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## THE INFORMAL ECONOMY IN CHINESE CITIES

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Since the 1978 implementation of the structural reforms and the socio-economic as well as political opening to the outside world China is experiencing a period of fundamental economic restructuring. This period is going to cover a gradual transition from a centrally planned economy towards a socialist market economy. Experiences resulting out of these transformation processes are expected to pay world wide attention.

The structure of China's socialist market economy can be characterized by the following principles:

- the state is governing and in control of all basic decisions,
- public ownership will be the dominant form in future while individual economic initiatives should enable the market to develop its characteristic forces for world wide competitive potential,
- in case, this type of market-economy creates major regional disparities, uneven income distribution and long term imbalances in natural resource based economies or in environmental control, the government gets back its overall control.

The process of economic reform in China is organized as giving free rein to market mechanisms. The previous strictly centrally planned economic model has been changed in terms of

- ownership structure: the former public ownership - including state-owned and collective owned economy - is going to change into a new structure in which public ownership is dominating but individual ownership and private and foreign capital is an integrated part of the new structure.
- income distribution: the former simple distribution pattern has been replaced by a pattern which is preferably based on efficiency and productivity but also including other considerations.
- economic operations: the former approach of having a unique plan has been replaced by relying on a combination of both central-planning and market mechanisms. Price control on most of the commodities has been removed.
- economic decision making: the former system of central decision making is decentralized to form a system multi-level involvement. This system enables locations, enterprises and individuals to play a very active role under the guidance of the central government.

The non-public owned sectors of the economy embrace individual as well as private and foreign funded economic sectors which are known as appendages and

recruitment of the public owned economy of socialism. These non-public economies are going to play an important part of the national economy of China. While in 1978 the state owned economy accounted for 56%, the collective economy for 42% and the others only for 2% of the gross national product (GNP), at the end of 1992 the proportions had changed to 40%, 50% and 10% respectively.

China's informal economy embraces individual, private and private-foreign joint ventures. Their importance in the overall economy is increasing because they represent the most active economic element in the urban economy. The main characteristics can be expressed by the following aspects:

1. The overall progress has been made not only in a quantitative but also in a qualitative course. In recent years, the informal sector in China took its way from small scale and weak economies to large scale and strong economies. During this stages in development, the informal economy did not only pay attention to the increment of quantitative output but also to the improvement in quality. This course was made possible by major capital investment which enabled labor intensive industries to be reorganized into technology intensive industries. The former industrial pattern of "high output but low benefit" is being gradually converted by a high tech based pattern of high market capacity, high additive output value, high foreign exchange earnings and high benefits. In terms of the product structure, the elementary and mono-type products are going to be gradually replaced by deeply processed, refined and final products. These processes have been supported by training programmes which created a great number of managerial staff, professionalism and an optimization of employment efficiency.
2. Trade developed from small dealers to private owned enterprises which play the key role in industrial and commercial retailing and wholesaling.

Table 1 The urban informal economy in China

secondary sector	tertiary sector
handicraft	commerce (self-employment, retailing, wholesaling)
printing	tourism
food industry	services (hotel, entertainment, catering, haircutting)
textile industry	transportation
clothing industry	real estate
building industry	advisory service
electronic industry	information service
communication equipment	
research and development	

3. The organizational form of business operations is tending to become more pluralistic. Their characteristic forms clearly are private and self operated, run by local people, based on joint stock with workers and staff, and co-operating with foreign investors.
4. The informal economy develops as the main urban tax payer. Since 1990, the informal sector became the main financial source of income for local governments, especially for small cities and towns.

Table 2 Share of taxes paid by informal sectors

Cities	Districts	Small Towns
>10% for large cities (Nanjing)	40% (Pukou)	60-80% (towns in Taicang city)
>70% for intermediate cities (When Zhou)		
>70% for small cities (Shi Shi)		

5. The informal economy provides the urban inhabitants not only with a wide variety of services for the daily life but also with a qualified range of jobs. Employment amounted in China in 1992 to 590 million people; among them there have been 150 million workers and staff, 8.38 million employees in private owned enterprises and self-employed laborers in cities and towns, and 440 million laborers in rural areas. Between 1971 and 1992, 102.32 million people found new jobs in cities and towns. Only in 1992, 7.36 million people in cities and towns entered work force. The unemployment rate was 2.3%. In the case of Nanjing, the capital of the Jiangsu Province, there are 93.698 individual industrial and commercial retailers with 157.710 workers and 2.656 private enterprises with 28.482 workers and staff members.

Since the 90s, the informal economy is serving as the main push factor which accelerates the progress in the economic development in Chinese cities. China is still in a stage of economic structure like other developing countries but its national conditions are of very particular interest. They result, especially in transitional periods towards market economy, in problems typical for the general adjustment.

1. Although the non-public sector has developed rapidly, its economic and financial contribution, however, developed disproportionately. E.g., in 1991 the non-public sector contributed two-thirds to the national income and nearly half to the industrial output value, while the financial contribution was far below these portions.

China instituted various categories and rates of tax for enterprises of different ownership, e.g. China granted tax reduction or exemption to foreign funded enterprises. The persistency in the discriminatory tax rate toward state enterprises has not only violated the fairness and impartiality of market

- competition but also caused a huge drain on the state tax revenue on "totally justifiable" grounds.
2. China is experiencing a stage of income gap expansion in the transition from a low-income to a middle-income country and from a centrally planned economy to a market economy. These processes will increase the disparities in income between regions, between peasants and non-peasants, and between rural and urban residents. These disparities count manifold because the population is stricken in poverty.
  3. Increasing life expectancy, working life, polarization by market forces and many other factors will result in a long lasting and high rate of unemployment. The urban "open" unemployment rate and the rural "hidden" unemployment rate will rise steadily.
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