

China - A Welfare State?

The Development of the Welfare Effort in a multi-dimensional Context



Bachelor Thesis

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Abstract

This thesis deals with the development of social policies in China to answer the main research question: To what extent does the European welfare state model explain the increased welfare state effort in China between 1978 and 2009? It is questionable if China can be regarded as a welfare state in the European sense. Therefore the first sub-research question deals explicitly with the question to what extent China can be regarded as a welfare state in the European sense. The second sub-research question investigates to what extent do socio-demographic and economic factors show a relation to the increase of welfare state effort in China between 1978 and 2009. And the third sub-research question examines to what extent the introduction of social policies and changes of leadership show a relation to the increase of welfare state effort in China between 1978 and 2009. To answer these questions, the theoretical framework deals with two main concepts. Firstly, the concept of the European welfare state is discussed with its application on China and secondly, theories on the transition of the welfare state are used to develop hypotheses on factors which can reasonably affect the welfare state effort. The longitudinal research design makes use of secondary data analysis.

The empirical analysis is divided into three steps. Firstly, it is discussed whether China fulfils the condition of welfare state formation ending with the conclusion that China shows just partially the characteristics of the 'European' welfare state. Secondly, the development of socio-demographic and external economic factors is compared to the welfare effort and showed, that the factors economic wealth, population aging and urban population show a related development like the welfare state effort. In the third step, the introduction of social policies is analysed with regard to the development of the welfare effort and displayed that especially policies including the rural area and informal workers lead to higher expenditures.

This study shall contribute to a better understanding of the Chinese social policies since China is mostly neglected in the academic analysis of welfare affairs. The study demonstrates that China has unique characteristics for welfare provision which are not included in any theory of welfare state transition yet.

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List of Abbreviations

BMIUE	Basic Medical Insurance for Urban Employees
BMIUR	Basic Medical Insurance for Urban Residents
BOAIS	Basic Old-Age Insurance System
China	People's Republic of China
MAS	Medical Assistant System
MLSS	Minimum Living Standard Scheme
NRCMCS	New Rural Cooperative Medical Care System
SOE	State-owned Enterprises

1. Introduction

This thesis seeks to explain the development of welfare state effort from 1978 until 2009 in China. The term welfare effort is commonly understood as public finances aimed to “reduce economic inequality by providing certain floors on income and services and preventing income losses due to certain risks” (Amenta, 2003, p. 28). Comparative welfare state analysis is primarily a field of European scholars on European states but due to the growing importance of China and East Asia¹ in the world, an growing interest can be observed on this area (Aspalter, 2001).

Esping-Andersen defines welfare states as the “state responsibility for securing some basic modicum of welfare for its citizens” (1990, p. 4) while categorizing European states² into the three types liberal, conservative and social democratic. Scholars (cf. McLaughlin (1993), Goodman, White & Kwon (1998), Holliday (2000)) argue that it is not applicable to call China a welfare state due to the different institutional set-up of welfare policies. Some scholars circumvent the whole categorization of East Asian states by using the term welfare regime (McLaughlin, 1993) or welfare model (Goodman, White and Kwon, 1998) instead of welfare state. Other researchers use without any doubt the term ‘welfare state’ for East Asian states (Aspalter (2001), Chen (1996, 2002)) whereby just Aspalter focused directly on China. A third way is used by Holliday (2000), Kwon (2000, 2005) and Lee and Ku (2007), who developed a fourth model of welfare states for East Asia next to the existing three models by Esping-Andersen (1990). This fourth model is named as either developmental (Kwon, 2000; Lee & Ku, 2007), Confucian model (Kuhnle, Sander & Schmitt, 2010) or productivist (Holliday, 2000).

Kuhnle, Sander and Schmitt (2010) argue that the differences in welfare between Europe and China lie in deep cultural and historical roots by the actual meaning of the word *welfare*. In Europe, *welfare* is developed from the Norse *Velferd* (fare well) and German *Wohlfahrt* (well-being) while in China, *fuzhi* refers to the happiness sent from heaven, meaning that the superior in a community is responsible for the well-being of the members like in families. This moral obligation favours the importance of the family as the welfare source roots in this concept. It explains partially why the modern Chinese state is reluctant towards social policies and tries to avoid mass dependency on it (Aspalter (2001), Holliday (2000), Mok (2006)). While this 2000 years old notion dates back to Confucius, the Western idea of welfare roots probably in Christianity where charity is a precondition for the entrance into the heaven (Marshall, 1963).

In 1987, China started its Reform and Opening up Policy with the marketization of the economy. After the leading socialism ideology during the Maoist time, the society turned to personal enrichment and individual thinking (Li, 1999). The overall focus of the policies was economic growth and competitiveness achieved by “reducing labour costs by cutting down social welfare” (Mok, 2006, p. 6). Until 1978, the workplace provided a kind of *cradle to the grave welfare system* for urban inhabitants while the family served as the supplementing welfare provider. After 1978, the state started to build up a welfare system changing from the enterprise to the government level (Aspalter, 2001).

The economic growth in the upcoming years was enormous. With an absolute growth of nearly 40.000 Billion RMB of the GDP from 1978 until 2009, China is today the second largest

¹ East Asia refers to China, Hong-Kong, Japan, Singapore, South Korea and Taiwan (Hort & Kuhne, 2000)

² Also other Western states like the USA, Australia or New Zealand have been included in his analysis, this study takes just regard to European states.

economy in the world. The population increased from 962.6 million (1978) to 1334.7 million (2009). In 1978, 17 % of the population was living in urban areas while this percentage nearly doubled until 2009 to 47 %. The welfare effort including public expenditure for social security, health, housing and education increased by over 160 times from 252 million RMB in 1978 to 40710 million RMB in 2009 (NBS China, 2011). Policies are probably not always made with respect to the current needs of the people but also because of other dynamics like struggle for power, ideological roots or pressure by other countries (Colebatch, 2009). Hence, it is reasonable to assume that different factors influenced the expansion of the welfare effort. Therefore, this study will answer the research question: *To what extent does the European welfare state model explain the increased welfare state effort in China between 1978 and 2009?*

The thesis is divided into four chapters. In the first chapter, the theoretical framework is presented. Consequently, foremost attention is paid to European welfare state theories and its application to China. Afterwards, factors for welfare state transition are discussed and disposed to China in form of hypotheses. The second chapter describes the methodology of the thesis. The analysis in the third chapter is divided into three parts. The first part deals with the analysis whether China can be regarded as a welfare state in the European sense, secondly, the analysis of socio-demographic and external economic factors is made while the third part deals with political influences. Afterwards, the conclusion will be drawn.

2. Theoretical Framework

The subsequent theoretical framework outlines in the first part the traditional European concept of the welfare state with reference to East Asia and China. The second part deals with the transition of welfare policies by presenting different approaches for welfare state change. These approaches plus theoretical background information for China will be used to develop hypotheses for the empirical analysis.

2.1. Chinese welfare system vs. European welfare states

Comparative welfare state analysis is primarily a feature of European scholars concentrating on European states. But recently, an increasing interest in Asian welfare systems takes places (Aspalter (2001, 2006), Chen (1996, 2002), Feng & Gizelis (1999), Goodman, White and Kwon (1998), Gough (2000, 2001, 2004), Gu (2001), Holliday (2000), Hort & Kuhne (2000), Kim (2010), Kuhnle, Sander & Schmitt (2007), Kwon (2000, 2005, 2009), Lee & Ku (2007), Lin (1999), London (2008), McLaughlin (1993), Mok (2000), Pillion (2007), Walker & Wong (forthcoming)).

The overall reason d'être of social policies differs between Europe and China substantially. In Europe, it is the "state responsibility for securing some basic modicum of welfare for its citizens" (Esping-Andersen, 1990, p. 4) whereas in China, "social policies are supported as long as they serve as a direct mean to generate economic growth" (Aspalter, 2006, p. 291). Wilding (2000) distinguished that welfare states in Europe serve as *welfare provider* while in East Asia as *welfare regulator*.

In Europe, there is a general consensus among scholars that there are three conditions for welfare state formation. Firstly, the socio-economic status quo while introducing social insurance system is measured by the degree of industrialization and urbanization. The second condition shall be "a measure of the political pressure for introducing social insurance systems" coming from the

political mobilization of the working class (Flora & Heidenheimer, 1981, p. 58). The third condition is a functioning democracy.

The validation of the democratic condition is questioned in the literature. One point is even brought up by Flora and Heidenheimer (1981) themselves. The tendency for the introduction of social insurance systems in Europe in the 19th century was significantly higher in constitutional-dualistic monarchies than in parliamentary democracies. Hence, from the historical point of view, a institutional democratic structure is not necessarily a prerequisite for the establishment of a welfare state. Chen and Lu (2010) question whether individuals in authoritarian states like China demand democracy. The main findings are that most participants are neither interested in democratic institutions nor enthusiastic about playing a role in government affairs and politics. As long as social rights are guaranteed, the form of political system does not matter for the respondents. Walker and Wong (forthcoming) highlight that it is not the content of the welfare state program which leads to the classification as a welfare state but the institutional arrangements of the state. The USA, Canada and the UK are regarded as welfare states “despite the fact that they deliver minimal benefits” (Esping-Andersen, 1999, p.89).

A milestone in comparative welfare state analysis is Esping-Andersen’s (1990) classification of three main types. Aspalter (several years) built on it and used their characteristics to describe East Asian states.

Table 1: Classification of European Welfare States and Characteristics of Chinese Social Policies

	Liberal Welfare State	Social Democratic Welfare State	Conservative Welfare State	China
Dominant social policy instruments	<ul style="list-style-type: none"> • universal social security • public social services • public employment • social transfers (redistribution by way of subsidies, social assistance, and taxation) 	<ul style="list-style-type: none"> • means-tested welfare benefits • private savings and insurance • tax programs (mostly tax cuts benefiting the rich) 	<ul style="list-style-type: none"> • occupational social security • preferential treatment of special interest groups • corporatism in social service provision (esp. NGOs + church) • social transfers (redistribution by way of subsidies, social assistance, and taxation) 	<ul style="list-style-type: none"> • productive investment in social and human capital progress like education, housing or health care • Not opposing redistributive programs • social rights are directed towards economic contribution <ul style="list-style-type: none"> ○ high employment rate ○ high net incomes ○ low taxes ○ high public investment in education & health ○ low commitment to social security provision by the state
Focus in Social Welfare Policy	Individual Market	Individual State	Family State	Family Enterprise From 2002: State

Degree of Decommodification ³	Weak	High	Medium	From 2002: High
Degree of Redistribution ⁴	Weak	High	Medium	Low From 1991 on: Medium/High
Examples	United Kingdom	Scandinavian states	Germany	

Source: based on Aspalter (2001, 2006), Esping-Andersen (1990), Stepan (2008)

Aspalter insists that the conservative welfare regime displays almost identical characteristics to the developmental regime identified for East Asia (Kwon, 2000; Lee & Ku, 2007), namely, the strong emphasis on productive, economy supporting and employment-based welfare programs and a strong emphasis on the role of the family. Kwon states that a common characteristic between the conservatism regime and East Asian welfare attitudes is that “the preservation of status differentials is more important than the promotion of equality” (1996, p.477). Hence,

H1: it is expected that the disaggregation of Chinese social expenses resembles the disaggregation of the expenses of states classified in the Conservatism model of Esping-Andersen (1990).

2.2. Welfare system change: theories and hypotheses

One essential point for the analysis of welfare system transition concerns the question of the dependent variable which inquires how changes in a welfare system can be measured. Commonly welfare effort is used due to the underlying idea that it reflects the commitment of a state to welfare. This is acknowledged in the literature as the *Dependent Variable Problem* (Castles (2004), Green-Pedersen (2004), Starke (2006), Pierson (1994)). Hong (2007, p. 127) argues that “while government spending could reflect the magnitude of allocation, it lacks the ability to examine the comprehensiveness of a welfare state’s legislative commitment to various dimensions of social protection.” Further, one problematic concerns *delayed effects* which affect the spending after a phase-in time and are not visible in the short run (Pierson, 1994). Green-Pedersen (2004) states that there is no ultimate solution to this problem, but researcher need to be aware of it.

Factors which exercise an influential impact on the welfare efforts are extensively discussed in the literature. The effects of external and internal socio-economic challenges are widely accepted as factors for welfare state transition in Europe and East Asia (Pierson 2001, Ahn 2005, Lee & Ku 2007, Amenta, 2003, Kwon 2005), also they vary considerably in their definitions. According to Ahn (2005), internal factors are of socio-economic nature, remain outside the welfare-program structure and have initially generated the welfare state development. They are the key driving forces behind welfare state changes like economic wealth, unemployment, openness of economy, aging or left and right power in parliament. Besides them, Ahn identified external forces which derive from the development of the welfare state like contribution, selectivism or pension effort.

Pierson (1996, 2001) also distinguishes between internal also called endogenous and external forces but in a different way. The first ones obtain the most impressive pressures on the welfare state like for instance population aging, the changing nature of the labour market, economic growth, new household patterns and trade membership. In addition, external factors like openness of economy or globalization reinforce the internal factors.

³ Decommodification is defined as the level to which a “(social) service is rendered as a matter of right, and the degree to which a person can maintain a livelihood without reliance on the market participation” (Arts/Gelissen, 2002, p. 141)

⁴ Redistribution is defined as the meaning of social cohesion, status distinction as well as the separation of classes (Esping-Andersen, 1995)

Another approach for welfare state transition takes regard to institutional framework. Pierson states that “strong states are likely to produce strong welfare states” (1996, p. 5) whereby he defines strong states by means of governmental administrative capacity and institutional cohesion. Centralized political institutions with great bureaucracy and economic abilities favour social spending while fragmented political institutions disservice it (Amenta, 2003). Influencing factors are the existence of veto-players, federalism, strong bicameralism or political partisanship.

In this study, contrary to the above discussion, the forces are distinguished as socio-demographic, external economic and political forces. Subsequently, these factors will be discussed with their presumably effects on China.

The first mentioned explanation for welfare state change was highlighted by Wilensky in 1975 and is known as *Logic of Industrialism*. It deals with the economic wealth of a country as Wilensky states “the richer countries become, the more likely they are to broaden the coverage of both population and risks” (p. 15/16). Amenta (2003), Pierson (2001) and Wilensky (1975) agree that the promising economic situation after World War II in Europe was one factor for the development of welfare systems and the increasing spending on welfare effort. Social policies are clearly subordinated economic growth in China (Aspalter, 2001; Mok, 2006) but according to Wilensky (1975), nations with a promising stable economic situation are likely to broaden their social provisions. With regard to this *logic*, political forces like elite ideology or political systems are just seen as intervening forces based on the argument that all nations will develop the same set of welfare state policies depending on the degree of industrialization in the long run (Wilensky, 1975). Flora and Alber (1981) also denote to the *Logic of Industrialism* and argue that outmoded family based establishments are extinguished through industrializing economies and need to be replaced by state institutions. Therefore, the first hypothesis concerning social-demographic developments is:

H2: The higher the economic wealth in China, the higher the amount of welfare effort.

Demographic change is considered as a main challenge for the welfare state (cf. Ahn, 2005; Alber & Flora, 1981; Amenta, 2003; Guan, 2005; Gu, 2001). According to Wilensky (1975), population aging goes in line with the *Logic of Industrialism* since increasing life quality has an effect on expanding life duration and economic growth is often accompanied by declining birth rates. This phenomenon is supported in China by the strict birth control policies (Guan, 2000). Therefore, population aging is considered as a main challenge since “the ages of population accounted for most variance in welfare efforts” (Amenta, 2003, p. 91). The state needs to provide social security, health care, or housing for the elderly population. Hence, the second hypothesis for socio-demographic changes reads:

H3: The larger the elderly population compared to the general population, the higher the amount of welfare effort.

Unemployment is also a challenge for the welfare system (cf. Aspalter (2001), Ahn (2005), Pierson (2001)). Huber, Ragin and Stephens (1993, p. 723) say it in a nutshell as “higher unemployment causes higher expenditures for unemployment compensation.” In China, welfare effort focuses mainly on health, education and housing. But the communist government has stated that unemployment insurances are aimed to decrease inequality in China (Feng, Gizelis & Li, 1999). Consequently, the third hypothesis with regard to socio-demographic changes is:

H4: The higher the unemployment rate, the higher the amount of welfare effort.

These forces have consequently been used to explain the transition of European welfare states. Due to the fact that China is located in another geographical area, it has its own historical roots, cultural backgrounds and societal traditions. Hence, it can be assumed that there are further factors which reasonably affect welfare effort in China. Based on a wide-ranged literature review, two *Chinese* factors are identified belonging to socio-demographic changes. The first one concerns the distinction between urban and rural population since welfare effort in China is primarily for the urban population also special welfare policies have been adopted for the rural area in recent years (Gu (2007), Guan (2005)). Therefore, it is hypothesized that:

H5: The higher the share of urban population compared to the share of rural population, the higher the amount of welfare effort.

State sector employees enjoy privileges of social welfare in China. “The Communist Party made a great deal of welfare commitments in the State sector” but minimizes welfare provision for the private sector (Aspalter, 2001, p. 9). Based on this observation it is hypothesized that:

H6: The higher the share of state sector employees compared to the share of employees in the private sector, the higher the amount of welfare effort.

Concerning external economic influences, Pierson (1998) stresses that growing economic wealth increases the degree of globalization of a state which undermines “the capacity of nation states to control their own affairs” (1998, p. 540). Consequently, the state deals primarily with other challenges resulting in negative side effects for welfare. His main arguments are that globalization of capital markets can reinvest financial tools from the national government and that heightened economic integration can result in *social dumping*, meaning that social costs are decreased to stay competitive in the global world. Castles (2004) identifies *benefit tourism* meaning that people coming from poorer countries go to richer state to enjoy great social welfare provisions instead of working. Therefore, it is hypothesized in the context of external economic influences that:

H7: The higher the degree of globalization, the lower the amount of welfare effort.

Abrahamson (1978), Amenta (2003), Esping-Andersen (1995) and Pierson (1996, 2001) also refer to the *Logic of Industrialism* but stress that the negligence of political factors can lead to insufficient explanations with the political structure on the one hand and the policies as itself on the other hand. Abrahamson (1978) emphasized that the main mistake is to conceptualize welfare states as extreme stable and resistant to political forces. As previously quoted, Pierson argues that “strong states are likely to produce strong welfare states” (1996, p. 5). Centralized political institutions with great bureaucracy and economic abilities favour social spending while fragmented political institutions disservice it (Amenta, 2003). Influencing factors are the existence of veto-players, federalism, strong bicameralism or political partisanship. The power resource theory insists that social democratic parties linked to huge, centralized labour movements “are the likeliest candidates for extensive redistributive social spending” (Amenta, 2003, p. 32). In case of China, no changes of political parties take place but the Communist Party is constantly in power. Instead, the change in leadership is an important event (Stepan, 2008). Hence, the following hypothesis reads:

H8: Changing leadership leads to higher welfare effort.

Regardless if policy makers or scholars, there is a consensus on social policy in Europe which contains that “social policy meant state efforts to reduce economic inequality by providing certain floors on income and services and preventing income losses due to certain risk” (Amenta, 2003, p.

28). Thus, the introduction of social policies shall have effects which can probably *inter alia* be recognized by higher welfare efforts of a state.

H9: The introduction of social policies leads to higher welfare efforts in the future.

Concluding the theoretical framework, five socio-demographic hypotheses, one external economic and three political hypotheses are derived from the literature review. The findings of the empirical analysis will be discussed in the light of these hypotheses.

3. Research Methodology

The research methodology section is structured as follows. Firstly, the research objectives are explained followed by the research strategy and the research questions. Afterwards, the operationalization of the variables for the measurement is made. Finally, data collection and analysis are declared.

3.1. Research Objectives

The research objectives of this thesis are divided into scientific and practical reasons.

With regard to scientific relevance, it has been already demonstrated that research on welfare states is primarily a feature of European states. Although more and more scholars focus on East Asia, most case studies deal with Japan, South Korea and Taiwan (see appendix 7.1.), but China is often neglected or just included for comparative reasons. Therefore, this study deals explicitly with China. A side-effect of using theories developed for European states in China concerns their applicability in other states, hence their external validity.

Concerning the practical relevance, this study shall contribute to develop a more holistic picture of China. The growth of the Chinese economy and the authoritarian political system are probably best known in other parts of the world but other characteristics are less known. By searching for factors which cause changes in the welfare effort from many different angles, a widespread picture shall be given to make China more comprehensible for people from other parts of the world.

3.2. Research Strategy

The study is a longitudinal research design which is characterized by “a large series of observations made on the same variable consecutively over time,” (Campbell, Cook & Shadish, 2002, p. 172). A longitudinal time series study is according to Babbie “often the best way to study changes over time” (2010, p. 107). This study belongs to the category of explanatory research. Thereby, the dependent variable changes over time and the potential causes also change over time.⁵ Therefore, a deductive approach generating hypotheses based on theory is used. The time frame of this study covers the period from 1978 to 2009. 1978 is known as the year of Reform and Opening up Policy in China. Due to the fact that data is for some variables just available until 2009, this year marks the end point of the study.

The main threat of this study concerns internal validity. Since no control group or pre-test exists, third explanations can never be ruled out (Campbell, Cook & Shadish, 2002). Further, data needs to be available for each year. The Special Administrative Regions Hong Kong, Macao and Taiwan are not included in the data sources and therefore not subject of this study.

⁵ Pierson (2001) refers here to “delayed effects” which are a common phenomenon in comparative welfare state analysis. This refers to the effects of developments which are not directly seen but just after a phase-in period. Scholars need to be aware of this, also there is no solution how to test it.

3.3. Research Question

This research is guided by the main research question:

To what extent does the European welfare state model explain the increased welfare state effort in China between 1978 and 2009?

To be able to answer in a comprehensive and structured way, three sub-research questions have been developed which organize the analysis.

1. To what extent can China be regarded as a welfare state in the European sense (after Esping-Andersen (1990) and Flora and Heidenheimer (1980))?
2. To what extent do socio-demographic and economic factors (as depicted by inter alia Amenta (2003), Pierson (1996) and Wilensky (1975)) show a relation to the increase of welfare state effort in China between 1978 and 2009?
3. To what extent do the introduction of social policies and change of leadership show a relation to the increase of welfare state effort in China between 1978 and 2009?

3.4. Operationalization

The literature review showed that the dependent variable *welfare effort* can be measured as total spending, proportion of the GDP or disaggregated measure. Starke (2006) points out that changing welfare effort as a proportional measure reflects developments of the denominator (here: GDP) instead of real expansions of the provisions. Hence total welfare effort would be a better estimation. Castle and Obinger (2008) state that in the context of cross-national studies, disaggregated measures are preferred since different welfare state systems define social spending in different ways. Green-Pedersen (2004) states that it depends on the specific theoretical perspective and research question to justify the definition.

Next to the measurement of the variable, the composition of welfare effort is essential, especially with regard to the different connotations in Europe and Asia. Midgely (1997) refers in this context to the *big five social services* which are health, education, housing, income security programs like insurances and social work services. Gough (2000) compared welfare regimes in East Asia and Europe and used therefore the government expenditure on education, health and social security.⁶ Housing has been excluded in studies on the transition of the welfare state in East Asia (cf. Feng, Gizelis, Li (1999), Gough (2000), Ku & Lee (2007)), also several authors (cf. Aspalter (2001, 2006), Guan (2000)) have identified that housing plays an important role with regard to social security in East Asia due to the urbanization processes and the resulting need for houses. Therefore, it is included in this study as part of the welfare effort.

The NBS China published their welfare effort under the label “Expenditure for Social Safety Net and Employment Effort” (until 2005 “Expenditure for Social Security”) in the statistical yearbook whereby it includes inter alia “the expense on administration of social safety net and employment, civil affairs, subsidy on enterprise reform, subsidy on employment effort, insurances, pension, placement of ex-serviceman, social welfare, the handicapped undertakings, the system of cost of living allowances, social relief, rural social relief and living relief of natural disasters.” From 1978 until 2005, a more detailed overview including relief funds, expenses on handicapped and disabled people and expenses on disaster relief are published. The budgetary subsidy on social insurances are

⁶ He used average results for EU15 and whole East Asia as share of GDP.

recorded are just available from 1989 (pension and unemployment) and 1993 (health) until 2009. Public expenditure for health, education and housing are listed discretely in the yearbook.

Table 2: Overview Dependent Variable

Dependent Variable	Definition	Explanation
Analysis of Welfare State Formation		
Welfare Effort as disaggregated measure	Public Expenditure for <ul style="list-style-type: none"> - Social Security <ul style="list-style-type: none"> o Disabled o Pension - Health - Education - Housing as share of GDP	trends of social spending will be identified valid for a comparison between Europe and China, thus a cross-sectional analysis focusing on differences of welfare effort
Analysis of Socio-Demographic & Economic Factors		
Welfare Effort as total spending	Added sum of public expenditure on <ul style="list-style-type: none"> - Social security - Health - Education - Housing 	it is not the main focus to explain welfare effort as a disaggregate measure but as a consolidated figure which can be affected by changing socio-demographic and economic circumstances
Analysis of Political Influences		
Welfare Effort for a special policy field	Public Expenditure on the specific topic and subsidiary expenditure of the government on the specific social insurance	the analysis refers to the introduction of social policies. Consequently, it is logical to use the specific expenditure to which the policies refer

For the comparison between China and Europe with regard to the disaggregation of welfare effort, specific countries are chosen by means of the classification by Esping-Andersen (1990). Due to the fact that more the general tendencies matters than the exact distribution of expenditure, the ultimate decision for a country has not highest priority. Thereby, the United Kingdom serves as an example for the liberal regime, Germany for the conservative regime and Finland for the social democratic regime. For comparative reasons, average results for the EU and East Asia are included.

Table 3: Overview of Independent Variables

Variables	Operationalization	Data	Scholars
Socio-Demographic Factors			
Economic Wealth	GDP per capita	NBS China	Ahn (2005), Huber, Ragin and Stephens (1993), Ku and Lee (2007), Wilensky (1975)
Population Aging	Age 65 + as % of total population	NBS China	Ahn (2005), Huber, Ragin and Stephens (1993), Wilensky (1975)
Urban Population	% Share of urban population of total population	NBS China	Aspalter (2006), Guan (2005)
Unemployment Rate	% unemployed people of total work force	ILO	Ahn (2005), Pierson (1998), Lee & Ku (2007), Huber, Ragin & Stephens (1993)
State Sector employees	Total amount of employees in SOEs	NBS China	Aspalter (2001), Guan (2000), Walker & Wong (forthcoming)
External Economic Factors			
Globalization	See text	NBS China	Ahn (2005), Guan (2005), Pierson (1998, 2001)
Political Influences			
Leadership Change	Paramount Leader Extended by Objectives of 5-year plans	Stepan (2008), Aspalter (2001)	Amenta (2003)

Introduction of Social Policies	Social protection policies in the fields health, pension and unemployment	Inter alia Chen (2003)	Amenta (2003)
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The variables “state sector employees” and “urban population” have not yet been used in studies of welfare state transition. Therefore, the definitions of the NBS China are used. The variable “globalization” is a very broad term which includes many dimensions since there is no common definition in the literature. For instance, Ahn (2005) as well as Huber, Ragin and Stephens (1993) concentrated just on openness of economy. Pierson (1996) referred to the globalization of capital markets and economic integration. Ku and Lee (2007) used the trade dependency as the ratio for international trade competition. In this study, the following dimensions will be used to construct the variable. Firstly, openness of economy is measured as *Total Export + Import*. Secondly, Economic cooperation with foreign countries or regions is measured as *Value in US Dollar*. The third factor foreign investment is defined as *Value of Foreign Direct Investment* and the fourth factor trade with US is measured as *Trade of product with US in US Dollar*.

Leadership change is difficult to assess in China since it does not refer to one specific function but to several functions and political personalization. Deng Xiaoping, who served as the leader of China from 1978 to 1992, never held the function of the head of government or General Secretary of the Communist Party of China which is historically the highest position in China. He was announced as the paramount leader which is an unofficial title referring to the person who holds in several functions and can be regarded as the *de facto* leader of China (Lin, 2004). Hence, this study uses the concept of the paramount leaders as a measure for leadership change. A consequence of the conceptualization *paramount leader* is that the transition time can take several years. Therefore, the 5-year plans of the government are used as an extension since it can be assumed that the paramount leaders had influence on these plans (Stepan, 2008).

3.5. Data collection & Analysis

In comparative welfare state analysis, quantitative as well as qualitative methodological approaches are used. Quantitative studies typically address at first the amount of spending on social policies relating to other developments whereas qualitative studies capture the analysis of social policy reforms and historical as well as political structural influences (Amenta, 2003).

Therefore, quantitative data will be used to show the development of the welfare effort and the factors. The main data source is the official Chinese Statistical Yearbook published by the National Bureau of Statistics of China. The yearbook reveals comprehensively the economic and social developments of China from 1987. Also the Statistical Yearbook is an appropriate and professional source, it shall be kept in mind that the data can be biased. Data by the International Labour Organisation supplements the analysis in case that the statistics of the Yearbook are incomplete. For the explanation of the developments and distinctive features, qualitative data of journal articles is used. Accordingly, secondary analysis of unobtrusive data takes place.

The empirical analysis is guided by the three sub-research questions and the hypotheses. To answer the first one, a descriptive assessment of the three conditions by Flora and Heidenheimer (1980) is made complemented by a comparison between disaggregated welfare effort in China and one representative of each type of Esping-Andersen’s typology. The second question is answered by a bivariate analysis of the socio-demographic and economic factors and welfare effort. The third question is answered by analysing the development of the welfare effort after the introduction of social policies and leadership change.

4. Empirical Analysis

The structure of the empirical analysis refers to the way as described in the previous chapter 3.5.

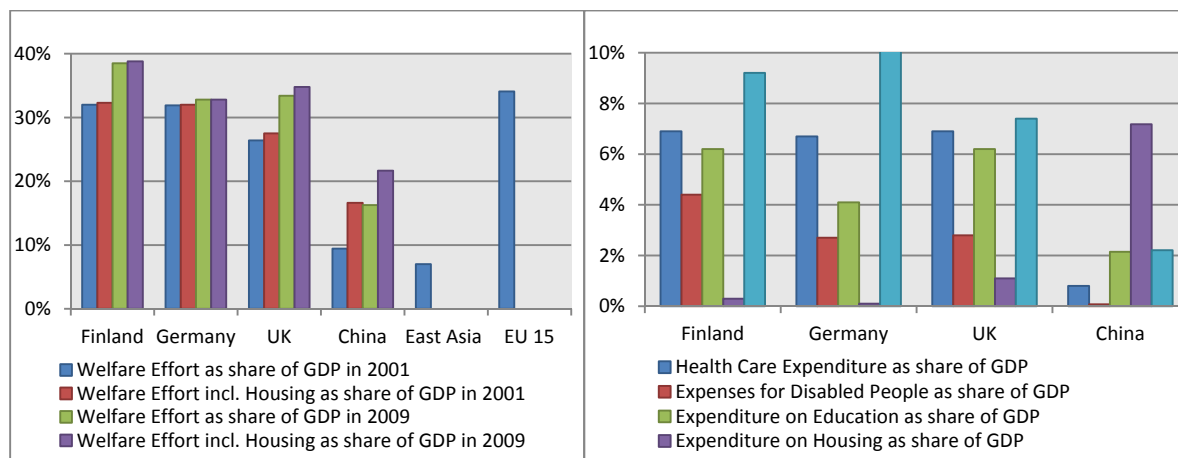
4.1. Analysis of Welfare State Formation

The first step to assess the extent that China can be regarded as a welfare state concerns the three conditions of welfare state formation by Flora and Heidenheimer (1981). The first condition deals with the degree of the socio-economic status quo of a state while firstly introducing social insurance systems by using the formula ln (“% of labour force in industrial sector” x “% of urbanization”). The first insurances in China have been introduced in 1986 for former employees of SOEs (Chen, 2002). In this year, the proportion of urbanization was 23,01 % and percentage of labour force in the Industrial sector was 38,6% (NBS China 2007, 2010). According to the formula, the degree of socio-economic development in China in 1986 was 6,78. Flora and Heidenheimer state that “the variation in developmental levels ... is too great to allow any generalization about thresholds” (1981, p. 65) but the results of China can be compared with their mean result which is 6.6. Hence, the first condition can be regarded as fulfilled. Supporting findings are made by Kwon (2005) who draw parallel lines between the introduction of social policies in the Bismarckian period 1880s and the introduction of Chinese social policies after 1987. In Prussia, social policies have been used to facilitate the industrialization process and to undermine political revolts. The Chinese social policies after 1987 should facilitate marketization and preserve “the stability of the prevailing political order” (Guan, 2005, p. 19). In both cases, social policies had the same intention and used as an instrument for economic and political intentions.

The assessment of the other two conditions will be more controversial and require a look at the Chinese political system as a whole. The second condition refers to working class parties and their demand for the introduction of social policies. During the planned economy under Mao Zedong, all Chinese were working in SOE and enjoyed advantages like a permanent job guarantee without labour contract. A standardized wage system for the whole country regulates salaries for all employees resulting in a minor wage gap between employees in the management departments and ordinary workers. After the start of the reforms in 1978, the privileges of the working class declined significantly due to marketization reforms and the transformation from SOEs into private profit driven enterprises (Dongtao, 2010). Consequently, the wage gap increased significantly since the employers started to differentiate between skilled and ordinary workers. The governing party, calling itself a Communist Party, promoted in first line economic growth by supporting small and medium enterprises to become competitive in the globalizing world while accepting increasing inequalities and upcoming social conflicts (Li, 1999). Hence, a working class which claimed for welfare rights was in place, but it was politically impossible for them to reach the demanding rights due to strict preferences on economic growth and the political authoritarian system (Dongtao, 2010).

The third condition deals with the political system and requires a functioning democracy. China is a single-party socialist state governed by the Communist Party of China. The authoritarian leadership style of the Party exerts influence in different ways. Veto players are oppressed or guided by the state. Exemplary, the labour organizations do not represent workers’ interest independently but can be regarded as a state apparatus promoting governmental goals by negotiating labour relations in China (Dongtao, 2010). Concluding, the conditions can just partly be applied to the social policy developments of China mainly due to the lack of democratic institutions (Lin, 1999).

In the second step of the assessment to which extent China can be regarded as a welfare state, the disaggregated welfare effort will be compared between European states and China (see appendix 7.2. for the data).



Graph 1: Welfare Effort China and European States

Graph 2: Disaggregated Welfare Effort China & European States (2005)

Source: Finland, Germany and UK: European Commission (2011), China: NBS China (2002, 2006, 2009), East Asia and EU15: Data from 1999 by Gough (2000)

Graph 1 shall serve as a demonstration for the lower amount of welfare effort in East Asia in general and China especially compared to European states. This lower degree can be explained by several reasons (Jacobs, 2000).⁷ Firstly, pension systems have been introduced later in Asia than in Europe. These are typically linked to lifetime contributions. Therefore, the first generations do not receive their full pensions but just employees who start working in a time the pension system is already introduced are eligible to receive their full pension. In China, the pension system has been introduced in 1997 for the urban population and in 2009 for the rural population. Beforehand it was just eligible for SOE employees. Substantial funded defined contributions are determined but due to large debts from the former system and an intransparent decentralization process, the finances and pensions are far from regulated (Price et al (2012). Secondly, the coverage of the welfare effort is highly fragmented in East Asia while in Europe a greater span of people is covered by the welfare effort. In the case of China, the strict regulation of the coverage of welfare effort is guided by the *hukou* system. This is a state-guided household-registration system which divides the population into two parts in terms of rural and urban segmentation. Not being registered in this system deprives the citizens “the right to settle in cities and to most of the basic welfare services” (Buckingham and Wing Chan, 2008, p. 583). Thirdly, Jacobs refers to the “scope of the welfare state vs. family and enterprise welfare” (2000, p. 11). There are two reasons which play a role in China in this context. On the one hand, the transition that the state is regarded as the welfare provider instead of the enterprise just started in 1978. On the other hand, the Confucian thinking which includes that the superior of a community like the father in a family is responsible for the well-being of its members is still dominant in the society. Hence, it can be assumed that the state needs a long time of transition until it regards itself as the main responsible welfare provider. Stepan (2008) even asserts that just from 2002 the state played a significant role as a welfare provider. A fourth reasons which is especially valid for China concerns the clear subordination of social policies compared to the emphasis of economic growth after the Opening and Reform Policies in 1978 (Mok, 2006).

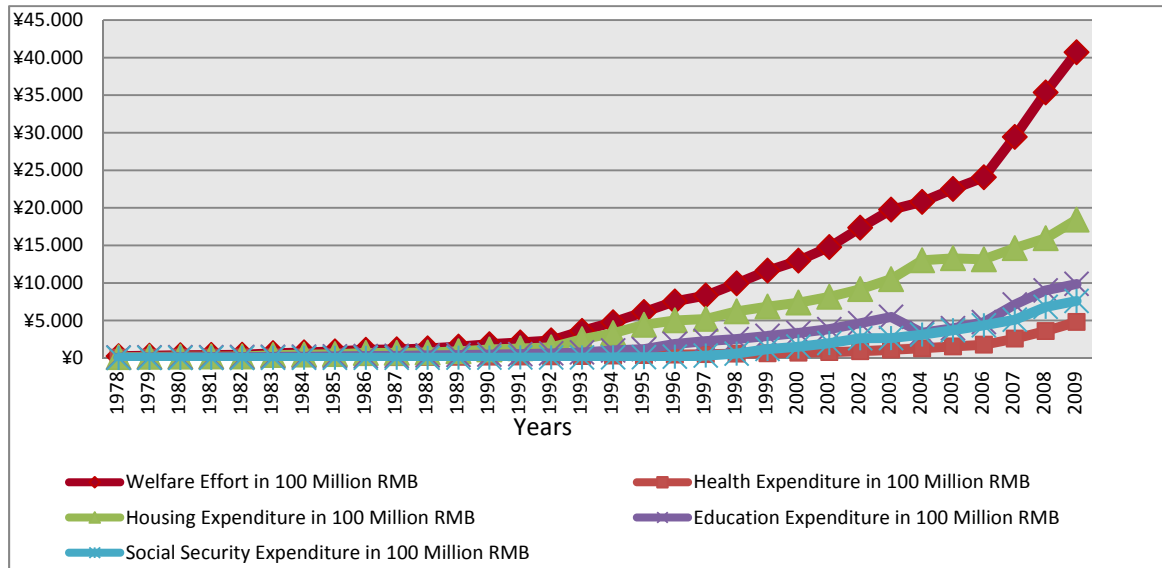
⁷ He includes Japan, Korea, Taiwan, Hong-Kong and Singapore in his study. Reasons which are not applicable for China are excluded.

Coming to a more detailed comparison between Germany and China, the hypothesis *the development of welfare effort in China resembles the distribution of the spending of the Conservatism model of Esping-Andersen (1990)* can be rejected on the first view. Further, it can be neglected that China's expenses resemble patterns of the liberal or social democratic regime. Instead, it is obvious that China defines its focus of expenditure different also the description of the welfare objectives of the conservative regime and China show similarities. The degree of expenditure is far higher in Germany than in China. In China, especially the high degree of expenditure on housing and the low degree of expenditure on health and disabled people are eye-catching while in Germany, high expenditure on pension and health and low expenditure on housing are remarkable. China prefers spending on sectors which can boost the economy (Aspalter, 2001). The high expenditure on housing can provide on the one hand houses for people in need and on the other hand boost the construction industry also keeping in mind that the low amount on housing expenditure of European states can be distorted since European states often indirectly spend finances on it by decreasing interest rates on the mortgage markets (Wilensky (1975). With regard to education, with the 9th Five Year Plan in 1996 China adopted the 9-Year Compulsory Education Program which leads to increasing education expenditure (Graph 3). China extended the expenditure on education to stay competitive in the international world, but the expenditure is still significantly lower compared to Germany (Guan, 2005).

Closing this section, the first sub-research question *to what extent can China be regarded as a welfare state in the European sense (after Esping-Andersen (1990) and Flora and Heidenheimer (1980))* will be answered. China fulfils one of the three conditions by Flora and Heidenheimer (1980) whereby it is important to state that the two remaining conditions deal both with the political structure of a nation. Consequently, both are not fulfilled due to the same reasoning. The analysis of disaggregated expenditure demonstrated that the welfare effort is more than two times less in China than in all selected European states and the distribution is very different in spite of common objectives. Thereby it should be noted that also the three types by Esping-Andersen show significant differences like the levels of expenditure for education or disabled people. Hence, since just the time of introduction and the motivation for establishing a welfare system are alike between Europe and China, it does not seem to be reasonable to call China a welfare state in the European sense.

4.2. Analysis of Socio-Demographic and External Economic Factors

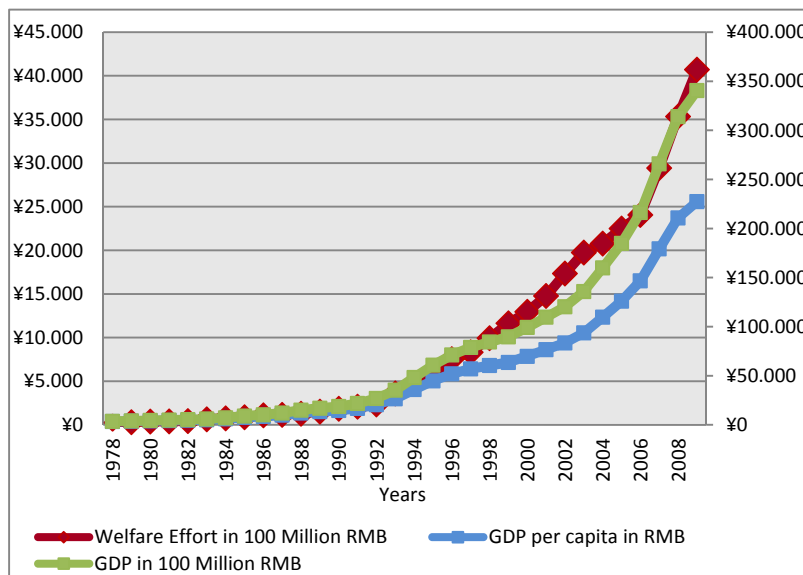
This section starts with a closer look on the longitudinal composition of welfare effort before making the bivariate analysis of all factors. Afterwards, a multivariate graph will be made to analyse which factors show a relation to the development of the welfare effort. The complete data is in appendix 7.3.



Graph 3: Welfare Effort and its Composition (Source: NBS China (2000, 2010a))¹

All components of the welfare effort increase from 1978 to 2009 whereby expenditure for housing rises chronologically firstly from 1992. The expenditure for education, health and social security increases on a much lower level.

The development of the GDP per capita is rapidly and steadily from 1987 until 2009. From 1978 until 1992, welfare effort and GDP per capita associate in a perfect way. Thereafter, the welfare effort increases more rapidly than the economic wealth continuing until 2009. The total GDP is included as



Graph 4: Welfare Effort and Economic Wealth (Source: NBS China (2010a, 2010b))

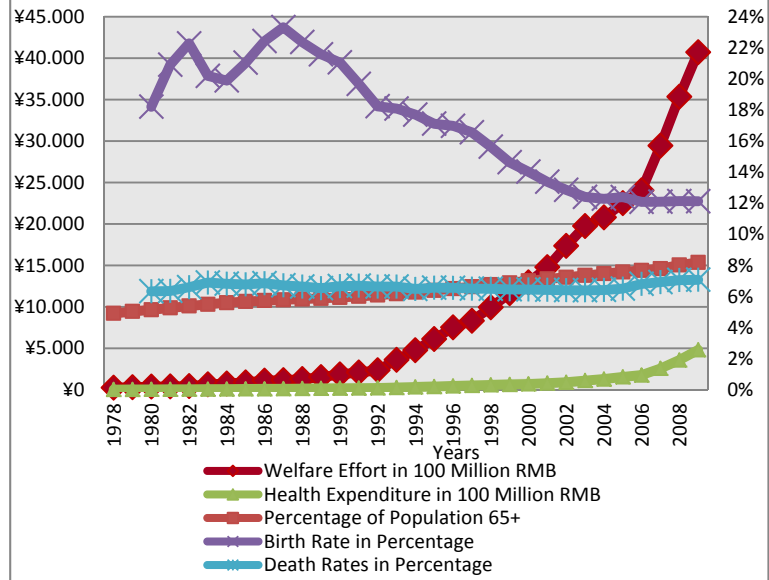
a further measure for the economic wealth. Hence, the hypothesis *the higher the economic wealth per capita, the higher the amount of welfare effort* can be confirmed. Wilensky's (1975) statement that richer states are more likely to spend money on the welfare of its people applies to China. In 1978, the government emphasized on "economic efficiency and importance of competitiveness" (Mok, 2006, p.222). Social policies and expenditure were supported as long as they do not distort the

economic growth. Also it cannot be judged from which moment on the state considered the economic growth as achieved, but it is not surprising that the welfare effort increased next to the economic growth. The industrialization process involves two further reasons for higher welfare effort in China. Firstly, Guan (2000) as well as Kuhnle, Sander and Schmitt (2011) observe that many people moved from their home cities to other cities for work reasons. Thus, in case of illness, unemployment

or other needs, the state needed to provide social assistance since the family was not able to support. Secondly, the industrialization process increased the inequality within the people. Especially at the end of the 90s the inequality rose significantly, hence, in times when the welfare effort increased rapidly (Li, 1999). Therefore, the state needed to provide a form of social assistance to prevent social conflict to be able to concentrate on economic growth. Consequently, the demand for public welfare increased.

The amount of the population 65+ doubles nearly from 4,92% in 1978 to 8,19% in 2009. Since the growth of welfare effort is stronger than the growth of the elderly population but in the same way, the hypothesis *the larger the elderly population compared to the general population, the higher the amount of welfare effort* can be partially confirmed.

An indicator for the strong influence of population aging on welfare effort would be the public expenditure on health care since older people are more likely to need medical assistance (Amenta, 2003). The inclusion of health expenditure in the graph



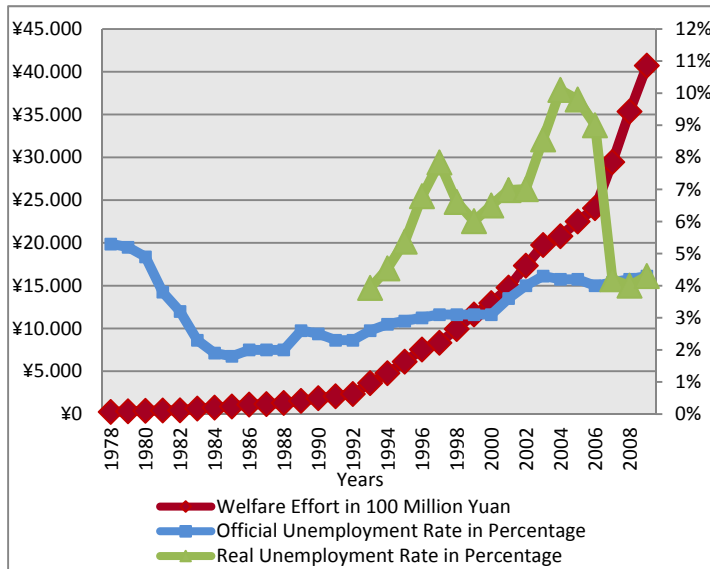
Graph 5: Welfare Effort and Population Aging
(Source: NBS China (2010a, 2010c))

shows that this is not the case in China. A further point of attention concerns the one-child policies of China (Guan, 2000). The inclusion of the birth and death rates in the graph explains whether the amount of the population 65+ increases or if it is just a consequence of a lower amount of births. Here, the death rates are constant around 6,5% while the birth rates are fluctuating until 1978 and then decreasing exponentially. The percentage of birth rates is decreasing from 23% in 1987 to 12% 2009, while the percentage of the population 65+ is increasing by a lower degree. This shows that the increase of the share of the population 65+ can be influenced just partially by the birth rates and the percentage 65+ consists indeed of an increasing number of older people.

An explanation for the observation that population aging does not affect welfare effort in an exhaustive way concerns the *hukou* system. Mostly younger people apply for being registered in the *hukou* system in the cities while the older ones stay on the countryside (Buckingham and Wing, 2008). Hence, also a constantly increasing amount of elderly population exists, not all are covered by the state welfare efforts.

The unemployment rate decreases from 1978 to 1984 from 5,3% to 2%, increases then slowly to 4% in 2000 and the levels off, thus in the years in which the welfare effort increases significantly. Hence, the hypothesis *the higher the unemployment rate, the higher the amount of welfare effort* is rejected. The rejection based on the official unemployment rate has a serious shortcoming. The Chinese government acknowledges just people who subscribe for unemployment benefits but no representative sample surveys are made. Employees who inter alia “were laid off

with no expectation of reemployment, (...) did not register with local governments, and who involuntarily retired early” are not included in the statistics (Giles, Park & Zhang, 2005, p. 151).

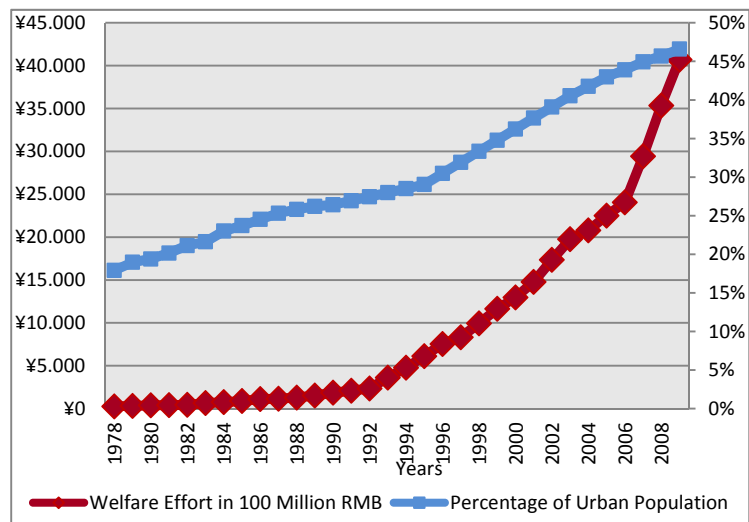


Graph 6: Welfare Effort and Unemployment Rate (Source: CIA World Factbook (2011), International Labor Organisation (2011), NBS China (2010a))

Thus, the official unemployment rate, which was just accessible by the ILO and not by NBS China, images just a partial amount of the real unemployment rate. Therefore, many scholar and international organizations try to identify the real unemployment rate which is probably some percentages higher, also a precise response cannot be given. For instance, the approximations for the unemployment rate of 1997 vary between 5% and 14% (Giles, Park & Zhang, 2005). Graph 4 includes the estimated unemployment rate from 1993 until 2009 by the CIA World Factbook. In the context of this study,

the official unemployment rate may be a better estimation since people who are not registered as unemployed do not receive unemployment benefits. The rejection of the hypothesis can be explained by a substantial amount of people who are not unemployed but receive a very low salary, who are self-employed and are therefore not eligible for unemployment benefits or who are working in the informal sector and not covered by the unemployment insurance. Therefore, they apply for social assistance in other fields than unemployment benefits or re-employment policies (Wang, 2007).

The amount of the urban population more than doubles between 1978 and 2009 from 17,9% to 46,6% whereby this development can be divided into two phases. From 1978 until 1995, the growth rates are about 0,5% per year but increase from 1996 until 2009 to about 1,5%. Hence, the hypothesis *the higher the share of urban population compared to the share of rural population, the higher the amount of welfare effort* can just be confirmed for time from the mid-90s on. The urbanization process is regulated by the *hukou* system and was already introduced during the Maoist area to push industrialization and to regulate the population mobility. During the 1960s and 1970s the division was simply based on the distinction between agriculture and non-agricultural status independent of the residual location. The part of the

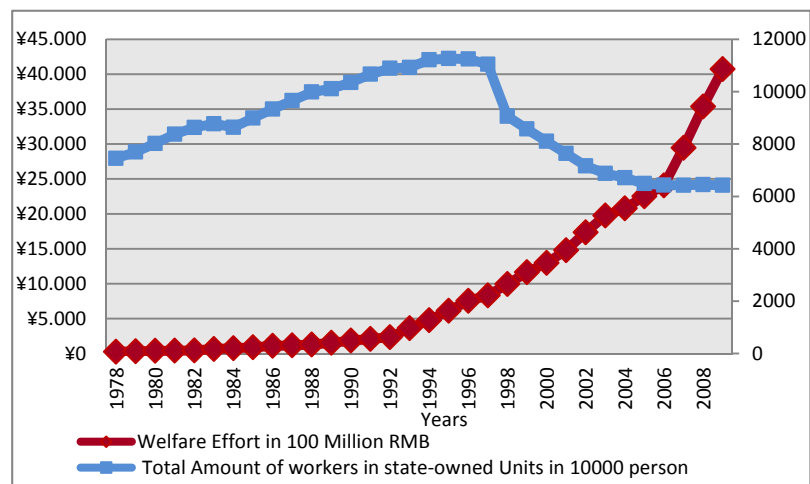


Graph 7: Welfare Effort and Urban Population (Source: NBS China (2010a, 2010d))

population who was working in the agricultural sector was expected to be self-sufficient. In the 1980s, the government further introduced the residual condition meaning that each citizen needed to be registered at one place. Migration required an official approval to convert the *hukou* status whereby it was mainly a privilege permitted to SOE employees. In 1992 and 1998 the government adopted regulations which allowed citizens to convert their *hukou* status when ensuring a stable job in the specific area due to the fact that the privatization of the economy required more mobility by the population. In recent years some pilot projects have been tested to change the *hukou* system to but no policy has been tracked consequently. Buckingham and Wing Chan (2008) conclude that also the meaning of the *hukou* has diminished in the last years also it is still a burden for some parts of the population to receive welfare benefits. Hence, the government decided not to facilitate the meaning of *hukou* extensively but rather introducing own welfare services for the rural area as its own. Exemplary, the government adopted in 2003 the New Rural Cooperative Medical Care System (NRCMCS) and in 2009 a rural pension scheme to provide welfare services explicitly for the rural population. Its influence is discussed in the following section.

The curve of the amount of state sector employees fluctuates. After a sharply increase from 1978 until 1995, it reduces drastically within one year from 1997 to 1998. While the amount of workers in SOEs is shrinking, the welfare effort is increasing. Consequently, the hypothesis *the higher the share of state sector employees, the higher the amount of welfare effort* can be rejected. *Danweis* are public working units providing employees the

iron rice bowl meaning obligations like job guarantee security, steady income and special welfare benefits. The restructuring process of them started already in 1983 with the labour contract system. This enabled enterprises to treat new employees differently from former permanent workers, meaning that they received inter alia a significantly lower level of welfare benefits. The implications were major. From 1983 to 1992, the amount of contract workers increased from <1% to 17%. These contract workers are included in SOE workers and due to the fact that the law applied just to new employees and not to current employees, the amount of SOE workers continued growing (Grogan, 1995). In 1996, the government decided that many *danweis* were no longer financially sustainable mainly due to the fact that it was forbidden to fire employees and still many employees received the same salary in spite of different qualifications as regulated during the Maoist time. Hence, inefficient units were lead to insolvency (Giles, Park & Zhang, 2005). To hold the unemployment rate on a low level, the government introduced the concept of the laid-off workers. These are employees of SOEs having a dependent non-employment relationship with their unit, receiving minimal welfare efforts but are officially not classified as unemployed also they are not working. The official amount of laid-off workers is not known (Blumenthal & Hisao, 2005).



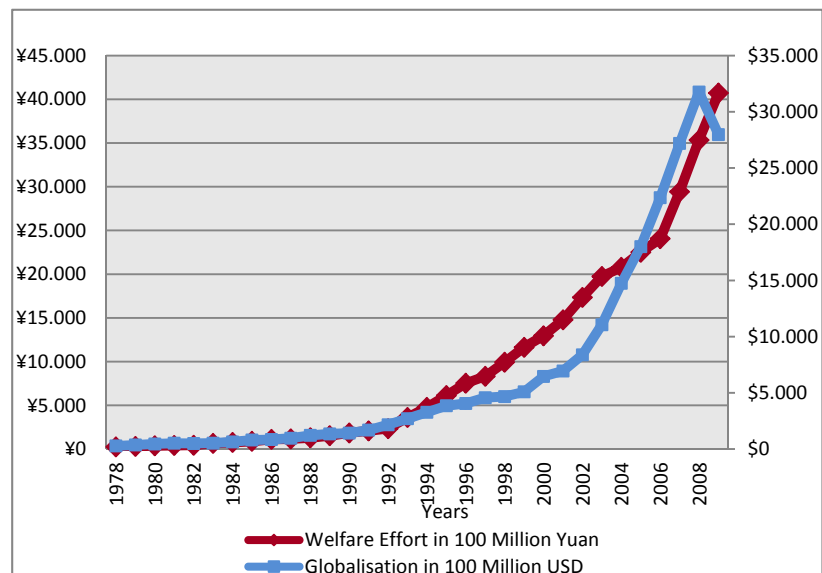
Graph 8: Welfare Effort and State Sector Employees (Source: NBS China (2010a, 2010e))

To explain the rejection of the hypothesis, which rather seems as a contradiction of the expected hypothesis, a look at the actual expenditure for employees in SOEs shows that in average just 1/60 of the government expenditure on pension insurances was directed for retirees of SOEs (NBS China, 2005).⁸ Hence, it could be that the privileges of the employees of SOEs are overrated by scholars like Aspalter (several years). This is supported by the observation that during the years 1993 until 2003 the welfare effort develops constantly untouched when the amount of employees of SOEs fluctuates mostly. This would further mean that SOEs have probably not been restructured since they were too expensive for the government but the main reason was their missing output and competitiveness.

As explained in the operationalization part, the influence of globalization will be measured by means of four different dimensions, which have been merged to construct a curve which shall show an approximation of Chinas degree of economic globalization. The degree of globalization increases rapidly from 1978 until 2008 and decreases then probably due to the worldwide economic crises. Until 2008, it equals the run of the welfare effort. Therefore, the hypothesis *the higher the degree of globalization, the lower the amount of welfare effort* can be rejected.

Pierson (1998) argued that globalization pushes the states to focus on other affairs than on welfare. For instance, the government reinvests finances on the globalization of capital markets which could be spend on welfare otherwise. This implies that a state had spent a high degree on welfare before globalization has started. In the case of China, the degree of welfare effort was always in line with the economic globalization but not above it. Hence, this argument does not

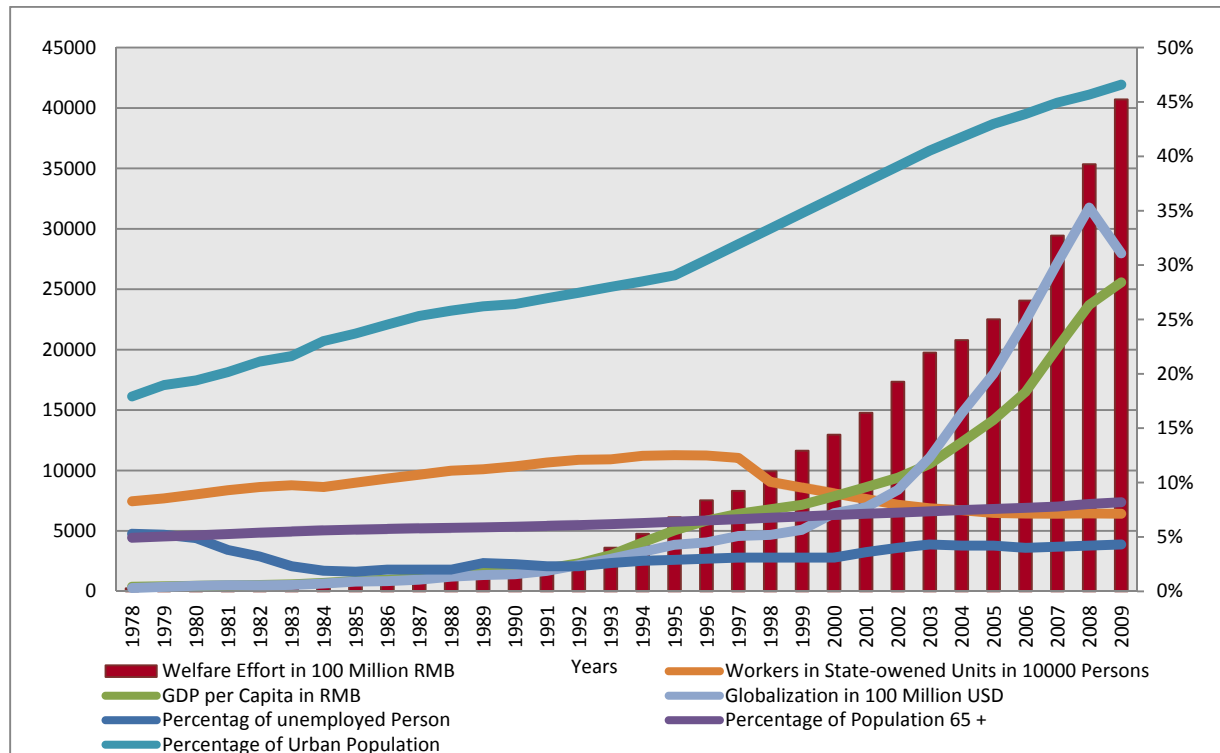
apply to China. Piersons second argument concerns social dumping. Also this argument could be theoretical applicable for China since there are other states in East Asia which are known for low labour costs, China increased its welfare effort constantly with increasing globalization. Castles (2004) point of *benefit tourism* does not apply to China since receiving welfare means being registered in the *hukou* system which is rather difficult for non-Chinese people. Guan (2000) explains the growing welfare expenditure as a way to deal with globalization. The economic growth in the 1980s and 1990s owes the producing sector which requires labour force. Since there are now countries which offer lower cost labour force, China needs to develop further and provide qualified employees to deal with international competition.



Graph 9: Welfare Effort and Globalization (Source: Lardy (1992), NBS China (2010a, 2010f, 2010g & 2010h), USCB (2012))

⁸ Data just for this period was available for Government Expenditure on Pensions and on Pensions for retirees of SOEs during the years 1993 until 2005

To conclude this part, a graph including all socio-demographic and external economic factors displays the developments within China to answer the second sub-research question *to what extent do socio-demographic and economic factors (as depicted by inter alia Amenta (2003), Pierson (1996) and Wilensky (1975)) show a relation to the increase of welfare state effort in China between 1978 and 2009?*



Graph 10: Welfare Effort and Socio-Demographic and Economic Factors

Economic wealth was also one reason for the welfare state expansion in Europe after World War II. The promising economic situation facilitates the exposure by the state to deal with changing socio-demographic factors like aging population which required higher social assistance. In Europe, the years after the economic crises in the 1970s until now are known as the *Retrenchment Period* since the state was suffering of “endogenous processes of social change” (Pierson, 2011, p. 540) like increasing unemployment rates. The upcoming globalization was certainly one point for the politics of austerity, as already explained beforehand. It has been demonstrated that globalization had no negative effect on the amount of welfare effort in China. Contrary, the welfare effort is increasing when globalization started to become significant. In 1975, Wilensky already observed that rich states are more likely to increase their welfare effort. Also he does not refer to globalization there are today scholars who argue that a high degree of globalization is a sign for a rich state (cf. Guan (2000), Gough (2001), Weiss (2000)). Therefore, it seems that it is not a unique characteristic of China that globalization is not hampering but rather boosting welfare effort but that there are also refutations of Piersons argumentation.

Concerning the amount of elderly population, the increase of spending on welfare effort is stronger than the growth of the elderly population. Therefore it explains just partially the rise of welfare effort. Wilenskys (1975) argument that population aging goes in line with economic wealth can be supported by this analysis. Due to the partial confirmation it does not seem reasonable to argue that population aging is the activator for increasing welfare effort but rather a by-product.

It seems that the unemployment rate has no influence in China on the welfare effort. Laid-off workers who make of a big part of the unemployment rate do not receive unemployment benefits by

the state. In Europe, unemployment expenditure does not just concern the benefits but also re-employment policies and active labour market policies.

Coming now to the factors identified as *Chinese* explanations for welfare state transition, the factor urban population shows a relation towards the increase of the welfare effort from the mid-90s on probably due to the decreasing importance of the *hukou* system. The amount of SOE employees does not show a relation to the expanse of welfare effort.

Closing this chapter, economic wealth seems to be an explanation for welfare state transition in Europe and China. Factors which are depended on cultural attitudes of the state like the unemployment rate or population aging do not seem to be a comprehensive explanation for the increase of the welfare effort. Thereby, especially the *hukou* system and the concept of the laid-off workers which influences the welfare expenditure in China are not known in Europe.

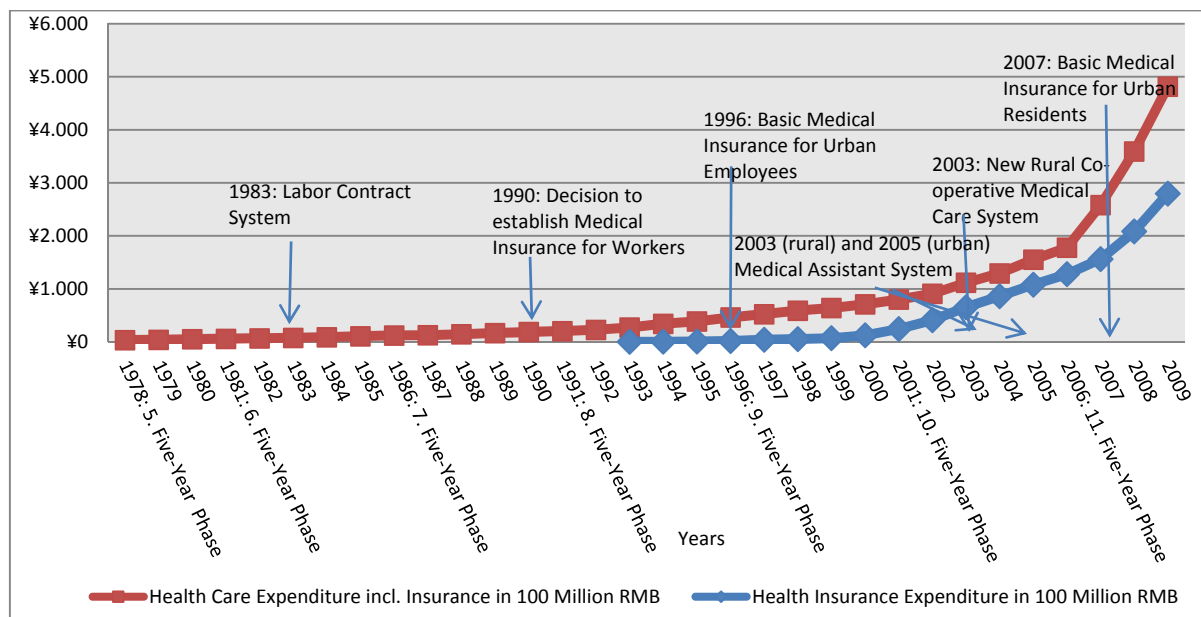
4.3. Analysis of Political Influences

This section is divided into two main parts with the historical development of the paramount leader before analysing the introduction of social policies.

The conceptualization and the analysis of welfare state formation demonstrated that the Chinese political system cannot be analysed for its influence of the welfare effort in the same way as the European ones since they are undeniably too different in their organization. Kwon (2009) observed that the development of China with regard to social policy reforms happened “without radical changes in the political structure” (2009, p. 14). Since 1953, the Chinese government publishes all five years a report including the agenda and goals for the upcoming years (the citations in the following can be found in the appendix 7.5.). In China, where the state exerts powerful control over the economy, the policies and the life of the people, these Five-Year Plans can be regarded as references for the development philosophy of the state (Fan, 2006).

After the Reform and Opening up Policy of 1978, Deng Xiaoping’s main emphasis was to make China more competitive in the world and to push its economy which was apparent by his statement “Let some be rich first” (Li, 1999). The only goal of the 6th as well as 7th plan was therefore to “set up an independent and comparatively complete industrial system and national economic system from 1978 to 1980”. With the 7th plan published in 1986, the title changed from *Plan of Developing National Economy* to *Plan on National Economy and Social Development*. Hence, a step towards a policy agenda with a social dimension, also the predominant focus was on economic growth. It was therefore firstly stated in the 7th plan that it is the goal to “improve the material and cultural life of all Chinese.” It shall be the urgent need to establish a social insurance system for all workers, but the focus for welfare provisions will still be the family (Aspalter, 2006). This aim was also part of the 8th plan announced as “improvement of the standard of living and cultural life of Chinese.” Already in times when Deng Xiaoping was still in power, he tried to ensure a smoothly transition of leadership to influence the direction of the politics. Jiang Zemin, the successive paramount leader since 1992, continued the direction of his politics, and the 9th and 10th plans focused still mainly on economic aspects (Lin, 2004). The goals of the 9th plan included the phrase “eliminate poverty”, whereby it was firstly indirectly approached that there is inequality in the state. Further, it was officially stated that each (former) worker of a SOE should be in charge of unemployment insurance. The 10th plan included already concrete proposals for improving the education system but was still focusing on economic growth. Already in 2002, when Jiang Zemin was the still in power but the transition to Hu Jintao took place, Hu Jintao promised to focus during his presidency on social equality and human and people oriented policies (Stepan, 2008). The agenda of

the 11th plan, which was completely under the leadership of Hu Jintao, was fully in the name of social developments with the main objective *building a harmonious socialist society* (Stepan, 2008). Subsequently, the introduction of social policies is discussed (data is listed in appendix 7.4).



Graph 11: Public Health Care Expenditure and Reforms (Source: Chen (2003), Qichao (2009))

In the early 1980s, China followed a World Health Organization meeting and realized that it is in urgent charge to handle with serious diseases like tuberculosis and AIDS to prevent epidemics. Therefore, the health care facilities have expanded also no stable insurance system existed. For instance, the number of hospitals increased from 9293 in 1976 to 11955 in 1984, whereby this number is especially significant since there is the widespread belief in the society that specialist of traditional Chinese medicine are more trustable than generalists in hospitals (Qichao, 2009). In first line, the state focused between 1978 and 1984 on reforms in the rural area as a consequence of the decollectivization of agriculture. Also in reality the rural population needed to be self-responsible for their health since just 5 % of the rural population received actually finances. Since the public health care expenditure is not increasing significantly in this period, it can be assumed that the reforms were more theoretical nature. Still from the Maoist time, two types of health care insurances existed for the urban area. The Government Insurance System (GIS) concerns all kind of government employees while Labor Insurance System (LIS) refers to employees of SOEs. Both types included family members also not universally. Roughly 50% of the families were part of the systems. The revenue of both system derived by 80% from the enterprises' retained earnings and depreciation funds and 20% of provincial government receipts by taxes and user fees of public health facilities. Grogan (1995) estimates that in 1987, 30 000 Million RMB have been paid by the government. In 1987, the central government adopted a copayment system under which "provinces are allowed to make GIS-covered individuals responsible for paying a certain proportion of their health care expenses" (Grogan, 2005, p. 1077). The Labor Contract Law of 1983 brought a new direction in the health care expense since the contributions of the government per individual were dependent on the kind of employment with the enterprise and was significantly lower than before. Hence, it is not surprising that the health expenditure did not increase in this period significantly. Due to the fact that economic reforms concentrated on Eastern coastal regions, these regions also offered in general higher insurance contribution, revenues and expenditure due to higher costs of living (see appendix

7.5.). Exemplary, in case of the copayment system, the contributions differed between 40% in north-central provinces and 10% or nothing in Shanghai in 1979.

Actually planned in 1990 but adopted in 1996, the government established the Basic Medical Insurance for Urban Employees (BMIUE). The contribution rate is around 8% of the salary coming from 6% by the employers and 2% by the employees. 30% of the employers' contribution plus the whole employees' contribution are in an Individual Account for outpatient expenditure while the remaining contribution goes to social pooling used for inpatient expenditure. The government's involvement is made by tax deduction meaning the contributions are free of income taxation (Qichao, 2009).

The coverage of this insurance developed very slowly and included in 2007 just 30,05% of the urban population and 67% of the urban employees (Bayer & Yao, 2011). Due to the low coverage and the just indirect financial contribution, the health care insurance expenditure of the government did not increase in the direct years after the introduction. The growth of the general health care expenditure by the government can be explained by increasing number of health care institutions like the amount of hospitals increased from 15833 in 1996 to 17844 in 2002 (NBS China, 2010i).

Table 4: Coverage BMIUE 2004-2007
(Source: Huang, 2011)

	2004	2005	2006	2007
Urban Employees in Million	124	138	157	180
Coverage of urban employees in Percentage	22,85	24,52	27,26	30,05

In 2003, the NRCMCS was adopted for people in the rural area. The condition for enrolling in this system is that the participants enrol in the unit of its family. The yearly contribution is 50 RMB per participant from which at least 30 RMB are paid by the government, depending on the region, and 20 RMB by the participant itself. Deng and Guan (2012) estimate that the average per capita contribution by the government increased by at least three times from 2004 to 2009.

While emphasizing that it is a voluntary program, the program expended rapidly. Before 2003, it serves as a pilot project in 12 counties. The coverage increased from 13% in 2004 to 94% in

Table 5: State per Capita Compensation of NRCMCS 2004-2009
(Source: Deng and Guan, 2012)

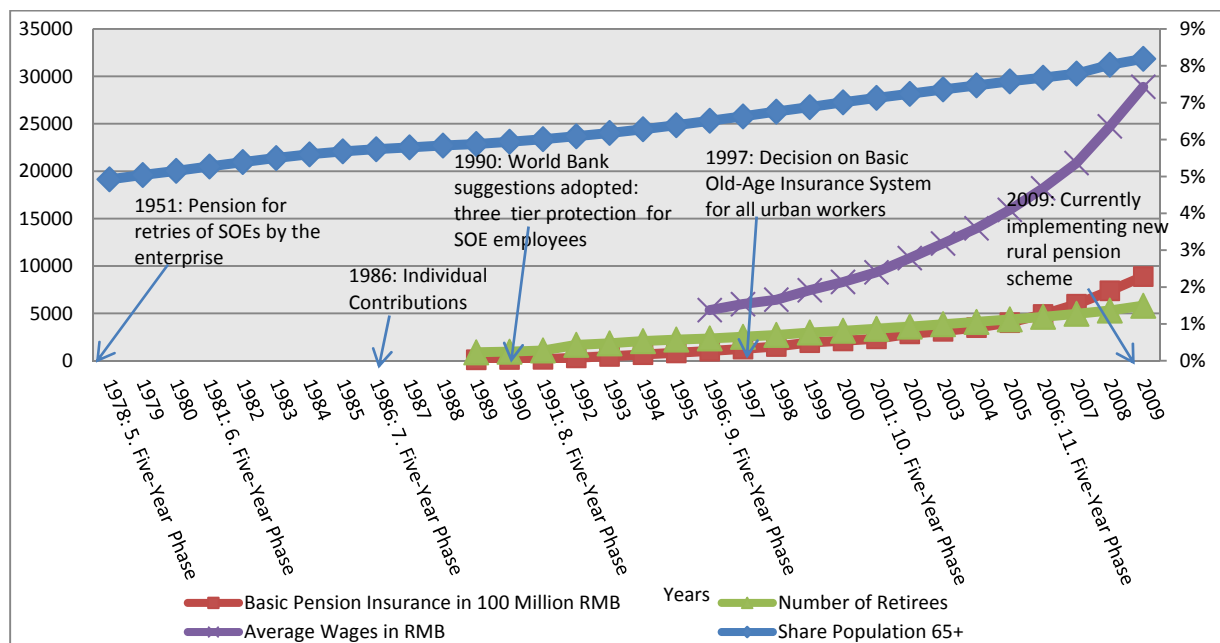
	2004	2005	2006	2007	2008	2009
The average per capita compensation of NRCMCS	33	34	38	47	81	110

2009, whereby the exact number of participants' is not known but estimated around 600 million participants in 2009. The target is to cover the whole rural population of estimated 840 million people (Barber & Yao, 2011). Hence, the significantly increasing government expenditure on health care insurances from 2003 can be explained by this system.

Further, the Medical Assistant System (MSA) was adopted in 2003 for the rural area and in 2005 for the urban area. It shall support the poor residents by the state whose income is below the local minimum living standard to enrol in the NRCMCS/BMIUR system, thus the contributions by the state are included in their expenditure for the specific system (Qichao, 2009).

To deal with over 420 Million uninsured urban inhabitants, the government adopted in 2007 the Basic Medical Insurance for Urban Residents (BMIUR) which is open for informal sector workers, migrant workers, children, elderly, disabled and other non-working people in the urban area under the condition of being registered. It is financed by at least 20 RMB per participant per year by the government depending on the economic situation of the region plus an individual defined contribution by the participant (see appendix 7.5.). Within one year, nearly 26 million urban residents registered in the scheme in 2008 which refers to 64% of the target population (Chen et al, 2009).

Concluding, it is difficult to estimate the precise expenditure of the state on the single policies since on the one hand the exact number of participants is not known and on the other hand, the per capita contribution of the government depends on the economic situation of the areas. But in spite of these limitations, BMIUE cannot be regarded as an activator of the expenditure on health care insurance since no direct expenses by the government are done. BMIUR was just adopted in 2007 but since the number of participants is much lower than by NRCMCS, it had just a partial share on the increase of the health care expenditure. Adopted in 2005 and due to its high amount of participants and increasing per capita contributions by the government, the NRCMCS can be regarded as the main policy leading to increases in the health care insurance expenses by the state. The high coverage rate of the NRCMCS can be explained by the fact that no registration by the hukou system is required which is a precondition for both urban schemes.



Graph 12: Pension Expenditure and Reforms (Source: Chen (2003), Price, Shen & Williamson (2012), Shen & Williamson (2010))

In 1951, the government adopted the first pension insurance for retirees of SOEs which was financed by the state enterprises itself. This system was challenged considerably in the following years since the amount of retirees grew but the degree of new younger employees was minor due to the fact that it was not allowed to fire employees of SOEs. The amount of retirees increased from 3.14 million in 1978 to 27.80 million in 1993. A further reason was that the life expectancy increased highly from 35 years in 1949 to 69 years in 1990. In 1984, the first experiment on pooling pensions in some areas has started and been extended until 1991 to over 2200 participating cities (Chu & Song, 1997). In 1986, the government decided that employees contribute an individual amount to their pension. A major step was made in 1990 when the government adopted a proposal of the World Bank for Three Tier Protection for retired people, but extended it to a five tier protection fitting to the Chinese social and cultural characteristics. It was firstly just aimed for SOE employees but in 1997, the government established it as a unified Basic Old-Age Insurance System (BOAIS) for enterprise workers in the urban area which is still in charge today.

The public finance pillar 0 does not directly subsidize the other pillars. It works as an extra-contribution to provide minimum living standards for the population (Baolian et al, 2009). In 1997, the government decided to establish *dibao* with the aim to decrease the rising inequality by

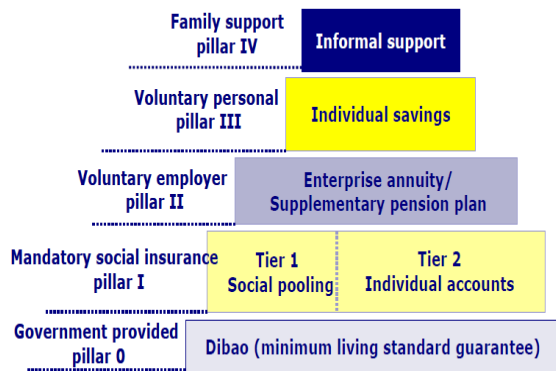


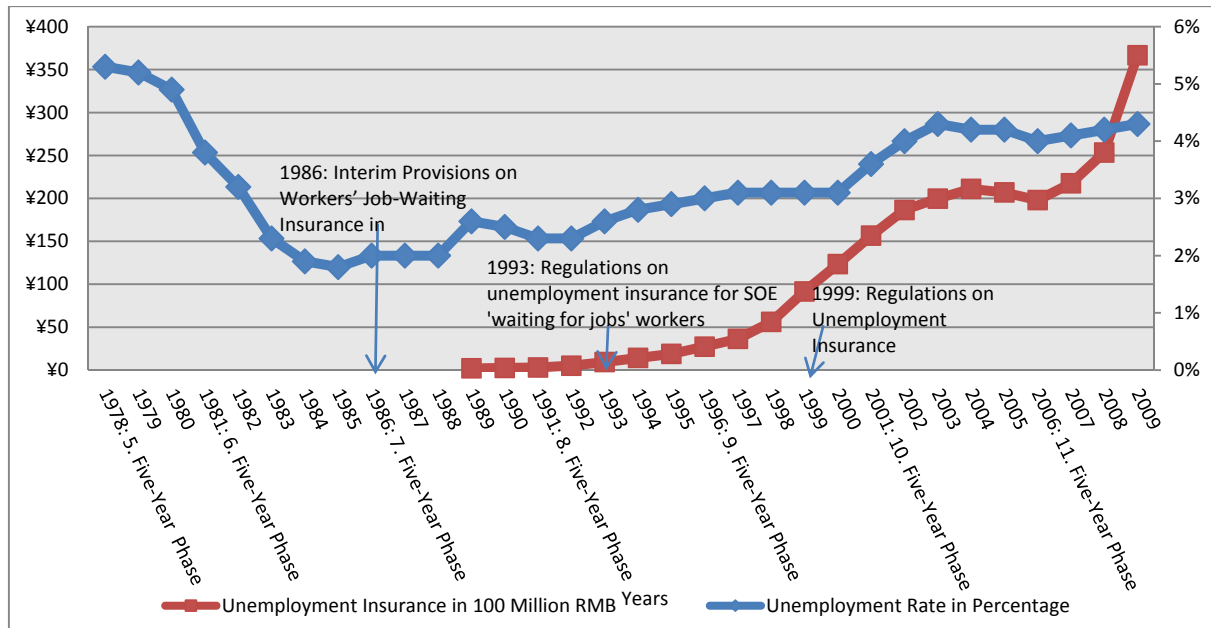
Figure 1: Current Status of China's Pension System
(Source: Baolian et al, 2009, p. 5)

providing finances to poor elderly independent from their work situation and other characteristics. Due to nontransparent regulation and the finance mechanism it remains unclear in how far this system leads to higher pension expenditure. But due to the fact that just 7 million people enrolled within 7 years, it is assumed that it is not the determining factor for rising pension expenditure (Wong, 2004). The pillars I, II and III are based on the proposal of the World Bank whereby the first pillar is the only mandatory one for all workers. It comprises two tiers whereby the one called social

pooling is totally financed by the employers based on a pay-as-you-go basis and guarantees a fixed replacement rate when retiring. The second tier consists of 8% of the individual's wages whereby 5% are contributed by the state and 3% by the individual employee. The second and third pillars are financed by individual contributions of the employers and employees (pillar II) or just employees (pillar III) (Adema, Salditt, & Whiteford, 2007). Pillar IV refers to the role of the family based on the Chinese tradition that welfare, *fuzhi*, is based on the idea that members are responsible for the well-being of the other members (Kuhnle, Sander & Schmitt, 2010). Also the first pillar is mandatory for all employees, the participation rate is low. Also the number of retirees is constantly rising (see graph), the actual coverage is frequently around 40-55% of the target population from 1997 until 2009 whereby the amount of participants in the insurances increases from 48,17 million in 1990 to 122,5 million in 2003 and is further increasing (including SOE employees). Especially the informal sector employees often do not join due to great contribution rates as well as the lack of incentives and prefer relying on their family. Also due to the increasing amount of families with one child, it is expected that more people join the public pension systems as prevention in the future (Hu & Stewart, 2009). The goal is to achieve universal coverage by 2020 (Adema, Salditt, & Whiteford, 2007). The increase of the basic insurance expenditure by the government can be explained by an increasing number of participants and increasing average wages since the height of governments' contribution depends to the wage of the participants. This is especially relevant after 2006.

The government further tried to encourage companies to set up extra voluntarily occupational based pension schemes as a private extension to the government schemes to extend the coverage of pension-insured people. Tax concession are the initiative of the government to establish such schemes whereby critics complain that the enterprise occupational based schemes enjoy more state benefits than the three tier protection (Mok & Shi, 2012). Hence, this can be regarded as a sign of the government to displace the responsibility towards private insurances, also different from the European connotation, it implies insurances by the enterprises itself and not by commercial aimed agencies just focusing on insurances.

In 2009, a new rural pension scheme is implemented which is a voluntary program financed by the local and central government plus lifetime contributions from the enrolled worker (Pierce et al, (2012). The share of the population 65 + has been included in graph 10 to exclude the possibility that the expenditure on pension has just been increased because of a greater amount of older people and not because of new reforms.

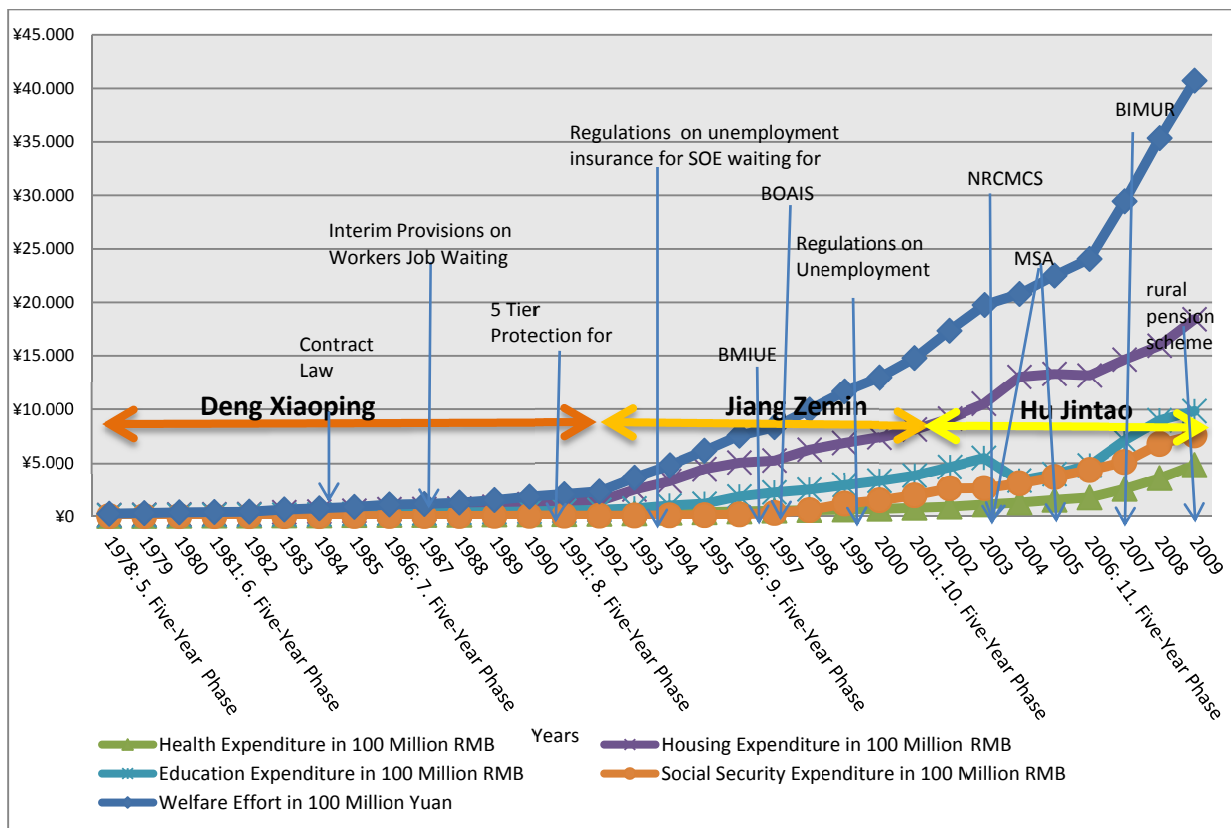


Graph 13: Unemployment Expenditure and Reforms (Source: Chen (2003), Tong & Vodopivec (2008))

Also other social protection schemes have already been introduced during the Maoist time, the unemployment policies have been adopted after 1978 since unemployment was beforehand not expected in a communist state. Due to the restructuring of the SOEs, the state adopted the *Interim Provisions on Workers' Job-Waiting Insurance in State-owned Enterprises* in 1986. Each enterprise paid 1% of the total payroll into a fund which was then divided between all employees in need of the unemployment insurance dependent on their former wages. The main benefit of this scheme was not the finances as itself but providing retraining and supporting reemployment which were paid by the government. Since the problem of unemployment increased further, the state adopted the *Regulations on unemployment insurance for SOE 'waiting for jobs' workers* in 1993. It is significantly that the terms *unemployment* and *insurance* instead of *job waiting* is used. Hence, the government considered unemployment as a serious problematic. The state enterprises were again the source of finance with 0.6 – 1% of the payroll of all employees. The division was not the task of the enterprises but a state organization on the national level by pooling all finances. Contrary to the dependence on the former wages, a general level a bit higher than the minimum living standard is used. The benefits itself were paid by the enterprises but the administration costs were overtaken by the state (Lee, 2000). Since the unemployment rate still increased, the state adopted the *Regulations on Unemployment Insurances* in 1999 which are still in charge today. The insurance is paid according to the duration of the contribution and it undertakes no longer responsibilities like providing reemployment projects. For the first time, contributions are shared between employers with 2% of the total payroll while employees pay 1% of their wages. The central government participates as an additional finance mechanism to guarantee full benefits for all unemployed person. In case of unemployed former state-sector employees, the government overtakes the complete benefits. The benefits are not based on a national level but on the former wages to react to the differences of living costs in the different areas. Therefore, the height of the finances by the government differs between regions substantially. Consequently, and due to the lack of reliable data, revising national-level statistics is rather difficult. The run of the unemployment rate and the subsidiary expenditure by the state is equal from 2000 until 2006 probably due to the fact that the unemployment insurances are still young and the finance mechanism is still in establishing. Hence, the government needs to fulfil missing finances. It is even surprising that the expenditure increases while the

unemployment rate is getting constant from 2006 on. This could be explained by the fact the average wage increased from 2006 on significantly which influences the minimum wage which in turn assigns the amount of unemployment insurance payments (Tong & Vodopivec, 2008). A further explanation could be that even the unemployment rate does not increase in this time, an absolute higher amount of unemployed people exists due to a greater work force in China as the beneficiaries of the unemployment insurance increased from 235000 in 2006 to 326500 in 2009 (NBS China, 2010e).

A further important social assistance scheme is the Minimum Living Standard Scheme (MLSS) which is regarded as “China’s key social assistance policy” (King-lun, 2010, p. 38) and was aimed to decrease the urban poverty. The central idea is that the local government shall identify local solutions for local problems while being the main expenditure source. Due to the success in Shanghai, where this project was tested, the central government decided to take this scheme over in other cities. From 1992 to 1999, the level of expenditure by the local governments increased more than ten times, but a turning point came in 2001 when the government recognized that the development is uneven in the different cities. Therefore, the central government put more effort into the program and the expenditure increased again five times from 2001 to 2006 to 222 Million Yuan. The MLSS has become the main way to tackle urban poverty. Regardless, the scheme had still a lot of potential since it was assumed that many possible recipients are not registered (King-lun, 2010). Due to the fact that it is still a pilot project, expenditure data for the whole country is not available. But due to its high success rate, it can be assumed that it will increase the government expenditure in the following years.



Graph 14: Social Policies and Leadership Change

The analysis has demonstrated that NRCMCS has a great impact on the health care expenditure as well as BOAIS has great impact on the pension expenditure (here included in social security

expenditure) especially from 2006 on. The coverage of BIMUR is rather small compared to the NRCMCS hence it has probably a lower impact. The other social policies have not showed reasons to be regarded as an activator for increasing welfare effort. In case of the role as an additional finance mechanism for the unemployment benefits, further research is required to investigate the governments' contribution. Hence, the hypothesis *the introduction of social policies leads to higher welfare effort in the future* can be partially confirmed.

During the leadership of Deng Xiaoping, the social policies reforms concentrated on the SOE employees while in time of Jiang Zemin leadership, the first policies for urban registered employees have been introduced. The 7th plan included to build up a social insurances system for the population. It has been demonstrated that the first insurances have just been aimed for SOE employees. It is remarkable that under the leadership of Hu Jintao three major reforms for the rural area haven been introduced. Further, the health insurances have been significantly extended in the urban area for non-workers, also still the residents requirements in terms of the *hukou* system exist. It cannot be stated based on this analysis of the main objective of the 11th plan *building a harmonious socialist society* are fulfilled but it can be concluded that the polices during this plan and the previous plan definitely focused on increasing the living condition of people in the rural area, hence to adapt them to the living standards in the urban area. Consequently, the hypothesis *changing leadership leads to higher welfare effort* can just partially be confirmed.

To conclude this part and to answer the third sub-research question *to what extent do the introduction of social policies and change of leadership show a relation to the increase of welfare state effort in China between 1978 and 2009*, neither the introduction of social policies nor leadership change showed fully explanations for the increase of the welfare effort but rather approaches. Therefore, the subsequently chapter discusses the main results of the three parts of the analysis together.

5. Discussion and Conclusion

This study has started with a theoretical overview of European types of welfare states and its application on China. Afterwards, theories on welfare state transition have been presented and hypotheses have been derived. The three partite analyses has rejected or confirmed them and the answers of the sub-research questions are in the specific parts. Hence, it is now time to deal with the main research question which reads *to what extent does the European welfare state model explains the increased welfare state effort in China between 1978 and 2009?*

The first part of the analysis has shown that the main reason which strikes to call China a welfare state is the political system also the socio-economic situation while introducing social policies is alike (Flora and Heidenheimer, 1981). Thereby it is remarkable that Flora and Heidenheimer regard the democratic political structure as a common characteristic of the European states who are announced as a welfare state but they do not regard it as a prerequisite. Therefore, the analysis of political influences in China in a later part is based on a different conceptualization than in Europe.

Table 6: Overview Testing Hypotheses

Hypothesis	Analysis
Welfare State Formation	
It is expected that the disaggregation of Chinese social expenses resembles the disaggregation of the expenses of states classified in the Conservatism model of Esping-Andersen (1990).	Rejected
Socio-Demographic Factors	

The higher the economic wealth in China, the higher the amount of welfare effort.	Confirmed
The larger the elderly population compared to the general population, the higher the amount of welfare effort.	Partially confirmed
The higher the unemployment rate, the higher the amount of welfare effort.	Rejected
The higher the share of urban population compared to the share of rural population, the higher the amount of welfare effort.	Partially confirmed
The higher the share of state sector employees compared to the share of employees in the private sector, the higher the amount of welfare effort.	Rejected
External Economic Factors	
The higher the degree of globalization, the lower the amount of welfare effort.	Rejected
Political Influences	
Changing leadership leads to higher welfare effort.	Partially confirmed
The introduction of social policies leads to higher welfare effort in the future.	Partially confirmed

From the factors economic wealth, globalization, elderly population and urban population, which are identified as having a relation to the welfare effort, just economic wealth and globalization do not emerge from human needs but from commercial developments. Aging population seem to have a relation to the development of the welfare effort but rather since older people require more welfare effort than while they contribute to higher welfare effort. In comparison, economic wealth facilitates higher welfare effort; it does not directly demand higher welfare effort. The side effects of economic wealth like population aging require higher welfare effort.

Ahn (2005) divided between factors of welfare state analysis remaining outside and inside the welfare program structure and development while Pierson (1996, 2001) distinguished between internal factors coming from within the nation and external factors like openness of economic which reinforce the internal factors. In the case of China, urban population controlled by the *hukou* system does not derive from the welfare state program but is a deep cultural characteristic of China. Economic wealth and population aging do no derive from the welfare state but rather lead to welfare policies. Globalization is factor resulting from the cooperation with other countries. Hence, Piersons distinction applies here in a reasonable way also the reinforcement of the external factors is contrary.

Another distinction is based on *old politics*, leading to welfare state expansion and *new politics*, leading to cost containment (Pierson, 1996). The factors which have a relation to the welfare effort in China are directly identified as factors for welfare expansion since this is the only direction of welfare policies in China. Economic wealth is in both cases a factor for welfare expansion. Globalization was a reason for cut-backs in Europe while a factor for expansion in China. Hence, the starting point of the analysis of globalization is in both areas different. In Europe, the peak level of welfare occurred before globalization started while in China both developed simultaneously. Population aging is one of the greatest pressures for the welfare state in both areas whereby the impacts in Europe are stronger than in China. Reasons are that the complete elderly population is not covered by social assistance and policies like pensions for the rural population are just introduced in 2009.

Concerning the *Chinese* characteristics, it is remarkable that the state adopted several policies explicitly for the rural area which have been identified as schemes with high public expenditure from the beginning of the 2000s. But due to the fact that the welfare effort nearly exploded from 1978 until 2009, it can be argued that people in the urban as well as the rural area profit from it. By keeping the *hukou* system as a strong measure to migrate to the urban areas and introducing own policies for the rural area, the state is able to control a too rapid urbanization process which could have negative side effects like slum formation. Concerning the rejection of the

hypothesis on state sector employees based on Aspalter (2001), the analysis of social policies has demonstrated that the last policy explicitly aimed for state sector employees was adopted in 1993 to deal with the laid-off workers. Hence, this was not aimed to enhance the well-being of them but rather to ensure that they are not an encumbrance for the state. Further, as the co-payment system and the contract law have shown, the state is even not reluctant to cut welfare provision for them. Therefore, based on this longitudinal analysis, it can be concluded that the dominance of SOE employees as welfare beneficiary has lost its importance.

With regard to the political factors, it has already been excluded that the happenings in a democratic state like change of left and right powers in parliament can be used to explain happenings in an authoritarian state. Keeping this in mind, Pierson (1998) argued that the importance of veto players or trade unions grow during the times of *new politics*, hence, when the welfare effort was cut. Therefore, there is the possibility that veto players and trade unions start to play a larger role in social policies affairs in China when the state decreases the welfare effort.

The hypothesis that the urban population is preferred with welfare provisions and the main discrimination of the state privileging state sector employees has decreased significantly. Therefore and due to the fact that the social policies under Hu Jintao are also aimed to a broader range people instead as for instance just for urban formal registered inhabitants, steps towards more *harmonious socialist society* can be observed. This implies a further reason why it would be reasonable to argue that China is still in the expansion modus of social policies (Flora and Heidenheimer, 1980). China is broadening their welfare effort for a larger population. Belonging to *new politics* (Pierson, 1998) would include the specific exclusion of more groups of people. Hence, their politics are approaching a more social democratic tradition of welfare policies instead of a more conservative tradition also it is a long way to label them as social-democratic (Esping-Andersen, 1990).

In Europe, the analysis of new and old politics concerns the period from 1945 after World War II until today, whereby the new politics start at the end of the 1970s. Thus, the development of the social policies until reaching their peak level took around 30 years. The analysis in China started in 1978, what is now around 30 years ago. Hence, it will be curious to reflect the development of social policies in China in some years especially since the current world economic crises is far from being over.

The conceptualization has highlighted the *Dependent Variable Problem*. In China, it reflects indeed the commitment of the state to welfare also it would be biased to use it as the only measure. The best example is NRCMCS which is identified as a major cost for the state. In comparison, the BIMUE has been introduced several years earlier but was restricted to formal urban workers and just backed up by tax deduction by the state.

In 1981, Flora and Heidenheimer developed the three conditions, they probably excluded welfare states which maybe existing in other parts of the world than in Europe. Hence, their conditions are just aimed for this geographical area. However, the critics should be taken serious. Walker and Wong (forthcoming) find the exclusion of East Asian states from Esping-Andersen's classification as insulting and call them an elite club. Personally, I would not go so far but just emphasizing that indeed East Asia, and especially China, and Europe are very different entities with different cultural backgrounds, historical roots and social habits. Hence, also similarities can certainly be found, it is harsh to expect that the same status quo exists, also I have done it by myself in this thesis.

As explained in the section on research objectives, the use of European theories can also serve as a test for their functioning in other areas. In the field of comparative welfare state analysis

theories developed for one area are dependent on social and cultural characteristics. Hence, they cannot be adjusted self-explanatory to another area which is signed by other characteristics. For instance, the World Bank's proposal for pension insurance consists of three tiers, but China developed a five-tier system. Referring to the main research question and having in mind that no theory exists which explicitly aims to explain the transition of the Chinese social policies, until now the European factors have not been explicitly tested for its application in China. Hence, they can be used as a preliminary framework since societal phenomena like globalization or population aging occur in Europe and China but not to explain the transition of the Chinese welfare policies in an inclusive way. To do this, more attention needs to be paid on concepts like *hukou* or laid-off workers. This consideration is also valid for the second research objective which was stated as developing a more holistic picture of China. The thesis has firstly described Chinese characteristics like *hukou* before explaining how they are related to the welfare provisions. But this is just a starting point for further research to get a better understanding for China.

The last point of this thesis concerns the label of China's social policies as it has been demonstrated that it is not reasonable to name the Chinese social policies as a welfare state. Coming to alternative labels, regime is not useful since it refers to a defined period of rule and a procedure of a natural phenomenon. Policy developments are more intentional developments than natural phenomenon. Model refers mostly to examples for imitation or emulation. Contrary, system refers to a unit of "interacting bodies under the influence of related forces" (Encyclopaedia, 2011). The way of introducing a fourth model next to the three by Esping-Andersen is in my opinion not appropriate since the Chinese approach towards social policies too different from the European ones. Hence, the name is Chinese welfare system.

5.1. Limitations and Implications for follow-up Studies

A major concern of the study is that it cannot be said certainly if the identified forces indeed influence the welfare effort or if they coincidentally develop in an equal way. To increase the probability that the forces really have some influence, they are analysed in the overall context of political happenings in China. As already mentioned in section on the research strategy, the main threat concerns internal validity. Hence, it cannot be guaranteed that all possible forces have been identified and that is possible that further forces exist, which determine the development of welfare effort. A further major shortcoming concerns the data availability. Most data sets were just available by the Statistical Yearbook and cannot be double checked. In connection to this point it is especially relevant that the exact contribution of the state cannot be calculated since the contributions differ per regions, the exact amount of participants is not known and the contributions are dependent on the employees own contributions.

During the process of research, several points focused my attention which would exceed the frame of this study. The first point concerns China as itself. During the whole study, I regarded China as one entity also it is very obvious that it consists of many different parts with regard to political division, economical advancement or cultural differences. Especially in terms of the great inequalities it would be interesting to have a closer look on the economic wealth of the single regions to check whether the hypothesis can be confirmed for the single regions. Therefore, I suggest for further research to take regard to the different parts of China, also data availability is also an important point, which needs to be kept in mind. The conceptualization of economic wealth as GDP per capita is also questionable due to the inequalities within China. Measures like Balance of Payment refer to wealth influenced by globalization which would be contradicting to the factor globalization itself since the

factor economic wealth is based on domestic wealth without the influence of globalization. Measures like household consumption expenditure would in turn again be influenced towards inequality.

The conclusion has shown that the *hukou* system excludes many migrants from welfare provision. Therefore, a closer look at the status as a migrant worker would be very interesting. A further very interesting point with regard to China would be a more detailed qualitative and quantitative analysis of the policy changes on employees in SOEs. It has been hypothesized that the higher the share of state sector employees, the higher the amount of welfare effort. Since this has been rejected and it has been demonstrated that the share of welfare effort on state sector employees was surprisingly marginal, it would be interesting to analyze the publications of the policy reforms on this topic by the government.

For the comparison part, European states have been chosen which are on a more industrialized step than China. Hence, it would be interesting to have a look at other so-called BRIC countries to see what their status quo of welfare policies is. Also the reasonable hypothesis dealing with the Conservatism type of European welfare states has been rejected, a further in-depth study would be very interesting. Especially in terms of the finance mechanism of the different social policies areas, it would be interesting to know whether the same instruments have been chosen. Wilensky (1975) stated that it is difficult to assess the government expenditure on housing in European states. Hence, it would be interesting to analyze if the Chinese government makes also use of other instruments like decreasing interest rates to stimulate housing. With regard to the Five Year Plans of the Chinese government, just the main objectives haven't been taken into consideration. Thus, it would be very interesting to analyze in how far more detailed aims for social policies have been published and if they have been achieved.

The observed time frame goes from 1978 until 2009. As the analysis has shown, the most interesting developments have been taken place in the last years. Hence, it would be interesting to repeat this study in some years.

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7. Appendix

7.1. Literature Overview

Framework: European Welfare State Studies		
Abrahamson, M. (1978), Ahn S. (2005), Amenta (2003), Amenta, E. & Skocpol T. (1986), Arts, W.A. & Gelissen, J. (2002), Castles, F. G. (2005), Esping-Andersen, G. (1990, 1998), Flora, P. & Heidenheimer A.(1981), Green-Pedersen, C. (2004), Hong, P. (2007), Kersbergen. K. van (1995), Marshall, T.H. (1963), Pierson, P. (1994, 1996, 1998, 2001), Starke, P. (2006), Wilensky H. (1975)		
Comparative Welfare State Studies (Europe-Asia/just Asia)...		
Aspalter C. (2006), Gough, I. (2000, 2001, 2004), Gough, I. (2001), Gough, I. (2004), Holliday, I. (2000), Hort, S. & Kuhnle S. (2000), Jacobs, D. (2000), Kwon H. (2002, 2005, 2009), Lee Y. & Ku Y. (2007), McLaughlin, E. (1993), Wilding P. (2000)		
... with a special emphasize on China		
Aspalter C. (2001), Goodman R., Kwon H. & White G. (1998), Lin, K. (1999), London J. (2008)		
China Social Policy Studies		
Across Time Chen H. (2003), Gu, E. X. (2001), Li X. (1999), Mack L. (2011), Philion S. (2007), Stepan M. (2008)	General/Overview Feng Y. & Gizelis I. (1999), Kuhnle S., Sander A., Schmitt C. (2007), Lin, K. (1999), Stepan M. (2008), Walker A. & Wong C. (forthcoming)	After Topics Pension Adema W., Salditt, F. & Whiteford (2007), Baolian C. et al. (2009), Chu, G. & Song, S. (1997), Feng J. et al. (2009), Frazier, M. (2004), Hu, Y. & Stewart, F. (2009), Mok, K. & Shi, S. (forthcoming in 2012), Price, M., Shen, C. & Williamson, J. (2012); Shen, C. & Williamson, J. (2010) Unemployment Giles J., Park A. & Zhang J.(2004), Lee, V. (2000), Tong, M. & Vodopivec. (2008) Health Barber S. & Yao L. (2011), Blumenthal M. & Hsiao, W. (2005), Carlton E. et al (2012), Chen, G. et al (2009), Chou W. & Wang Z. (2009), Deng, Z. & Guo, H. (2012), Grogan M. (1995), Huang, X. (2011), Qichao, S. (2009) Social Assistance King-lun, N. (2010), Liu J. (2011), Wang M. (2007)
Data NBS China (several years), ILO; CIA World Factbook	Paradigm Shift Chen, S. (2002), Chen, S. (1996), Fan, C. (2006), Mok, K. (2006), Wong, L. (2004)	

7.2. Dataset Disaggregated Welfare Effort Finland, Germany, UK and China

	2001	2005	2009		2001	2005	2009
	Health Care Expenditure as % of GDP				Expenditure on Housing as % of GDP		
Finland	5,9	6,9	7,9	Finland	0,2	0,3	0,3
Germany	6,7	6,7	7,3	Germany	0,2	0,1	0
UK	5,9	6,9	8,4	UK	1,2	1,1	1,4
China	0,7	0,8	1,4	China	7,4	7,18	5,41
	Expenses for Disabled as % of GDP				Expenditure on Pension as % of GDP		
Finland	4,3	4,4		Finland	8,7	9,2	
Germany	2,9	2,7		Germany	9,9	10,1	
UK	2,8	2,8		UK	7,1	7,4	
China	0,06	0,08		China	2,11	2,21	
	Expenditure on Education as % of GDP				Expenditure on Social Security as % of GDP		
Finland	6	6,2	6,6	Finland	20,1		24
Germany	4,2	4,1	4,3	Germany	21		21,2
UK	5,3	6,2	7	UK	15,2		18
China	3,5	2,15	2,9	China	5,24		11,96
	Expenditure on Social Security incl. Housing, Health and Education as % of GDP						
Finland	32,3		38,8				
Germany	32		32,8				
UK	27,5		34,8				
China	16,62		21,67				

7.3. Dataset Disaggregated Expenditure China

Year	Government Expenditure for Medical and Health Care (in 100 Million RMB)	Government Investment in Residential Building in 100 Million RMB	Government Expenditure for Education (in 100 Million RMB)	Government Expenditure for Social Safety Net and Employment Effort in 100 Million RMB	Government Expenditure for Social Safety Net and Employment Effort (includes inter alia)					Government Expenditure for Social Security (incl housing), in 100 Million RMB	Government Expenditure for Social Security, in 100 Million RMB
					Relief Funds	Expenses Handicapped and Disabeld	Expenses on Disaster Relief	Pension for Retires of SOE	Others		
1978	35,44	123,3	75,05	18,91	4,62	2,93	9,02	2,34		252,70	129,40
1979	40,64	159,5	93,16	20,11	5,41	3,57	10,24	2,89		313,41	153,91
1980	51,91	192,2	114,15	20,31	5,36	4,51	7,03	3,41		378,57	186,37
1981	59,67	203,4	122,79	21,72	5,08	4,54	8,66	3,44		407,58	204,18
1982	68,99	211,3	137,61	21,43	5,45	4,86	7,64	3,48		439,33	228,03
1983	77,63	389,5	155,24	24,04	6,58	5,39	8,45	3,62		646,41	256,91
1984	89,46	462,3	180,88	25,16	7,92	6,2	7,4	3,64		757,80	295,50
1985	107,65	523,4	226,83	31,15	7,71	7,13	10,25	4,88	1,18	889,03	365,63
1986	122,23	674,4	274,72	35,58	8,69	8,77	10,64	5,77	1,71	1106,93	432,53
1987	127,28	701,4	293,93	37,4	9,04	9,87	9,91	6,68	1,9	1160,01	458,61
1988	145,39	743,3	356,66	41,77	9,73	11,32	10,64	7,59	2,49	1287,12	543,82
1989	167,83	897,3	412,39	49,6	10,8	14,43	12,88	8,56	2,93	1527,12	629,82
1990	187,28	1146,4	462,45	55,04	12,07	16,61	13,33	9,6	3,43	1851,17	704,77
1991	204,05	1282,5	532,39	67,32	13,18	17,21	22,51	10,32	4,1	2086,26	803,76
1992	228,61	1429,3	621,71	66,45	14,36	18,45	15,89	12,4	5,35	2346,07	916,77
1993	272,06	2512,9	754,90	75,27	17,01	20,78	15,4	14,09	7,99	3615,13	1102,23
1994	342,28	3311,2	1018,78	95,14	20,55	24,78	19,42	20,12	10,27	4767,40	1456,20
1995	387,34	4426,9	1193,84	115,46	24,19	29,11	27,27	22,78	12,11	6123,54	1696,64
1996	461,61	5013	1877,95	182,68	28,98	32,78	39,06	10,67	16,54	7535,24	2522,24
1997	523,56	5205,7	2262,34	328,42	36,57	37,62	34,51	13,51	19,93	8320,02	3114,32
1998	590,06	6217,2	2531,73	595,63	35,29	40,38	52,32	16,24	27,03	9934,62	3717,42
1999	640,96	6850	2949,06	1197,44	48,52	54,57	34,05	19,68	23,06	11637,46	4787,46
2000	709,52	7381,8	3349,04	1517,57	59,71	59,72	28,73	23,72	41,15	12957,93	5576,13
2001	800,61	8141	3849,08	1987,4	89,99	69,86	35,17	30,26	41,4	14778,09	6637,09
2002	908,51	9166,6	4637,66	2636,22	141,63	60,03	32,93	41,28	97,1	17348,99	8182,39
2003	1116,94	10499,9	5480,03	2655,91	217,69	99,15	55,71	42,19	84,08	19752,78	9252,88
2004	1293,58	13012,3	3365,94	3116,08	266,58	107,92	49,04	49,57	89,54	20787,90	7775,60
2005	1552,53	13283,5	3974,83	3698,86	324,22	148,28	62,97	55,57	125,35	22509,72	9226,22
2006	1778,86	13140,8	4780,41	4361,78						24061,85	10921,05
2007	2581,58	14628,2	7122,32	5104,52						29436,62	14808,42
2008	3593,94	15940,4	9010,21	6804,29						35348,84	19408,44
2009	4816,30	18420,5	9869,92	7606,68						40713,40	22292,90

7.4. Data Subsidiary Expenditure on Insurances and GDP

	Social Insurances (in 100 Million RMB)						GDP in 100 Million RMB
	Basic Pension Insurance	Unemployment Insurance	Basic Medical Care Insurance	Work Injury Insurance	Maternity Insurance		
1978							3645,22
1979							4062,58
1980							4545,62
1981							4891,56
1982							5323,35
1983							5962,65
1984							7208,05
1985							9016,04
1986							10275,18
1987							12058,62
1988							15042,82
1989	118,83	2,02					16992,32
1990	149,34	2,54					18667,82
1991	173,07	3,04					21781,50
1992	321,91	5,15					26923,48
1993	470,63	9,30	1,33	0,41	0,50		35333,92
1994	661,09	14,20	2,91	0,94	0,81		48197,86
1995	847,61	18,87	7,28	1,81	1,58		60793,73
1996	1031,87	27,29	16,23	3,70	3,29		71176,59
1997	1251,33	36,33	40,50	6,09	4,91		78973,04
1998	1511,63	56,07	53,30	9,04	6,85		84402,28
1999	1924,85	91,64	69,07	15,42	7,13		89677,05
2000	2115,48	123,43	124,54	13,80	8,35		99214,55
2001	2321,26	156,57	244,10	16,49	9,59		109655,17
2002	2842,91	186,57	409,36	19,89	12,78		120332,69
2003	3122,10	199,80	653,90	27,10	13,50		135822,76
2004	3502,10	211,00	862,20	33,30	18,80		159878,34
2005	4040,30	206,90	1078,70	47,50	27,40		184937,37
2006	4896,66	198,01	1276,74	68,49	37,49		216314,43
2007	5964,90	217,60	1561,80	87,90	55,60		265810,31
2008	7389,60	253,46	2083,60	126,90	71,50		314045,43
2009	8894,43	366,79	2797,41	155,68	88,26		340506,87

7.5. Social Security Characteristics of Provinces in China

Table 7: Sources: Chou & Wang (2009), Frazier (2004)

	Pension Expenditure per capita in RMB (1998)	Pension Expenditure per Capita in RMB (2000)	Per Capita public health care expenditure in RMB incl. costs for hospitals etc. (2004)	Social Security per Capita in RMB (1999)	Social security per Capita in RMB (2005)	
Beijing	7,76	9,19	62,65	27,2	163,2	
Tianjin	6,37	7,165	44,42	109,9	356,7	Provinces:
Hebei	6,379	7,24	12,78	18,5	105,8	North
Shanxi	5,72	6,5	30,36	37,2	167,2	Northeast
InnerMon	5,44	6,88	22,79	41,4	136,1	Central
Liaoning	4,94	5,99	15,49	117,7	391	Coast
Jilin	5,41	6,93	23,91	77,9	386,2	South
HLJ	5,2	6,52	14,65	109,6	287,5	West
Anhui	5,6	6,59	13,59	18,2	79,2	
Jiangxi	4,2	5,45	10,25	19,4	91,2	
Hubei	5,73	6,74	23,03	26,4	124,6	
Hunan	5,06	6,2	12,31	29	132,8	
Shanghai	6,83	7,4	91,06	30	405,4	
Jiangsu	6,175	7,46	21,09	9,1	85,2	
Zhejiang	7,03	8,18	22,76	8	59,1	
Guangdong	6,16	7,4	59,97	24,1	42,8	
Fujian	5,21	6,42	16,14	10,8	29,1	
Shandong	6,7	8,33	22,82	12,5	63,6	
Guangxi	5,08	6,32	13,2	10,7	66,4	
Sichuan	5,18	6,24	11,74	19	98	
Guizhou	5,69	7,12	11,83	15,6	68	
Yunnan	7,39	8,96	20,8	18,8	65,2	
Shaanxi	5,58	6,76	21,32	25,3	205,8	
Gansu	6,76	8,34	22,93	21,9	183,2	
Qinghai	7,89	8,61	52,61	100,4	251,1	
Ningxia	5,85	6,76	20,21	36,4	118,1	
Xinjiang	7,155	7,85	35,77	26,8	117,5	

7.6. Objectives Five-Year Plan

Table 6: China Daily (2011), Mack (2011)

Planning Phase	Main Objectives
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Fifth Plan (1976–1980)	<u>1976-1985 Ten Year Plan Outline of Developing National Economy</u> Outline of Developing National Economy <ul style="list-style-type: none"> - Set up an independent and comparatively complete industrial system and national economic system from 1978 to 1980 - Principles of readjustment, reform, rectification and improvement
Sixth Plan (1981–1985)	Keep pursuing the principle of <u>“adjust, reform, rectify and improve”</u> <ul style="list-style-type: none"> - Overcome the various challenges to economic development - Achieve a decisive turn in the fiscal situation
Seventh Plan (1986–1990): First time in China’s history that an all-round plan for social and economic development was created at the start of a new five-year plan.	<ul style="list-style-type: none"> - To put reform at the top of the agenda and coordinate economic development with reform - To maintain a basic balance between overall social demand and supply, between the national budget, credit and materials - To improve economic efficiency, especially that of product quality; to properly handle the relations between efficiency and growth rate, and quality and quantity - To adapt to the changing structure of social demand and the demands of economic modernization, and to further adjust the industrial structure - To regulate fixed asset investments, readjust the investment structure, and speed up the construction of the energy, communications, telecommunications and raw materials industries. - To shift the construction focus to the technical updating, reforming and extending of existing enterprises. - To further the development of science and education. - To further open up to the outside world, combining domestic economic growth with expanding external economic and technological exchanges. - To further improve the material and cultural life of all Chinese. - To strenuously boost the construction of a socialist ideological civilization along with the construction of a material civilization
Eighth Plan (1991–1995)	<ul style="list-style-type: none"> - Continued reform of the economic system, particularly the tax system - Improve product quality and economic efficiency and manage growth rate so that the quantity and quality of goods is not sacrificed - Continued development of foreign trade - Continued improvement of the standard of living and cultural life of Chinese - Continued rise in energy, communications, telecommunications and raw material production
Ninth Plan (1996–2000): It was the first medium-length plan made under a socialist market economy, and a cross-century development strategy	<ul style="list-style-type: none"> - Complete the second phase in the modernization drive - Cap population growth at 300 million by 2000 - Quadruple per capita GNP as compared to 1980 - Eliminate poverty - Speed up the establishment of a modern enterprise system - Continue to build the socialist market economic system.
Tenth Plan (2001–2005)	<ul style="list-style-type: none"> - Achieve an average annual economic growth rate of about 7 percent. - Achieve a GDP of 12,500 billion yuan by 2005, calculated at 2000 prices, and per capita GDP of 9,400 yuan. - Increase the number of urban employees and the number of surplus rural laborers transferred to the cities to 40 million each, thereby controlling registered urban unemployment rates at about 5 percent. - Keep prices stable, and to maintain the balance between international revenue and expenditure - Optimize and upgrade the industrial structure, and strengthen China’s international competitiveness - Achieve growth for the primary, secondary and tertiary industries at the rates of 13, 51 and 36 percent respectively of GDP, with those employed by these industries accounting for 44, 23 and 33 percent of the total number of employees in the country - Improve the national economy and social IT levels. - Kick-start the operations of more infrastructure facilities - Bring the development disparity between regions under effective control, and raise levels of urbanization. - Raise research and development funding to more than 1.5 percent of GDP, and strengthen sci-tech innovation capabilities, thereby speeding up technological progress. - Increase gross enrolment rates in junior high schools, senior high schools and higher education institutions to over 90 percent, 60 percent and 15 percent respectively. - Reduce natural population growth rate to less than nine per thousand, and capping population at no more than 1.33 billion by 2005. - On the environmental front, to increase forest coverage to 18.2 percent, and the urban green rate to 35 percent. The total amount of major urban and rural pollutants discharged will be reduced by 10 percent as compared with 2000, and more measures would be taken to protect and save natural resources.
Eleventh Plan (2006–2010)	<u>Harmonious Socialist Society</u> <ul style="list-style-type: none"> - Scientific Development: sustainable development, social welfare, a person centred society and increased democracy - People oriented Development: Social Justice, social equality Detailed Goals: <ul style="list-style-type: none"> - Building a resource-efficient and environment-friendly society --Rejuvenating the country through science and education and strengthening the nation with talent - Deepening system reform - Implementing mutually beneficial and win-win opening up strategy - Building a harmonious socialist society - Reinforcing construction of socialist democracy and politics - Strengthening construction of socialist culture

- Strengthening construction of national defense and the military
- Establishing and improving implementation mechanism

7.7. Overview Social Policies, Coverage and State Role in Financing

Policy	Introduced	Coverage	Actual Coverage	Government Subsidies
Health				
Government Insurance System	From Maoist Time	Government Employees	50% of their families	80% from the state enterprises' retained earnings, 20% of provincial government receipts by taxes
Labor Insurance System	From Maoist Time	SOE employees From 1983: Contract law	50% of their families	80% from the enterprises' retained earnings, 20% of provincial government receipts by taxes
Basic Medical Insurance for Urban Employees	1996	Formal urban employees	2006: 28% of urban inhabitants, 64% of urban employees	Tax deduction
New Rural Cooperative Medical Care System	2003	people in rural area	2009: 94% of rural population	At least 30RMB per participant per year
Basic Medical Insurance for Urban Residents	2007	informal sector workers, migrant workers, disabled and other non-working people	2008: 26 million people (about 60%)	At least 20 RMB per participant per year
Pension				
Pension Insurance	1951	Retires of SOEs		Completely by state enterprise
Basic Old-Age Insurance System	1990	SOE workers	Constantly around 50% of target population, from 48,17 million in 1990 to 122,5 million in 2003	8% of the individual's wages whereby 5% are contributed by the state
Basic Old-Age Insurance System	1997	Formal and informal urban employees		8% of the individual's wages whereby 5% are contributed by the state
Unemployment				
Interim Provisions on Workers' Job-Waiting Insurance in SOEs	1986	SOE employees	Not available	1 % of payroll of state enterprises
Regulations on unemployment insurance for SOE 'waiting for jobs' workers	1993	SOE employees	Not available	0.6 – 1% of payroll of state enterprises
Regulations on Unemployment Insurances	1993	Formal workers in urban and rural area	326500 in 2009	additional finance mechanism