



2013

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Trinh, Nancy, "The Non-Profit Incubator's Role in Welfare Provision Services in China" (2013). *Social Impact Research Experience (SIRE)*. 19.

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# The Non-Profit Incubator's Role in Welfare Provision Services in China

## **Abstract**

The reforms of 1978 has engineered a shift from the “iron-rice bowl” approach of Mao’s era to increased privatization of social services. Citizens and non-profit organizations are taking on more financial and managerial responsibility for welfare services in the wake of the dissolution of state-owned enterprises. As China’s economy strengthens, more efforts are being directed to addressing the major issues of the coastal-inland income divide and the migrant worker population and aging population’s needs. The founding of the Non-Profit Incubator and the myriad services that NPI provides can be seen as part of an overall state effort to reach its objective of enhancing the welfare of its citizens with the help of non-state actors.

## **Keywords**

China, welfare, non-profit incubators, social impact

## **Disciplines**

Business

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### **Abstract**

The reforms of 1978 has engineered a shift from the “iron-rice bowl” approach of Mao’s era to increased privatization of social services. Citizens and non-profit organizations are taking on more financial and managerial responsibility for welfare services in the wake of the dissolution of state-owned enterprises. As China’s economy strengthens, more efforts are being directed to addressing the major issues of the coastal-inland income divide and the migrant worker population and aging population’s needs. The founding of the Non-Profit Incubator and the myriad services that NPI provides can be seen as part of an overall state effort to reach its objective of enhancing the welfare of its citizens with the help of non-state actors.

### **Methodology**

The author surveyed existing literature on the Non-Profit Incubator, papers and journals on the non-profit sector in China, Chinese history, and China’s economic reforms and its effects. I also visited two of NPI’s sites in China to gather materials and have informal conversations with the staff and the patrons.

## **Introduction**

The following sections trace the Chinese government's treatment of welfare services from 1949 to today. In the interest of brevity, many details, contradictions, and nuances have not been included, but the overall outline stands.

When Mao Zedong took power in 1949, China's economy had been devastated by over half a century of war and turmoil. Mao Zedong pushed for egalitarian distribution of resources and attempted to promote economic progress through collectivization and reorganization, but the numerous campaigns instituted from 1949 to his death in 1976 did little to better the situation. After Mao's death, Deng rose to power and engineered a series of reforms that dismantled the welfare state. His successor, Jiang Zemin, largely continued with Deng's policies and promoted growth of the private sector and foreign investment and trade. China's economy has strengthened greatly under Deng's and Jiang's direction. When power transitioned to Hu Jintao in 2003, the state directed more energy and resources toward addressing the myriad social challenges that had been gaining increasing prominence.

## **Reforms**

With the economic reforms of 1978, China began a major transition from a centrally planned economy to a market economy. Before the economic reforms of 1978, the dominating political ideology was Maoism, attributed to Mao Zedong, the first Chairman of the Communist Party of China (in office from 1949 to his death in September 1976). Maoism focused on expanding economic development and socialist reorganization to the countryside, with the goal of improving material conditions and achieving rural industrialization that would ultimately erase the distinction between town and countryside. The welfare system had three main principles: guaranteed employment, egalitarian distribution, and cradle-to-grave coverage. The egalitarianism of this ideology was reflected in the state's takeover of enterprises in 1949, at the end of the Chinese Communist Revolution and the formation of the People's Republic of China. Typically, state authorities assigned lifelong jobs to workers. The state-owned enterprises and agricultural communes and collectives provided for housing, education, child care, medical care, and

retirement of its workers. However, several serious problems arose from the Central Planning system. First, public ownership of people's communes and agricultural production incentivized workers to work less and freeload on the fruits of their comrades' labor. Second, when the consequences of lower agricultural production began to manifest, and a series of natural disasters hit, the state sector manipulated resources in favor of party members and state sector employees and purposely neglected those considered enemies of the state, their relatives, and the peasants with little power (Ngok, 2010). This resulted in the Great Leap Forward famine, which killed some 30 million people between 1959 and 1962 (Smil, 1999). The purges and violence of the Cultural Revolution further disrupted the economy, with widespread incidents of torture, murder, public humiliation, and suicide, often of those perceived as enemies of the state, generally the educated and the elite. The forced relocation of urban youth to the countryside exacerbated the stagnation in economic progress and deprived high school graduates from the opportunity to attend university (Brandt, 2008).

After Mao's death in 1976 and the end of the Cultural Revolution, large numbers of urban youth returned to their hometowns. The dismal economic prospects, combined with the flooding of the labor market and rapid population growth, resulted in widespread unemployment and social unrest. Deng rose to prominence amid the economic and social chaos and became the *de facto* leader in the second generation of leaders of the PRC. To tackle these problems, Deng emphasized economic construction and modernization via an economic model known as "socialism with Chinese characteristics." He promoted growth of the private sector and foreign investment and trade and instituted sweeping reforms. In the first phase of reforms (late 1970s to 1980s), agricultural industry was decollectivized, limits on foreign investment was lifted, and private businesses were allowed to operate legally for the first time since the Communist takeover. Deng also created a series of special economic zones that became drivers of growth for the economy. In the second stage of reforms (late 1980s to mid-1990s), state control was decentralized in an effort to promote efficiency in the state sector, and Deng reopened the Shanghai Stock Exchange, which had been closed since 1952. Deng continued to lessen controls on the private sector and allowed

for privatization and contracting out of many struggling state-owned enterprises, though several powerful state monopolies remained (mainly banks and petroleum companies) (Lieberthal, 2004).

When Jiang Zemin came into power in 1989 with the support of Deng, economic reforms accelerated. Jiang, Li Peng, and Zhu Rongji constituted the third generation of leaders. They introduced the ideology of the “Three Represents”: (1) economic production, (2) cultural development, and (3) political consensus (Communist Party of China [CPC], 2006). This was very much in line with Deng’s vision and the reforms instituted are often seen as a continuation of the reforms made in Deng’s period of influence. China’s entry in the World Trade Organization in 2001 was preceded by rounds of negotiations and agreements that opened up China further by reducing tariffs, trade barriers, and regulations, and that required Chinese state enterprises to operate in the same way as private enterprises. In 1997 and 1998, almost all state-owned enterprises, except for a few large monopolies, were liquidated and their assets sold to private investors (Lewis & Xue, 2004).

The dissolution of the SOEs led to the creation of new institutions and programs to provide for welfare services that the SOEs had traditionally provided. To help workers cope with unemployment, the previous employers or state-funded employment centers offered a period of living allowances and a minimum living standard guarantee was instituted by the central government. A pension insurance system was also set up. It was funded by required contributions by individuals and employers and was comprised of a social pooling account and an individual account. In 1998, employers were no longer expected to provide for housing; assistance was instead to be provided by subsidies, housing provident funds with favorable terms, and low-rent public housing for the poor. In 1998, a nation-wide health insurance plan was introduced, to be financed by both employer and individual contributions, where 30% of contributions went to an individual account and 70% went to a social pooling account (Li, 2012).

### **Effects**

By nearly all accounts, China’s reforms had their desired impact. Whereas average annual real GDP growth rate was estimated at 5.3% percent from 1960 to 1978, the rate had increased to 14.2% in the year before the 2008 global recession (as cited in Sedghi, 2012). From 1978 to 2008, the per capita

income of rural residents had grown by 7.1%, while the disposable income of urban residents had risen by 7.2% (as cited in ChinaDaily, 2008).

This economic progress has not arrived without its challenges. In 2012, China officially reported its Gini coefficient at 0.474 (Schiavenza, 2013). A measure of 0.4 is generally considered to be potentially socially destabilizing (Wang & Yao, 2013). The difference is mainly between coastal and inland areas. Data from the China Statistical Yearbook shows that annual per capita income decreases gradually as distance from the coast increases (Schiavenza, 2013). Lack of opportunities inland drive citizens to migrate to the coastal areas to pursue a higher standard of living, but due to the household registration system (hukou), these migrants are effectively rendered as second-class citizens in the cities. They are denied access to urban housing and education for their children, have little bargaining power with their employers, and work in menial jobs for little pay (Kong, 2010).

The migration to cities has also bred other problems associated with overpopulation – overcrowded and expensive housing, congested public transportation, environmental pollution, and higher crime rates. In addition, those left behind in the rural areas are often the elderly, the young, and the sick or disabled, increasing demand for care in areas with low population and little resources (Kong, 2010).

China's population demographics poses its challenges as well. The one-child policy, instituted in 1979 to slow population growth and promote economic growth, has resulted in a small youth to senior citizen population. This, combined with rise in life expectancy and increase in cost of living, has created difficulties for single children responsible for financing both of their parents' retirement by themselves, whereas they could have split the cost between siblings under different circumstances. Lack of retirement services, medical care, and nursing homes also contribute to the social burden of an ageing society (Lieberthal, 2004).

Riots and protests over government land grabs have been one the rise, as are self-immolations, demonstrations, and clashes with the police in Tibet, over Chinese religious control and exile of their spiritual leader, the Dalai Lama. (Taylor, 2012).



China has also seen a steady increase in cases of AIDS, a significant number due to blood transfusions (Taylor, 2012), marital and dating difficulties arising from the male-female ratio disparity largely attributed to sex-selective abortion as a result of the one-child policy, uncertainty about land use rights and possible forced relocation associated with local governments' incentive to sell residential land rights to developers to raise revenues, corruption in the government, increased instances of fraud and scams, media censorship, protests against local government/businesses practices, and rise of an intensely materialist culture. As China's economic situation has improved dramatically, its provisions for the social welfare of its citizens has lagged behind. These realities have bred discontent and social unrest, as evidenced in the increasing number of protests, demonstrations, riots, and petitions (Brandt, 2008). In 2010, the number of these events exceeded 180,000, on average about 500 every day (Fisher, 2012).

For these reasons, when political power passed to Hu Jintao and Wen Jiabao in 2003, social stability became a central issue of their policies. In 2005, Hu and Wen emphasized the ultimate creation of a "Socialist Harmonious Society." They introduced the "Scientific Outlook on Development," an ideology featuring a technocratic approach to governance, sustainable development, and improvement of social welfare (Fewsmith, 2004). Social insurance was greatly enlarged in rural areas: in 2009, a series of rural social protection schemes were formally introduced, including pensions, support for single elderly without any help from families, and institution of minimum living standard provisions for rural households. The rural agricultural tax was also abolished to help narrow the rural-urban income gap (Li, 2012). To address the needs of the migrant laborers, the state began to make public education available to children of migrant workers and offer a low level of legal and social support. Construction companies were also pressured to pay their workers on time (Li, 2012).

These challenges remain relevant today, and the new General Secretary, Xi Jinping, addressed them in his proclamation of the "Chinese Dream." The Chinese Dream calls for the revitalization of the nation through daring Chinese citizens to dream and contribute to the nation's sustainable development.

According to some commentators, this means a China where all citizens enjoy a reasonably high standard of living in a “moderately well-off society” by about 2020 (Kuhn, 2013).

### **Transition to a “Societalized Welfare” Model**

As we have seen, since the reforms, China has been moving from a “state welfare” model to a “societalized welfare” model (Guan, 2000). The government has been reducing its share of financial provision of welfare services and individuals and other organizations have been asked to share the expenses (e.g., pension, medical care, unemployment insurance). The government now mainly serves as regulation-maker, administrator, financial provider on a reduced level, and financial guarantor in some situations (Guan, 2000). The previous system of free public housing and low rents has also been replaced by marketization (Jiang 1999). In addition, this trend is evidenced in the rise of non-profits in China. Before the reforms, there were almost no non-governmental organizations providing social welfare services (Guan, 2000). As of 2012, there were over 460,000 officially registered nonprofit organizations (Tuan, 2012), and an estimated eight to ten million unregistered grassroots organizations (as cited in Guo, 2012). However, the government still maintains a strong role in administering these services, as most of the registered nonprofits are actually government-organized nongovernmental organizations (GONGOs) (Guo, 2012).

### **The Non-Profit Incubator (NPI)**

Through my research, I found that although the Non-Profit incubator is not officially known as a GONGO, it enjoys political and financial support from the government and is directed by a considerable number of ex-government employees (NPI.org, 2010). Below is a brief overview of the Non-Profit Incubator and its various branches.

The Non-Profit Incubator was founded in 2006 by Lv Zhao, a former deputy director of the Information Center for Non-Profit Organizations in Beijing. He had expressed interest in founding an

organization to provide supporting services to non-profits and won permission from the Pudong Civil Bureau (Hui, 2010).

### **NPI Enpai**

In 2007, NPI launched what was to become its flagship program, the nonprofit incubator. The incubator program is a year-long program that provides resources and training to a batch of carefully selected, budding non-profits. Resources include capacity building programs, micro-grants, free office space, shared facilities, and assistance with registration and fund raising. The incubator also aims to build a strong, mutually reinforcing network of nonprofits and individuals working in the nonprofit sector. To date, more than 40 nonprofits have graduated from incubation, and the incubator has the capacity to incubate 30 organizations per year, almost four times its starting capacity six years ago. Issues addressed by the organizations include assistance for drug addicts, caring for osteogenesis imperfect patients, AIDS advocacy, and youth development. The incubator has also been branched off of NPI as NPI Enpai (NPI.org, 2010).

### **Community Service Platform**

The NPI community service platform was formed in 2008 to manage public facilities and oversee community service organizations. The platform started with the founding of the Enrichment Community Service Center (Wulixiang). By 2010, the center had won several entrusted projects including the management of the Citizen Center of Sanlin World Expo Garden in Pudong District, the Neighborhood Center of Yanji sub-district Office in Yangpu District, the Service Center for Disabled People of Shanggang sub-district in Pudong New Area, and the Yanji Community Social Service Center in Yangpu District. That same year, the platform expanded to Sichuan Province, where NPI launched programs to help rebuild areas affected by the earthquake in 2008 and a youth community service center complex in the technology zone of Chengdu. Wulixiang provides a wide range of services, ranging from assistance in

finding affordable housing, services for the disabled, after-school programs, and recreational programs for the elderly (NPI.org, 2010).

### **Venture Philanthropy**

NPI partnered with Lenovo Greater China in 2008 to run a Venture Philanthropy Program for promising start-up nonprofits and social enterprises. The program allocated approximately \$2.5 million RMB to 16 winning grassroots organizations. In subsequent years, Lenovo China has expanded the program to include more than 30 winners and has incorporated themes for each year (NPI.org, 2010).

### **CSR Consulting**

In 2007, NPI launched Corporate Citizenship in Action (CCiA), a consulting business to help companies implement their CSR activities more effectively. It now provides enterprises with various CSR consulting services such as CSR strategy planning and mechanism design, charitable project sales planning, management consultancy and evaluation, establishment of employee volunteering activities and management systems, corporate foundation strategy planning and project design, as well as the compilation of CSR reports. CCiA has also provided services to a number of large companies, including Motorola, Novartis, Lenovo, Vanke, Cannon, Nokia, Intel, HSBC, China Merchants Group, Baidu and Diageo (NPI.org, 2010).

### **Additional Functions**

Apart from these activities, NPI also oversees an annual NPO Projects Exhibition (since 2009), runs a capacity building program on topics such as project management, finance management, laws & regulations, fund-raising, and information technology; and manages a “social innovation park” in Shanghai, which provides on-site job training and employment opportunities to disabled people, houses an art school/gallery, and restaurant management training, among other projects. Another branch of NPI, The Shanghai United Foundation, represents a variety of NGOs and social enterprises, and handles

fundraising and streamlines allocation of resources. It is supported by Shanghai Civil Affairs Bureau.  
(NPI.org, 2010)

### **Conclusion**

With the reforms of 1978, the Chinese state abdicated its former role as the sole provider of welfare services. The transformational changes in China's economy and society has brought about a wide array of social challenges that are being increasingly addressed by a combination of state and non-state actors. The Non-Profit Incubator is one example of an institution that works closely with the state and with citizens to improve the well-being of the populace in various ways and to support the development of organizations to join in the effort to meet these challenges.

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