 per cent, and other welfare subsidies for the remaining 1 per cent (*Guangming Daily* 1996, page 5).

In general, it would be a disaster for the well-being of populations if the orientation of social policies during the reform process is simply towards the reduction of welfare provisions and social protection, instead of the construction of systems which are more efficient, but which enhance welfare.

#### **IV BALANCING WELL-BEING AND ECONOMIC TRANSITION**

Few expected the transition to be smooth, without cost, or painless. Such a large-scale socioeconomic transformation was bound to cause discomfort, disruptions, even breakdowns. The transition process has entailed the reorientation of external economic relationships and changes in trade regimes. This process has been especially costly for those countries which were tightly integrated in the CMEA trading system. Among the ATEs, the collapse of this trading system has had a very severe impact on the CARs, Mongolia and, to lesser extent, Viet Nam. The sudden collapse of CMEA trade and the end of transfer payments have been particularly devastating for Mongolia and extremely painful for Uzbekistan and Kyrgyzstan. China was the least affected by this event, but it faced a tremendous challenge when it began to open its economy to the world market. In China, the initial success in rural reform and the reorientation of trade have tended to promote growth. In contrast, similar efforts in the CARs and Mongolia have been of little help in preventing economic recession. A sharp economic decline during the early stages of transition was not an unusual experience among the transitional economies. Immediate and sustained economic growth on the heels of reform has occurred in only a very few countries.

It was also anticipated that the well-being of populations would suffer during the transition. Economic decline would have a negative effect on living standards, and goods and services would become less available to those who would be driven into poverty. Government spending was expected to be cut as a necessary step in the reduction of the role of the state. Less government spending on social welfare was viewed almost as a necessity in order to balance budgets and achieve macroeconomic stability. In any case, the welfare provisions under the central planning system were considered too generous by many.

The transition was expected to lead to an increase in equality. From an economic point of view, it has been argued that greater income inequality would represent an incentive to output and competition, thereby contributing to productivity and overall economic efficiency. In the long run, although some may become richer than others, all would be more well off.

On the other hand, economic and welfare losses were expected to be recovered rather quickly, because the transition process was not expected to last long. It follows that a more radical transformation, although causing greater pain, would shorten the duration of the transition. On balance, the cost of a radical transition may not be any greater than that of a slow and less radical transition. It was anticipated that, once the market was in place and a popularly elected government was in power, economic growth would resume, and the pain and suffering would be alleviated. Therefore, the best solution would be to move as quickly as possible to reach the final goal, that is, the establishment of a market economy. From this point of view, the hope for improvements in the economy and in human development hinges on growth, and the hope for growth hinges on the successful completion of the transition.

The actual transition process is turning out to be large scale, and it is also likely to last a long time. Political regimes were changed rather quickly. Reform measures such as privatization were carried out in a short time (as in the case of Mongolia, for instance). It did not take long to do away even with certain established institutions. In China and Viet Nam, the shift from the rural collective system to family farming was accomplished within a couple of years, and in Viet Nam many state enterprises were dismantled very rapidly. Nonetheless, in all these countries, the economic and social transformation – understood as the establishment of a well functioning socioeconomic structure – seems to be far from over.<sup>12</sup> Outside East Asia, other ATEs have pursued, or have been forced to pursue, a more radical type of transition. However, the economic results have remained far less positive than those anticipated. By the mid-1990s, the timetable for transition appeared to be even less certain. One obvious lesson is that the process of transition and its consequences are not entirely subject to the control of policy makers. In other words, the transition outcomes are not merely the end products of government policy inputs. Markets are not created in a vacuum, and the changes occurring in socioeconomic conditions are a result of the constant give and take of various social forces.

By now it ought to be clear that there are no quick-fixes. Anyone who still expects the market to solve all economic and social problems is likely to be very disappointed. Dealing with current social problems will require the constant reassessment of policy priorities and, perhaps more importantly, a rethinking of some of the guiding principles behind the transitional and social development initiatives.

China and Viet Nam have exhibited exceptionally good economic performance, but even where per capita income has grown substantially, the welfare achievements have not been either even, or consistent. Erosion has been evident in some human development indicators. Unemployment is rising; social services are dwindling; people are losing their sense of security, and the access to education and health care is becoming more limited. Because of the uneven economic and welfare gains, the gaps among social groups, among regions and between urban and rural areas are widening. This is contributing to social tension. Although economic growth in China and Viet Nam has been relatively broad based and living standards have improved substantially, the problems remain stubborn, their solution requires more participation by the entire population in the benefits of economic growth. The welfare gains have been considerable, but they are still not in line with the enormous resources released through the reforms. The imbalance between economic development and improvements in welfare is not accidental. Government reform strategies in China and Viet Nam have been emphasizing economic growth and have been promoting social development with far less vigour. If economic recession is added to this mix, as it is in other ATEs, then it should not be surprising that the welfare situation there has been even worse.

In view of the welfare changes during the transition in the ATEs, a new pattern of development seems to have emerged. Under the central planning system, the achievements in human development were greater than the level of economic development might indicate. Now, the focus has shifted, and human development has suffered. If the socialist regimes

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<sup>12</sup> Nearly two decades after China began its reforms, virtually nobody would characterize China as a market economy. Thus, it is not surprising that some, for example, the World Bank, are urging China to pursue further reforms so as to bring the process to an end, presumably meaning the establishment of an economic structure which will fit with the notion of a market economy.

failed to produce the desired economic growth, as many have argued, at least partly because central planning had become an ideology, the policy makers of reform ought not to repeat the mistake by simply shifting the ideology to free market doctrines. The market will not produce all the answers. Welfare gains must be maintained, and policy makers should abandon the idea that they can afford to wait because economic growth will automatically generate solutions to welfare problems.

Governments should make greater administrative and organizational efforts to improve the well-being of people. China has a relatively efficient relief system which has been employed successfully to distribute grain during periods of extreme shortage, thereby preventing starvation. This system and similar institutional networks should not be abandoned because of economic reform. The effective organizational abilities and extensive administrative frameworks which governments have inherited from the central planning era can play an essential role in facilitating social development. Social support networks and the non-state sector should be encouraged to participate more energetically in welfare provision. Likewise, governments should support mass participation in the establishment of people-based, welfare-oriented institutions. This could be achieved, for example, by mobilizing families, communities and cooperatives and other organizations to join together to form an integrated welfare system, by creating among people a higher level of awareness of the importance of well being, by putting people first, and by emphasizing that well-being is the ultimate goal of economic development.

There is really only one fundamental issue: the purpose of economic transition. As increasingly recognized in development theory, economic development can have significance only if it leads to improvements in human welfare. This concept should be applied to the economic transition. The transition is not an end in itself. The success of the transition will be judged only on the basis of the outcomes in human development.

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