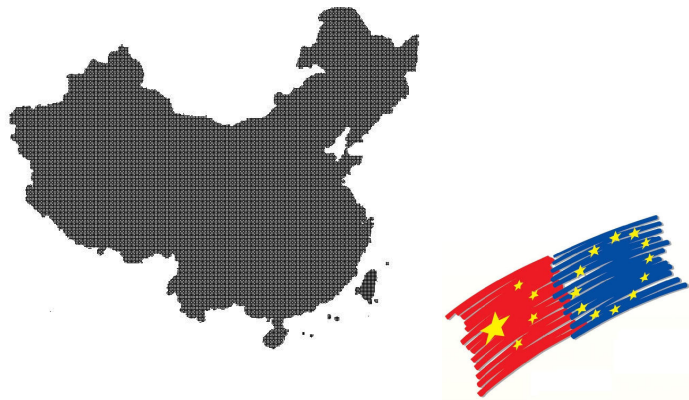


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Master in International Public Management and Public Policy  
Academic Year 2007/2008

# The development of the Chinese Welfare State and the prospects of EU Policy Diffusion



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## ACKNOWLEDGEMENTS

My first and utmost thanks I want to direct to Prof. Anton Hemerijck who acted as my supervisor. Without his guidance, constant support and trust in my work the project could not have been realized in the underlying form. Equally I want to thank all the scholars and staff involved in the IMP Programme at the Erasmus University of Rotterdam, here my special thanks goes to Prof. Frans van Nispen, the director of the programme who also acted as the second reader.

In the IMP – year and especially the time in which I conducted the research for my project and the later wrap-up I did benefit of the content of the curricula and the input from professors and fellow students. In respect of the latter, I want to thank Steffie E. and Youssef - I am deeply convinced that discussing our projects, set-backs same as advancements constituted a major trade-off for our individual projects not loosing confidence to finally finish with them.

In the last nine month I learned that doing research can be a hard task involving the consumption of a lot of energy, patience and motivation. This observation does not only hold true for the person that is doing the research, but also all the ones that become a part of the research by taking the time for providing information, asking critical questions, giving recommendations and also all those ones who remind you that there is a life out there and herewith contribute that you can keep up your motivation.

A major input for a better understanding for the institutions of the current Chinese welfare system came from Prof. Lin Ka and Prof. Zheng Bingwen. Furthermore I want to thank all the contacts in the European Commission, the Delegation of the European Commission in Beijing and the persons involved in the EU China social security reform project who were helpful for retrieving first hand information on the cooperation between the EU and China in the field of employment policy.

Last but not least I want to express my gratitude to all those of my friends who became a part of this work supporting me by one or more of the above listed contributions. Thank You: Alex, Andreas, Baozi, Cheryl, Chris, Christian, Fianne, Hanli, Huanlei, Janine, Jun, Meimei, Mickey, Roxy, Silvia, Steffie L., Steffie P., Thomas, Tobi, Tonia und Zhang Xin.

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## Abbreviations

CCP	–	Chinese Communist Party
cf.	–	confer to
COE	–	Collective owned enterprises
EU	–	European Union
EC	-	European Commission
GDP	–	Gross Domestic Product
GLF	-	Great Leap Forward
GPCR	–	Great Proletarian Cultural Revolution
ibid.	-	ibidum
IMF	-	International Monetary Fund
ILO	-	International Labour Organisation
OECD	-	Organisation of Economic Cooperation and Development
PRC	–	People’s Republic of China
SOE	-	State owned enterprises
UN	-	United Nations

## INTRODUCTION

“China to become a Welfare State by 2049” (China Daily 2008) was a recent headline in Chinese media. The report on the Chinese Welfare State provided by a team of scholars supported by Chinese ministries made further specifications of three development stages and required mile stones to establish a socialist welfare society with Chinese characteristics by 2049.

On the one hand this article confirms that in the current situation the Chinese Welfare system is not yet mature and underlines the awareness of the government that decisive steps have to be taken to make it meet with the current and future challenges for social policy making, on the other hand it leaves the question open how this Welfare State will look alike. Against this background it is an interesting task to do research on which characteristics a prospective Chinese Welfare State could feature and herewith underlines the relevance of the underlying research project.

In the last thirty years the Chinese Welfare System underwent major reforms. From a historical perspective the year of 1978 does not only mark a turning point for the Chinese economic system but also the Chinese Welfare system; with the launch of major economic reforms and opening-up for foreign business and investment it equally triggered far reaching transitional challenges. After China opened its markets on a piecemeal basis for international trade and foreign investment this step soon paid-off in form of high economic growth rates, same as its rising influence in international politics. On the negative side of the balance sheet the traditional welfare institutions were undermined and became dysfunctional, whereas it took longer to establish new ones to answer the new social problems as for example mass lay-offs, the ageing society and a change in the family patterns. The unbalanced economic and social development of the country yet constitutes the most serious challenge - the gap between rich and poor, individuals same as territorial units that started to widen extensively in the years after 1990s to present. These imbalances “are threatening stability and pressuring Chinese leaders to establish more socially responsive institutions” (McNally 2008). In the process of industrialization, liberalization and the integration in the international economic system by joining the WTO - achievements for which the Chinese government had been aiming at by setting clear priorities on economic growth along the principles of privatization, deregulation and marketization- the responsible factors were soon identified. Initiatives as for example the introduction of partly funded pension and minimum income schemes in urban areas in the 1980 and 1990s. These were taking place under a developmentalist paradigm and were mainly restricted on urban dwellers. A general improvement of the situation could not be realized and a new approach was required.

First signs of a shift in the development paradigm have been perceived at the end of the 1990s but it took until 2002 that the Central Government and the Communist Party of China have made a decisive shift in their policy orientation. Framing its new development paradigm with a discourse of “Scientific Development” and the objective of establishing a “harmonious socialist society” the reform projects in the field of social policy same as the introduction of modern labour market legislation gained

momentum. The content of the discourse serving as guideline for the reform of the economic and social systems making sustainable development, social cohesion and individual development key features is showing in this respect parallels with the Lisbon Strategy of the EU.

Comparative Welfare State research provides a number of distinct approaches to explain the emergence and development of Welfare States, although most of them are developed building on the political history in Western democratic countries they will be useful to study the development of the Chinese case. Such an exercise will be a difficult one, since as Pomeranz (2000) states that China is due to its size, population and internal diversity more comparable “to Europe as a whole than to individual European countries” (ibid. 7).

From a functionalist perspective, represented by Harold Wilensky, Welfare States are a “functional response to the new social problems that emerged with industrialism, urbanization, demographic alterations in the populations, and the maturing of the capitalist economy” (Meier-Jaeger/ Kvist 2003: 577). Derived from this viewpoint is the scenario in which the Chinese Welfare State development will be similar to the one in Western democratic countries and will close up or even converge with the Welfare States in the latter in the long run while answering the challenges that grow more and more alike.

In the 1990s institutional perspectives on the Comparative Welfare State research became most prominent. Starting out from the early typology of Gøsta Esping-Andersen – the three Worlds of Welfare Capitalism (1990) – the approach become ever more sophisticated taking the respective institutional environment as explaining variable for welfare state diversity. Latest innovations of the approach include an understanding of the role of social learning for Welfare state change.

When comparing the conditions for industrialization and the set-up for Welfare States of the Western democracies and the one of China two observations can be made; first of all in the Chinese case both processes took place in a much shorter period of time, secondly China is more constrained in the choice for a system since the international economic and financial integration has created new regulations and restrictions for state action, thirdly the availability of foreign experience in the field constitutes a clear advantage for China. By leaving its path of self-reliance and establishing contacts to foreign countries and international governmental organisations in the run of the opening-up China can really profit of the latter. Not any longer stigmatizing everything originating from the capitalist West, the use of foreign knowledge and techniques was even promoted in the media – a slogan that became prominent in this respect is “linking up with the international track” (Wang 2007). The ideological strains for making use of foreign expertise in establishing a modern sustainable national welfare system under market conditions were equally broken not at last by the current discourse of Scientific Development that advocates policy exchange with foreign entities. Since Western countries have shown a strong interest in the process of the reform of the Chinese Welfare State a number of official



cooperation agreements in the field of social and employment policy have been established, out of which there is one to be studied in detail in this research project.

As mentioned earlier the new development paradigm of the PRC shows some parallels with the one of the EU. The Lisbon Agenda is concerned with the achievement of sustainable development and social cohesion and builds around the instruments for an effective coordination mechanism in employment and social policy guaranteeing social cohesion and a labour market with common standards. The fast enlargement of the EU in the early days of the new millennium brought the adhesion of former communist countries and resulted in a huge internal diversity in respect of the socio-economic development stage - close to the one within China. Although the political history and political system of the two entities are as different as they can be, the challenges of the Central Government in the PRC and the European Commission of coordinating the diversity are highly similar as is their preference for technocratic solutions.

The academic interest in the relationship between the two entities has recently grown. So far the majority of the research covers the form, role and evolution of the partnership since 1975 and its implications for the future world order (cf. Mergenthaler 2007). Shambaugh, Sandschneider and Zhou (2008) offer a comprehensive overview of the EU-China relations from an International Relations perspective and provide general information on a number of cooperation in functional areas. The question put forward by Grant and Barysch "Can Europe and China form a new world order?" (cf. Grant/ Barysch 2008) is also highly relevant for the policy realm of employment and social policy, since global governance has an ever stronger influence on domestic social policy making. A shared policy paradigm could have a decisive impact on the formation of a future global social policy. Research on the structure and content of the cooperation in the field of employment and social policy between the two entities has so far not been conducted.

Against this background the cooperation between the EU and the PRC China in the field of employment and social policy shall be made a case study to research the content and influence of policy transfer on the reform of the Chinese Welfare State.

Taken its recent past as planned economy, the transitional challenges, the huge population number, its one party system and last but not least the regional and cultural diversity unified in a longstanding history of a Chinese state China constitutes a unique case in more than one aspect. Making use of the theories and methods developed in doing research on the emergence and development of Welfare States in the Western industrialized countries and the newer discipline of studying the Welfare State developments in industrializing countries in East Asia is the approach to study the Chinese case. The main research question to be answered is if China follows in its development of a Welfare State the footsteps of Western or East Asian countries which have been industrializing at an earlier point of time or develops a genuine Welfare state model. Special attention will be paid to the role played by internal

pressures and constraints for reform, same as by policy transfer. Answering this question has both - a practical and a scientific relevance. In respect of the first it helps to shed on light on the reform trajectory of the Welfare State in the PRC and the future viable options; secondly by applying theories and models that have been developed according to experience in Western countries the study gains in academic relevance, since it can serve as a test for their external validity.

The research project is divided into four parts. In the first part there will be an outline of the theories developed to explain the welfare state development and its reform in the West. The set-up of the research design and the presentation of the applied methods will constitute the second part. Third will be the empirical part that is subdivided in three parts: the first will be dedicated giving an overview of the socio-economic developments in China in the time under research; the second will provide a chronological overview of the development of the Chinese Welfare state and decisive policies from the 1950s to present, setting a focus on identifying critical junctures in the development; the third and last part will be a case study on the role of policy transfer for the social policy making in China. As case the EU- China cooperation in Employment and Social Policy has been chosen. Following on the empirical part, there will be a part on the analysis of the results in face of the theories introduced in the first part of the thesis.

## INTERNATIONAL COMPARATIVE WELFARE STATE RESEARCH

Before a research design can be set-up the theories that are relevant and useful for the conduct of the research shall be presented in this part along with publications that are relevant for the approach of the research topic. Two scientific approaches are prevalent in explaining the emergence, evolution and reform of welfare states: functionalism and institutionalism. These two approaches shall be presented hereafter in two separate paragraphs.

### I. An outline of Comparative Welfare State research

Due to the European Integration as an example of regional economic and political integration and economic internationalization<sup>1</sup>, the interest in *comparative welfare state* and *comparative social policy research* has been growing in recent years (cf. Clasen 1999: 3) and is slightly developing into a real international discipline.

Whereas *comparative welfare state research* concentrates on Welfare state institutions, the level and variation of national social spending, *comparative social policy research* is focusing mainly on one single policy stream like for example family policy. It must be clearly stated at this point, that social policies are deeply connected to the welfare state system they belong to; no comparative study on Welfare States can be conducted independent of doing research on the underlying social policies. Although the focus of research is different, researchers in both fields share the “problem to ensure comparing ‘like with like’” (Mabbett/Bolderson as cited in Clasen 1999:54). This problem can be split up in various sub-categories: e.g. the naming of programs, the taxonomy of social protection and the reliability and comparability of national statistics.

Comparative Welfare State research traditionally features the Western Welfare States as for example Britain, Germany, France, USA and the Scandinavian countries. Currently the reform efforts of the Welfare States in face of economic austerity, raising unemployment figures and the ageing society are the prevalent issues in the academic community and the results have in many cases also a direct relevance for practitioners in the field. Without doubt economic internationalization and global governance have further fuelled the interest in comparative welfare state research and developed into another explaining variable for welfare state change. The EU as the most advanced project of economic and political integration rendered comparative studies within Europe more relevant than ever. Comparative studies on single policy streams across EU member states have become a

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<sup>1</sup> A process that is often been named as Globalisation. Since the term Globalisation comprises much more than just the process of economic and political integration it is less precise. For a discussion of the term Globalisation see Scholte (2005).

prominent field of research including the coordination efforts of the EU in social and employment policy. Good examples are the studies on the implementation of active labour market policies and their impact in different countries (see Tergeist/Grupp 2006; Eichhorst 2007). In the run of these comparative research efforts the methods and research designs have been refined. The influence of policy learning and the role of policy transfer on Welfare state reform has developed into a widely accepted thesis (cf. Arts/ Gelissen 2002).

Next to the intra-EU studies it is mainly OECD member countries that can be found as cases in comparative studies. Non-member countries in other regions of the world are still largely neglected by welfare state analysts (cf. Aspalter 2001). Haggard and Kaufman (2008) support this by stating “comparative study of social policy in developing countries is of recent vintage” (ibid.: 1). Their book *Development, Democracy and Welfare States* features twenty-one middle-income countries drawn from the regions Latin America, Asia and Eastern Europe studying the characteristics of the respective welfare states and the underlying causes. Three of the major transitional countries- China, the Russian Federation and India - are not part of the sample. Especially the study on the development of the Welfare State in these emerging economic global powers could provide valuable information on the framework and constraints for the development of the welfare state arrangements of the future. Yet the academic coverage of the development of their respective Welfare State systems that go beyond descriptive studies is so low, that every comparison with foreign entities with valuable research outcomes is hard to achieve.

Research on the Welfare State system and individual policies in the PRC remain mainly descriptive or constrained on a certain time period. Dixon for example gives an overview of the development of the Chinese Welfare State from the 1950s to 1978. Li (2005) does research on the Chinese Welfare state in the 1990s using the Welfare state regime approach and comes to the conclusion that China “shows strong elements of convergence with East Asian capitalist societies”, while yet remaining its distinct indigenous elements (cf. ibid.).

Other scholars do research on the influence of the international environment on the Chinese Welfare state. Guan (2001) studies the impact of the entry of the PRC to the WTO on the Chinese domestic social policy. Zhou (2008) views the general developments of economic reform and neoliberal globalization and its impact on China. Since many policies in China are introduced on a trial an error basis, there is also literature on these experiments available. In respect to the Chinese social security system Lin and Kangas (2006) provide a categorization and detailed overview of its development.

Experts of the World Bank and the IMF do research on the application of best practice and the compliance in China with international norms, for example in establishing a social security system, reforming its pension or health insurance system.

In many cases different aspects of Social policy are researched with reference to Western European experience and models. An approach of comparing the Welfare State in China with its Western counterparts or the ones in other East Asian nations including the feature of policy transfer has so far not been followed.

## **II. Functionalism**

Functionalism in social sciences is a paradigm developed in the 20<sup>th</sup> century and prevalent in many major classical theories. In what respect it has been used for explaining the emergence and development of welfare states shall be outlined in this paragraph.

### **1. History and basic features of Functionalism**

Functionalism in social sciences has been strongly influenced by the system models developed in biology and other natural sciences. The conceptualization of a system therefore marks the start of any application of the paradigm. Central to the functionalist argument is the notion “form follows function” (cf. Groom 1975) whereas human rationality is playing a minor role- system needs are viewed “as inherent rather than intended” (Abrahamson 1978: 9). Other sources of influence on functionalism are structural theories. Functionalism often included in structural theories and most functional theories involving at least some concern with structure (cf. Abrahamson 1978: 13-14) lead to a variety of functionalist theories differing mainly in the units of analysis.

Durkheim’s structural- functionalism is the most influential approach and decisive for the further development of functionalism<sup>2</sup>. He emphasized and differentiated as first scholar between structure and function. Whereas the forms (structures) of taken the governments as example “vary from society to society (...) they function in highly similar ways” (Abrahamson 1978: 25). Society is conceptualized as “an organic social system” (ibid.: 25), as an external order- as “external restraint and regulation, and non-reducibility” (ibid.: 21). An innovation in his research effort is the introduction of “the term “function” to refer to practices that satisfy the general needs of the social organism” (ibid.: 23). It was Pareto who made a central contribution to the approach by explaining the relationship between cause and function. He “argued that simple, one-sided causal models rarely were congruent with the way social phenomena operated” (Abrahamson 1978: 24) and herewith rejected the method of isolating factors. In his view social phenomena are always the result of a number of interdependent factors functioning simultaneously. Together Durkheim and Pareto established a functionalism that set an end to the prior prevalence of evolutionary theories of society.

### **2. Functionalism and Comparative Welfare State research**

In the mid-1960s research on the phenomenon of the emergence and development of Welfare States became a prominent field of study. The scholars of the time explained it as a “functional response to the new social problems that emerged with industrialism, urbanization, demographic alterations in the populations, and the maturing of the capitalist economy” (Meier-Jaeger/ Kvist 2003: 577).

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<sup>2</sup> For a discussion of different varieties and representatives of functionalism see Abrahamson (1978: 19- 36).

Harold Wilensky became one of the central figures of scholars applying functional theories on the subject matter and coining the term 'logic of industrialism'<sup>3</sup> which incorporates the above mentioned explanation. In their famous book "Industrial society and social welfare" - first edition published in 1958 - Wilensky and Lebeaux argue "that industrialism lead to structural change and that this change had accumulated demands for social policy in regard to protect unemployment, old-age, industrial accidents, physical illness, as well as to answer the problem of social deviancy and poverty" (Wilensky and Lebeaux 1965 as cited in Lin 1999: 113). In this very book that is mainly built on the observations of the development of the American Welfare State Wilensky and Lebeaux identify the major challenges that originate in industrialization as cause that requires social policy making as responsive function. For them there exists a clear relation between the cause and the response: the differences between the Welfare States of individual countries are explained by the degree of industrialization of the respective countries and they state; "the more industrialized the nation, the larger the slice of its national income spent on welfare services." (Wilensky/ Lebeaux 1965: x) In his later work Wilensky explicitly excludes factors such as the political system, the economic system or elite ideology as explanatory variables for the difference in Welfare State systems; strongly convinced that they would converge in modern societies in the long run (cf. Wilensky 1975: 18-49; Wilensky 2002: 216). In Wilensky's view all nations will develop the same set of welfare state policies, whereas the only difference will be perceived in their techniques of financing and delivering.

Flora and Alber (1981) and Pryor (1969) also refer to the 'logic of industrialism' and explain the emergence of the Welfare State as a consequence of the industrial economy destroying traditional – family- based institutions for social provisioning. "Industrialization and economic development were seen as the key tasks of modern societies and it was assumed that around these requirements the social structure would be functionally integrated" (Mishra 1981: 39). Diversity in the welfare state experience was explained by the different stages of industrialization and economic growth of the respective countries.

The 'logic of industrialism' is not the only functional approach used to explain the phenomenon; a more recent one to explain the universality of modern welfare states is advocated by Göran Therborn (1987). According to the 'logic of market economies', "universality necessarily arises from a uniform feature of all such societies, namely the failure of markets in securing human reproduction." (Pierson 2006: 20) Whereas features like for example the provision of health care that are basic to the reproduction of a society "have become 'national norm' or 'societal citizenship right'" (ibid.: 21) other features that are more based on re-distributive policies are highly different due to the distributional conflict.

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<sup>3</sup> The term 'industrialism thesis' is sometimes used as a synonym.

### **3. Critics of Functionalist approaches in Comparative Welfare State Research**

Whereas the relationship between industrialization and the change of social needs as “spur to social policy innovation” (Pierson 2006: 20) is highly recognized by non-functionalist scholars in the field there are other assumptions that are clearly rejected.

The major point of critique is that the ‘logic of industrialism’ is taken as sufficient explanation for the emergence of Welfare State arrangement, whereas political, historical and cultural factors do not find any consideration. For functionalists the development of policies follows the same logic in different countries irrespective of distinct national characteristics as for example “cultural variations or differences in power relations” (Esping-Andersen 1995:13).

Furthermore traditional functional theories fall short in explaining welfare retrenchment and welfare cutback in the years following on the ‘Golden Age of Welfare’. Societies are conceptualized as systems of extreme stability and any change can only be induced from the outside (cf. Abrahamson 1978: 35).

In respect of the second point of critique the changing environment for national welfare states from the 1990s onwards a factor supporting functional explanations of change induced from outside the system entered the arena: economic and political internationalization (cf. Meier-Jaeger/ Kvist 2003:577). Focusing on exogenous pressure on the Welfare States stemming from this new phenomena scholars concluded “that as states become powerless to make ‘real’ policy choices, governments will be forced to adopt similar economic, fiscal and social policies” (Yeates 2001: 22). Comprehensive state welfare is according to the outlined scenario on the decline and will be replaced by deregulation, privatization and welfare residualization worldwide, leading to some form of convergence (Weiss 1997, as cited in Yeates 2001:22). A scenario that can be completely accounted to the functional approach since the national context of industrial relations and party affiliations, same as the individual history of the national welfare states in the 20th century are completely neglected.



### III. Institutionalism

The second school of thought to be presented is Institutionalism. Institutionalisms in general are concerned with the analysis how institutions affect or cause real life phenomena in economics, politics and international relations. As a reaction to the rising influence of behaviouralism and rational choice theory in political science institutionalist approaches in explaining social phenomena had a revival in the scientific community in the 1980s (cf. Hall/Taylor 1996:5).

#### 1. History and Basic features of New Institutionalism

This so-called *New Institutionalism* is used as a tool to develop “frameworks to analyze and compare institutional arrangements across a variety of settings - in different societies, levels of governments, and types of social problems” (Ferris/ Tang 1993: 4). Stating that institutions can influence human behavior through rules, norms and other cognitive constructions it is a more explanatory discipline than *traditional institutionalism* that centered on descriptive and comparative analysis. Institutions are not seen as one-dimensional but as social phenomena interacting with other institutions in an institutional environment.

At least three different analytical approaches that are labeled *New Institutionalism* can be distinguished; these are *rational choice institutionalism (RCI)*, *historical institutionalism (HI)* and *sociological institutionalism (SI)*<sup>4</sup> (cf. Hall/ Taylor 1996: 5). For Beyeler (2003) the main criterion that makes the three approaches distinct is the degree of freedom in decision-making given to individuals. The degree is highest in the RCI, most restricted in sociological institutionalism, whereas HI takes the middle-ground (cf. Beyeler 2003). Most relevant for the analysis of Welfare State development is HI. After a short introduction into the basics of RCI and SI a detailed presentation of HI will be made.

In brief RCI is applied in explaining cross-national coalition behavior same as the development of institutions (cf. Hall/ Taylor 1996: 10-11). Although the approach is working with the assumptions of the rational choice theory- as for example fixed preferences of actors, who are striving to maximize the attainment of their preferences - it is clearly independent of it. SI has been developed in the subfield of organization theory. Logically in most cases organizations are the object of studies and the influence of culture on their development and change is the main thesis. Central characteristics of institutions retrieved from this approach is inertia, since individuals in organizations are conservative, fearful of change and want to defend their interests (cf. Hall/ Taylor 1996:14).

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<sup>4</sup> Some scholars refer to this approach as Normative Institutionalism

HI is the last of the three most prominent approaches of New Institutionalism to be presented. Analyzing major social phenomena in order to find sequences of social, political, economic behavior and change over time, this approach borrowed from group theories of politics and the structural-functional approaches prominent in the 1960 and 1970s.

From the first it incorporates the contention that conflict among rival groups for scarce resources lies at the heart of politics. In its explanations for the distinctiveness of national outcomes they go far beyond this approach and argue with “the institutional organization of the polity and economy structures conflict so as to privilege some interests while demobilizing others” (Hall/ Taylor 1996: 6). The analysis of the role of power and asymmetrical power relations that have an impact on decision-making process is one of the key features of HI.

A central feature shared with structural functionalism is the conception of the polity as overall system of interacting parts- in many other respects the approaches show major differences. Scholars adhering to this approach regard the institutions in polity and politics as the principal factor driving the system’s operation lie for in – potential explaining factors that are completely rejected in the functionalist view. In a perspective paying a great deal of attention to the historical development HI advocates the conviction that the same forces will not necessarily lead to the same effect. Moreover political outcomes are perceived as in many cases unexpected or even unintended depending on contextual features of a given situation often inherited from the past that mediate the respective forces. Known under the term of ‘path dependency’ this perspective makes HI distinct from other forms of New Institutionalism. Pierson and Skopcol are of the opinion that a definition of the use of the term ‘path dependence’ in HI comes closest to “the dynamics of self-reinforcing or positive feedback processes in a political system” (Pierson/ Skopcol 2002: 6). Scholars making use of HI are interested in explaining how institutions developed and to some extent in the outcomes of these institutions. As a consequence identifying events that are critical for a certain development path or trajectory are highly relevant for their research. Hall argues that institutions can be traced back to the events of a particular series of historical conjunctures (Hall, 1986: 9). “Relatively small events, if they occur at the right moment, may have long and enduring consequences, whereas an event that happened ‘too late’ may have no impact at all” (Pierson, 2000b: 263).

## **2. New Institutionalism and Comparative Welfare State research**

There is a long list of scholars implicitly or explicitly advocating or making use of an institutional approach in order to analyze the emergence and development of Welfare States. As early as 1974 Titmuss stated that welfare systems are a reflection of the dominant cultural and political characteristics of their societies. But only in the 1990s, HI, “together with power resource theory, emerged as the most influential theoretical perspectives” (Hemerijck n.d: 1) in comparative welfare state research explaining the resilience of the individual European Welfare States in face of major

pressures for reform. Independent research of Castles (1994), Lin (1999), Manow (2004) and Leibfried/ Rieger (2004) underline the role of culture or religion for the understanding of Welfare State diversity. Garrett (1998) and Swank (2001) support the hypothesis that the ongoing distinctiveness of national systems can mainly be traced back on the preferences of political parties. A common denominator of institutionalists in the field is to stress “the importance of path-dependency and policy inertia, showing that policy choices made in the past become difficult to reverse, even in the face of serious external pressures“ (Hemerijck/ Visser 2003: 1).

From the aforementioned three approaches HI is the most prominent one used in comparative welfare state research. Esping-Andersen’s book ‘Three World’s of Welfare Capitalism’<sup>5</sup> and a number of essays directly building on this work have been a major step in the comparative welfare state research from the HI perspective. Theoretically and empirically building on the work of a long list of well established scholars as for example Marshall (1950), Titmuss (1974), Flora and Heidenheimer (1981) same as the prominent representative of Functionalism Harold Wilensky, he established a Welfare State typology that influenced the research decisively.

Welfare states can be characterized by particular constellations of economic, political and social arrangements (cf. Moreno/ Palier 2005: 150). According to Esping-Andersen it is these institutional arrangements that heavily determine national welfare state trajectories (cf. Esping-Andersen 1999:4). The welfare regime approach embraces features as state social policies and programmes same as the wider pattern of welfare provisioning in the society – the division of the responsibility between the state, the market and the family– referred to as the three pillars or three sources of welfare<sup>6</sup> (cf. Gough 2001:167).

The regime diversity manifests in the distinct and complex relationship between the three sources of welfare and in the variation of two further criteria. The first is the concept of *decommodification* – referring to the “degree 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: 141); the second, the concept of *social stratification* concerns “the articulation of social solidarity, division of class, and status differentiation.” (Esping-Andersen 1995: 55)

The degree of social stratification plays a strong role in the argument of path dependency. Stratification lies at the bottom of the formation of class coalitions, “which tend to reproduce original institutional matrix and welfare outcomes” (Arts/ Gelissen 2002: 140).

The three regime types have been named the Social Democratic (Scandinavian), the Corporatist (Continental European) and the Liberal (Anglo-Saxon) model. The three regime types are also known

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<sup>5</sup> First edition published in 1990

<sup>6</sup> “The first two components are sometimes referred to as the ‘welfare mix’.” (Gough 2001: 167)

by their geographic connotations, which underline besides the roots in political philosophy the geographic limitation of the typology.

The *Social Democratic Model* is “unique in its emphasis on the government pillar” (Esping-Andersen 1995: 14), markets same as families play minor roles. Key characteristics are “universal income guarantees, ‘activation’, and highly developed services for children, the disabled, and for the frail elderly” (Esping-Andersen 1995: 14). Social rights for the individual are extensive, solidarity is underlined and status and class differentiation are kept as low as possible. The Scandinavian countries are representative for this model.

The *Liberal model* is centering on market solutions. The public or governmental role is only residual, e.g. avoiding acute market failures. Social rights are minimal and whereas private welfare provisions are strongly encouraged, public benefits and provisions are means-tested and low. As a consequence the stratification effects are high. In Europe Great Britain comes closest to the characteristics outlined, outside Europe it is the USA and New Zealand who come closest to the model.

The *Corporatist model* is centering to differing degrees on traditional familiar welfare responsibilities. Most of the welfare provisions are employment linked, in the case of need the benefits are generous and help to maintain the living standard of the families. Whereas social rights are quite extensive the model is supporting the status-quo in the society centering one-sidedly on male breadwinners with life long employment- leaving females and weak groups in society out. Exemplary countries are France and Germany.

### **3. Critics - the internationalization and innovation of the institutional perspective**

The early model of Esping-Andersen was soon openly discussed. Moving from the general to the more specific points of critique the application of an HI perspective in Comparative welfare state research is not uncontested due to the applied methods. In this respect the perspective is directly attacked by the critique of not generating valid knowledge due to its use of small-n comparisons and not-adherence to a number of methodological rules as for example by making a “selection on the dependent variable” (cf. Pierson/ Skocpol 2002: 18)

Taken the Welfare regime approach for an example one of its fiercest critics can be found in Baldwin who argued that the approach lacks any explanatory power and therefore misses the point of contributing to the theorizing on the emergence and development of welfare states (cf. Baldwin 1996).

Irrespective of this critique HI developed into the dominant perspective in comparative welfare state research and the academic debate on the Welfare regime approach triggered the internationalization and innovation of comparative welfare state research.

## Internationalization

Concerned with the extension of geographical reach of the model the majority of the critics appraised the welfare regime approach but asked for major refinements or took it as a start for the set-up of their own welfare state typologies<sup>7</sup>.

The debate on additional welfare regimes was started with the question on the categorization of the Southern European countries that clearly shared strong characteristics as for example Catholic imprint and strong familialism - a fact that was also acknowledged by Esping-Andersen in a later work (cf. Esping-Andersen 1997). Whereas only Italy was first represented in the welfare regime approach - belonging to the corporatist welfare state regimes - in his later work Esping-Andersen seems partly supportive to the idea of an additional type but finally seems to include all the other Mediterranean countries in the category of corporatist welfare states as well (cf. Arts/ Gelissen 2002: 145). Such a solution did not silence Ferrera's advocacy for an additional fourth regime type: a 'Southern Model' of Welfare (cf. Ferrera 1996).

Reluctant of adding any further regime types Esping-Andersen favored an approach of speaking of regime hybrids, if countries could not be grouped in one of the existing categories (cf. Esping-Andersen 1997). A number of scholars took this reluctance as a starting point to develop additional Welfare regime types or a complete new typology of Welfare States, since the existing models were not matching with the Welfare States in countries of other world regions, e.g. Latin America or South East Asia.

Since the country under research is geographically located in East Asia the work of those scholars focusing or including the Welfare States of this region are of most relevance. In 2000 Holliday "proposes that (North) East Asia comprises a fourth welfare regime of *productivist welfare capitalism*" (Gough 2001: 178). Together with other scholars he argued that the welfare state developments in Japan, South Korea and Taiwan share similar features

"with social policy subordinated to economic policy and the imperatives of growth. Social expenditures were small but relatively well targeted on basic education and health as part of a strategy of nation building, legitimation and productive investment." (Gough 2001: 181)

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<sup>7</sup> An overview of the different typologies of Welfare states including their characteristics offer Arts/ Gelissen (2002): 143-144.

Based on these features he established a fourth world of welfare capitalism – the so called productivist – that he set on equal footstep with the three traditional worlds as defined by Esping-Andersen (cf. Holliday 2000: 709).

Gough (2001) calls for an extension and update of the components of the welfare mix in order to make the approach applicable to not only the industrialized countries but also developing countries on different continents<sup>8</sup>. The so called extended welfare mix or institutional responsibility matrix includes eight components (see Table 1). Its purpose is to identify clusters of countries with welfare features in common, while paying “mutual respect to global pressures and regime specific features within the ‘south’ as well as the north” (Gough 2001: 169).

**Table 1: Components of the Extended Welfare Mix**

	<b>Domestic</b>	<b>Supranational</b>
<b>State</b>	Domestic governance	International organisations, national donors
<b>Market</b>	Domestic markets	Global markets, MNCs
<b>Community</b>	Civil Society, NGOs	International NGOs
<b>Household</b>	Households	International Household strategies

Source: Gough (2001: 169)

## **Innovation**

The Welfare reform efforts and social policy transformation in Western Europe in the final decade of the 20<sup>th</sup> and beginning of the 21<sup>st</sup> century questioning the basic assumptions of HI in explaining Welfare State politics as path dependent triggered the debate on an evolution of the institutional perspective.

From the observations could be learned that Welfare states could no longer be seen as ‘immovable object’ (cf. Pierson 1998) - the major weakness of the approach was revealed: “the inability to explain the choice or selection of policy change and institutional innovation” (Hemerijck n.d.: 4).

Hereafter a number of comparative scholars working in the tradition of HI put a focus on identifying processes of institutional change. One of the main directions was the study of the influence of social learning on social policy change, an issue that shall be studied in more detail in the next chapter of the theoretical part.

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<sup>8</sup> See Gough (2000, 2000a, 2000b) for the application of the welfare regime approach on developing countries.

## **IV. Policy Transfer**

After the first two paragraphs of the theoretical part have been dedicated to two schools of thought in Social Sciences the third paragraph is on an approach used to study the role and impact of the use of policy experience from other countries in domestic policy making.

### **1. Policy Change through social learning**

Hugh Hecló (1974) was a pioneer in viewing the evolution of the modern welfare state as a political learning process herewith underscoring the importance of ideas in development of modern social policy (cf. Hemerijck n.d.). It was only in the 1990s that this approach became prominent for scholars in the tradition of HI studying the transformative power of policy ideas for welfare state change.

According to the understanding of Hall (1993) the emphasis in social learning is put on “cognition and the redefinition of interests on the basis of new knowledge which affects the fundamental beliefs and ideas behind policy approaches” (Stone 1999:52). This phenomenon has been the object of various researches in all fields of comparative studies of public policy and international relations. Diane Stone’s state of the art article sheds light on the differences in terms and content of concepts building on social learning as for example policy diffusion, policy transfer and policy learning (cf. Stone 1999). For all of these approaches social learning is a prerequisite, without the ability to learn no change can be brought along.

The group of institutionalist scholars including an ideas-oriented public policy view in their research is internally divided on the issue of the dynamics of policy change and the role of ideas in policy making. Hemerijck (n.d.) develops a typology with four ideal-typical perspectives making them two dimensions to group the different scholars according to their basic assumptions. In the traditional view represented by Esping-Andersen and Pierson change is punctuated, marked by critical junctures and induced from the outside; the perspective of Peter Hall, Mark Blyth and Kathy McNamara evolves from this point in as far they attach great importance to the intellectual properties of the policy process. Kathy Thelen and Wolfgang Streeck, representing the third view, distance themselves from Esping-Andersen and Pierson as far they are convinced of a more transformative gradual change, while not incorporating the intellectual properties of policy change. “Finally, there is a minority of scholars adhering to an evolutionary understanding of policy transformation and institutional change, while at the same time attaching great importance to the intellectual properties of the policy process” (Hemerijck n.d.: 17). Adherents of the last group are Maurizio Ferrera, Anton Hemerijck and Bruno Palier who oppose the idea of the need of a major external influence to make change happen.

Next to the theoretical assumption a big challenge is to identify if social learning has taken place. Hall (1993) distinguishes between three dimensions of policy: policy ideas, policy instruments and settings. Starting out from this point he argues that change is most difficult on ideas, since they constitute the dominant beliefs of domestic actors. The change of instruments and settings is in most cases dependent on the ideational change.

Since the study of all these concepts that are an offspring of this line of thinking would be far too extensive to be elaborated on at this point I want to focus on a single mechanism: Policy transfer. Policy transfer will be dealt with in the next paragraph and later be used in the empirical part to picture the content and influence of social learning.

## **2. The mechanisms of Policy Transfer**

Policy transfer is a mechanism observed in social policy making since long. Pierson states that “In the great period of welfare programme innovation in the quarter century before the First World War, there was an almost constant traffic in political delegations and investigating commissions sent out to report on developments abroad with a view to informing reform at home.” (Pierson 2001: 3)

Policy Transfer is defined as “processes by which knowledge about policies, administrative arrangements, institutions and ideas in one political system (past or present) is used in the development of policies, administrative arrangements, institutions and ideas in another political system”(Dolowitz/ Marsh 2000: 5). In putting an analytical focus on the process Dolowitz and Marsh (2000) established a framework to explain the process same as content of policy transfer. The Dolowitz- Marsh- model that borrows from the work of previous scholars in the field consists of seven questions that shall be put in a broader context here.

The first and one of the central questions is why actors engage in policy transfer and how free they are in their decision to do so. Dolowitz and Marsh develop a continuum from voluntary to coercive transfer. Voluntary transfer can stem from the free will of a country to learn from the experience of another that developed a policy response similar or alike the challenge the potential lender country is facing. On the other side of the continuum a country is obliged to adapt a certain policy against its will, e.g. the membership in an international organization requires the adaption and is in the position to sanction non-compliance (cf. Dolowitz/ Marsh 2000: 14-15).

Every kind of cooperation receives an imprint by the persons involved, Dolowitz and Marsh (2000) make a distinction between nine main categories of actors engaged in the process of policy transfer: elected officials, political parties, bureaucrats/civil servants, pressure groups, policy entrepreneurs and



experts, transnational corporations, think tanks, supra-national governmental and nongovernmental institutions and consultants.

The content of policy transfer can be “policy goals, policy content, policy instruments, policy programs, institutions, ideologies, ideas and attitudes and negative lessons” (Dolowitz/Marsh 2000: 12). Copying, emulation, mixtures and inspiration are the four different degrees in which policy transfer can occur.

From where the lessons are drawn is another question Dolowitz and Marsh (2000) are highly concerned with. Lessons can be drawn within a nation- from sub-national to national level or vice versa, or from other countries - referred to as cross-national (cf. Dolowitz/ Marsh 2000:12).

Bilateral cooperation and policy transfer in the form of exporting and importing Welfare state models and social policies in general can be traced back to the early time of the welfare state building in the advanced industrialized countries throughout the nineteenth and twentieth century (cf. Yeates 2001 : 18). Besides any bilateral cooperation, multilateral forums of cooperation had a revival in the post-Second World War era and the number of international organizations that facilitated cooperation and coordination in functional areas increased and was gradually extended to nearly all policy areas. Whereas many scholars define International Organizations as general background of economic and social development (cf. Yeates 2001:19) others attest them merely the role of platforms for exchange and decision-making that can have a decisive impact on domestic policy making. The specialized agencies of the UN, the IMF, the World Bank, same as other regional formations, do “not only shape the parameters of domestic economic and social policy, albeit to different degrees across countries and regions, but actively engage in ‘transnational redistribution, supranational regulation and supranational and global provision’” (Deacon et al.1997 as cited in Yeates 2001: 19). Within Europe, the EU has grown into an actor not only accelerating economic integration but also a central agenda setter and promoter of social policy coordination.

From the intra-OECD comparisons the following two groups of characteristics that influence policy transfer have been derived: characteristics of the countries under investigation and characteristics of the underlying policies. It is argued that converging policy developments depend on the institutional fit, policies are only transferred and implemented as a high institutional similarity is given (cf. Knill and Lenschow 1998). Strang and Meyer (1993) identified cultural similarity as another decisive factor, and Knill (2005) cites their results as follows: “decision-makers are expected to look to the experiences of those countries with which they share an especially close set of cultural ties” (ibid.: 770). Finally, similarity in socioeconomic structures and development has been identified as a factor that facilitates the transfer of policies across countries (cf. Jänicke 1988). On micro level, the factors common language, shared ideology, personal relations between key actors and the role of think tanks and policy entrepreneurs have been underlined. Culturally and ideologically similar countries were the preferred destination on the search for matching policies. “The expectation is that policies involving

high distributional conflicts between domestic actor coalitions will diffuse and hence converge to a lesser extent than regulatory policies with comparatively small re-distributional consequences” (Tews 2002).

Interested in the relation between the process of policy transfer and the policy failure Dolowitz and Marsh (2000) suggest “three factors have a significant effect on policy failure“(ibid.:17) for their concluding: “Insufficient information about the policy/institution and how it operates in the country from which it is transferred” (ibid.17) is the first factor named *Uninformed transfer*. In case that “crucial elements of what made the policy or institutional structure a success in the originating country” have not been transferred and the transfer turns out as a failure Dolowitz and Marsh speak of *Incomplete transfer*. The last factor is *Inappropriate transfer*. In this scenario “insufficient attention may be paid to the differences between the economic, social, political and ideological contexts in the transferring and the borrowing country.”(ibid.17)

## DYNAMIC INSTITUTIONAL PROCESS TRACING

After the previous part has been dedicated to the theories and concepts that shall constitute the theoretical framework of the research project, in this paragraph the research design for the underlying research project will be set-up. After repeating and specifying the research question the variables under research will be defined, followed by a presentation of the research methodology.

### V. Research question

The research question is at the centre of every scientific research project. By stating the aims of the research it predetermines the methods and theories that will be used in the run of the research. As already mentioned in the introduction China has shown an unprecedented rise as economic power in the last three decades. After an era of self-induced isolation the country underwent an opening-up and reform period that not only curbed the growth of the national economy along the lines of industrialization but also led to a rise as actor in international politics involved in a large variety of cooperation.

The social challenges that resulted out of the fast-paced industrialization show strong similarities with the ones in countries industrializing at an earlier point in time. In the 1990s the Welfare State arrangements in the West that had been appraised as exemplary for a long time entered into a period of constant need for reform, retrenchment and recalibration in order to cope with the modern transition challenges. China has made major steps in the direction of establishing a Welfare State, departing from an enterprise welfare system that was no longer viable after the transition from the planned to the market economy. Yet from the notion that the emergence of a Chinese Welfare State will date to 2049 it can be learned that the Chinese know about the shortcomings of the current system and are willing to make major investments to establish a viable Welfare State. Against this background and the fact that China shares little in respect of political history and politics with the aforementioned countries it is all the more interesting to find out which social institutions will be established by the Chinese government to respond to the social challenges. This culminates in the following research question:

*Does the PRC develop a genuine Welfare state model or a system close to an existing model?*

The research question falls in field of Comparative Welfare State research and HI as presented in the previous chapter will be used as theoretical framework for the study. Studying the origins and challenges of the system will lead to a more informed view on the welfare state institutions in China and which viable options there are for the future. Against this background four sub-questions have been established, which are necessary to apply the framework of HI and to answer the main research question that will be built on the results of the research on the following questions:

1. *What factors characterize the Chinese Welfare State?*
2. *What role plays the socio-economic development stage and the related social challenges for the development of the Chinese Welfare State?*
3. *What events have been critical junctures for the Chinese Welfare State?*
4. *What role plays policy transfer for the development of a Chinese Welfare State?*

## **VI. Defining the Variables**

### **1. Dependent variable: The development of the Chinese Welfare state**

A dependent variable in social science is a phenomenon to be examined, deeper understood and with regard to its causes explained (cf. Blatter et al. 2007: 217). In this study the dependent variable is the development of the Welfare state in the PRC from the opening-up of the country in 1978 to the middle of the second presidency of Hu Jintao in 2008. In analyzing policy change Hall (1993) distinction between the three policy dimensions will be kept in mind while doing research on the Chinese Welfare State. The focus of the research will lie on the change of the dimension of policy ideas and policy instruments; policy settings will only play a minor if any role at all. For the assessment if China develops a genuine model of Welfare State, the *Three Worlds of Welfare capitalism* typology of Esping-Andersen (1995) shall be taken as reference from which there can be made additional comparisons to models in individual nation states.

### **2. Independent Variable(s)**

The independent variable(s) is (are) expected to cause the variations on the dependent variable. In most cases there is not a single but there are numerous independent variables that influence the dependent variable. In contrast to strict methodological criteria Historical Institutionalists “assume that operative variables may not be independent of each other at all” (Pierson/ Skocpol 2002: 15). In their opinion in the real world important variables cannot be treated independently from each other when analyzing their influence on the origin and the impact of institutions. According to Abbot (1994) the Historical Institutionalists suspect the influence of overarching context variables such as culture and epochal context as pivotal. Given these expectations, research in this tradition tends to move up from single institutions to broader context (Pierson/ Skocpol 2002: 15). In turn Historical Institutionalists do not claim a universal application of their research results, but set themselves limits to their causal arguments.

In respect of Welfare State development two main variables shall be distinguished: functional pressure and policy transfer.

#### Variable 1: Functional Pressure

Following the lines of Esping-Andersen and other scholars in the field, functional pressure and therefore structural factors are key to explain Welfare State development trajectories. Two convictions stemming from the functional heritage relevant at this point are as follows: first, industrialization and therefore a certain level of socio-economic development is a necessary condition of the establishment of a welfare state; secondly, change of the stable systems must be induced from the outside.

According to the functional explanation path the development and change of Welfare states follows functional necessities that stem from the change of the domestic socio-economic conditions. With the upcoming debate on globalization external pressures as for example trade competition, capital mobility and integrated production, same as financial internationalization (cf. Gough 2000: 12) have been very prominent until the mid-1990s to explain Welfare State development. Whereas Gough (2000) estimates the impact of these external pressures having a greater impact on East Asian than on OECD countries Pierson (1998) argues convincingly in his article that the pressure on the Welfare state is only loosely coupled with the changing international financial and economic integration. For him the globalization thesis is overestimated and that indeed it is internal processes of social change that are creating functional pressure. The analysis of the external pressure exerted by the international financial system or trade competition shall therefore only play a minor role in the research project. At the end of the 1990s internal/ endogenous factors regained research interest, after fiscal and economic internationalization as factor constraining the nation state autonomy in policy making and international competition pressure has been in the focus of a great number of scholars in the previous decade. Esping-Andersen is putting great weight on factors as “skill-based technological change, innovation in work organisation, the rise of the service economy, changing gender roles in labour markets and households, population ageing and declining birth rates” (Hemerijck 2004: 11).

### Variable 2: Policy Transfer

The availability and use of information on Welfare state development in foreign countries is said to influence the policy learning and lead to the convergence of Welfare States (cf. Arts/ Gelissen 2002). This influence that can originate from different sources shall be studied in the frame of policy transfer mechanism; therefore the second variable will be named Policy Transfer.

### **3. Context Variables**

Context Variables used by Historical Institutionalists doing research on the Welfare State development are the political-institutional system, Culture and the epochal context influencing the development of all relevant variables.

The political-institutional system defines the actors, their competencies in respect of policy making and gives information on the power relations. Cultural background of the population can have a decisive impact on the welfare state system set-up, since “the system is underpinned by a value system that provides the basis upon which choices are made” (Dixon/ Kim 1992: 1). Values and norms are rooted in history, customs and religions of the people and are least likely to be changed. For the acceptance, adoption and implementation of policies they are highly relevant. The epochal context and historical events in general are playing for Historical Institutionalists a central role; closely related to

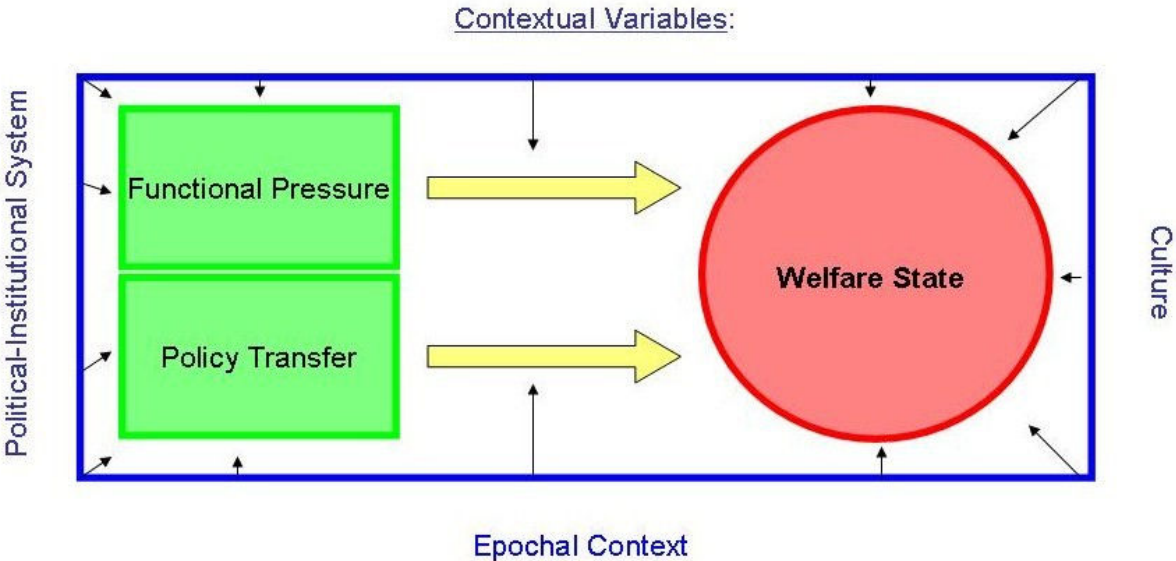
the feature of path dependence they regard particular events or periods that mark historical conjunctures as decisive for the set-up, maintenance and change of institutions producing policy outcomes.

#### 4. Model

Taken the different variables together the following model can be established that provides a quick overview of the phenomenon under research: the development of the Chinese Welfare State and the assumed roles played by the independent and contextual variables.

The dependent variable is the development of the Chinese Welfare State. The arrows between Functional Pressure and Policy Transfer on the one and the Chinese Welfare State show the anticipated influence of the two factors on the development trajectory of the latter. The contextual variables of political institutions, culture and epochal context are visualized as the frame within the causal processes take place, furthermore the little arrows shall symbolize that the form and intensity of the functional pressure same as the role of policy transfer are highly dependent on the influence of the contextual variables, same applies to the dependent variable.

Graph 1: Model



Source: own design

## **VII. Operationalization of the variables**

In respect of the operationalization of variables guaranteeing internal validity is of central importance. The operationalization requires that the chosen indicators can help to measure properly a certain variable as intended in theoretical concept underlying the research project (Manheim et.al. 2001: 6). In the choice for indicators in the underlying study there is an orientation at other scholars in the field.

### **1. The development of the Chinese Welfare state**

For an analysis of the Welfare State development in China the following characteristics of a Welfare State are chosen in accordance with Esping-Andersens Welfare regime approach: welfare state ideology, the composition of the welfare mix, same as the Welfare State outcomes social stratification and decommodification.

Welfare state ideology will be operationalized by using one indicators, the role given to social policy in respect to economic policy; is it subordinated, on equal footing or perhaps even privileged. The basis, on which welfare provisions are granted will be additionally looked into, is it the concept of social rights, on implicit norms rooted in the culture of the country or to be found in a more pragmatic approach in the quest for economic growth and stability.

The composition of the welfare mix is another indicator that has to be operationalized. At this point the traditional welfare mix as introduced by Esping-Andersen shall be applied, whereas the role of additional sources for welfare provisions as stated by Gough (2001) will also be looked into. A picture will be drawn what role the different institutions have in welfare provisioning. Since especially the benefits and provisions made by the families cannot be completely translated in monetary terms the statistical data must be complemented by results of a qualitative analysis.

The indicator effects of stratification will be operationalized as the development of the GINI-index over time. The GINI-index is measuring the inequality in a society taking different indicators into consideration- a detailed explanation will be given in the empirical part.

The degree of decommodification is another characteristic of the welfare state models. An indicator is the existence of government programs making the survival of the individual and its family possible without market participation and its generosity. This is the existence of a social safety net as for example a program guaranteeing basic living standard.

### **2. Functional Pressure**

As stated in the last chapter the main focus will be put on internal pressures. Tracing back the influence of external pressures on Welfare State development is a difficult task and will only be done in a wider framework of the political history of the PRC.



The internal/ endogenous pressures can be operationalized by the following indicators for the level of socio-economic development that pre-empt the necessity for social policy making: the GDP in total can be taken as indicator for the availability of funding means to extent the coverage and generosity of welfare services, the GDP per head acts as a refinement for the indicator; the share of employment in the three industry sectors, the share of GDP of the three industry sectors, to show the situation and maturity of the economy; the rural-urban ratio of the population shall be an indicator for the degree of urbanisation as the average household size is for the changing family patterns - both are typical dimensions for measuring the development stage of a society; the development of the government expenditure on social security shall be taken as an indicator for the maturing of social entitlements, together with the indicators unemployment rate, GINI-index, the development of the rural-urban income ratio and the number of mass incidents shall picture pressing social challenges. The changing gender-role has been left out of the selected indicators since the issue as such would need more detailed study to place it in the cultural, historical and political-ideological context in China.

### **3. Policy transfer**

Indicators for the role of policy transfer are derived from the Dolowitz-Marsh model of Policy Transfer as presented in the theoretical part. These are: the reasons why actors engage in policy transfer and the degree of doing this voluntarily; the actors involved in policy transfer; the content of transfer; the originating source of the lessons; the factors facilitating or restricting the process. These indicators can only be measured on a qualitative basis. The last question of the model “How the process of policy transfer is related to policy ‘success’ or ‘failure’?” (Dolowitz /Marsh 2000: 8) will not be dealt with in the descriptive part, but will be a part of the analytical part at the end of the thesis.

### **4. Contextual Variables**

Clearly conceptualizing contextual variables is a challenging task, a major problem is the difficulty of measuring their influence and capturing all relevant features. At this point three dimensions shall be distinguished.

The political-institutional system is one of the most important context variables. Therefore the relevant institutions involved in social policy making will be identified- political same as administrative. A special focus will be laid on identifying a change in this system or major disturbance.

Measuring the influence of Culture can only be made on a highly qualitative level; indicators are the practiced religions and customs and their relation towards welfare state policies.

As last contextual variable identified by Historical Institutionalists the epochal context can be analyzed by identifying critical events in the political history of a country or in this case the Welfare

State system. Critical events can be conceptualized as moments that indicate a departure from a long followed development path.

## VIII. Research Design and Methods

The underlying study falls in the field of Comparative Public Policy, which is concerned with the policy developments in different entities or in different periods of time. In general the scholar in Comparative Public Policy can follow one of the two following approaches to conduct his research: Process-tracing of relevant issues in decision-making and the analysis of policy-output in form of aggregate data (von Beyme 1988: 366).

With the research question and the choice for the theoretical framework the decision on the methods used was predetermined since the usefulness and appropriateness of any particular research design and method depends on “the overarching assumptions made about the causal relations in the cases at hands” (Hall 2006: 26). The underlying research project is a small-n study since observations are made within the same unit across time to analyze the development of the respective Welfare State.

The method used comes closest to a form of process-tracing or systematic process analysis and its features as outlined by Hall (2006). A process analysis can trace back the relative influence of factors on social phenomena with more precision than can be secured by a statistic one and herewith makes up for the implied weakness of small n-studies providing for causal interference (cf. *ibid*: 29). Furthermore the case inherent validity can be enhanced by making the processes transparent (cf. Blatter 2007: 195). By combining quantitative and qualitative elements the chosen approach is following the one adhered to by Historical Institutionalists in the field of Welfare State research and equally provides the ground for an assessment of the applicability of the second prominent theory family in explaining Welfare State research, namely Functionalism.

The opinion on the use of single country studies in comparative research is strongly divided. Despite their limitation in terms of inference that stretches beyond the original country used in a study the field of comparative research has strongly benefited from these. “Single country studies are considered as comparative if it uses concepts that are applicable to other countries, develops concepts that are applicable to other countries, and/or seeks to make larger inferences that stretch beyond the original country used in the study” (Landman 2007:28). The pitfall in form of a restricted external validity is recognized. Against the background of China constituting a unique case and that its Welfare state arrangements have not been studied in comparison with the ones in Western Europe yet justifies this approach, since it may act as well to a certain extent as a test for the external validity of the concepts developed in the West to explain the emergence and development of Welfare states. Furthermore the study is planned to be instrumental to improve the understanding in what direction the Chinese Welfare State will develop in the future.

## **VIII. Data collection**

The empirical part will be made up of three parts, each of these parts is different in its orientation and therefore a combination of methods of inquiry will be used. By applying the principle of triangulation - “using more than one method or source of data in the study of social phenomena”(Bryman 2001: 274) - an advice given by King et al. (1994) in their groundbreaking book on social science inquiry will be consequently adhered to.

### **1. Desk Research**

Since the first and second chapter of the empirical part require a great amount of empirical data on the socio-economic development, the set-up of Welfare State characteristics, cultural environment and the political history desk research will be the main mode of data collection.

In respect of the socio-economic development primary sources will be used in form of statistical data provided by data-bases and reports of international organisations such as the World Bank, the Asian Development Bank and bodies such as the International Association of Social Security and last but not least the Statistical Bureau of the PRC.

Information on the political history, the Welfare State, the cultural background and political history will be retrieved from secondary literature, scientific articles and books, reports, newspaper articles and online sources. In the third chapter official documents of the EU and the Chinese Ministry of foreign affairs were used as complementary data input to the expert interviews.

### **2. Interviews**

Interviews are relevant for the third chapter of the empirical part, since there is only little information to be retrieved on the subject from scientific work or first hand data provided by the involved organisations on the internet. Elite Interviewing has therefore been chosen as technique to get an insight in the topic. “Elite interviewing can be used whenever it is appropriate to treat a respondent as an expert about the topic in hand” (Leech 2002:663). Since the interest in the case study was lying in the aim to analyze the content, structure same as the practical output of the cooperation in order to assess the relevance of policy transfer for the reform efforts in China actors who are directly involved in the cooperation have been identified as relevant interviewees.

On EU side three Directorates of the Commission are involved in the cooperation: DG EMPL<sup>9</sup>, DG RELEX<sup>10</sup> and DG DEV<sup>11</sup>; furthermore the EU Parliament has an inter-parliamentary body on EU-China relations.

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<sup>9</sup> Directorate General Employment, Social Affairs and Equal Opportunities

<sup>10</sup> Directorate General for External Relations

Since the identification of relevant Chinese officials and approaching them successfully for information for a research project seemed not feasible in the given period of time, a strategy to contact well established Chinese scholars was followed. This group of scholars is mainly made up of members of the most important government think tank in the field - the Chinese Academy of Social Sciences.

In order to arrange interviews first contact was established via E-mail or telephone calls introducing the background of studies, explaining the research interest and asking for the availability for a meeting in person. In the cases in which it was possible to arrange interviews, semi-structured interviews were conducted in the time from June to August 2008. The interview style followed the recommendations of Manheim et al. (2002:323-327) in order to keep the risk of keeping biased as low as possible, which are the biggest danger for the reliability of this research technique. The questions were directed to gain more knowledge on the content and structure of the cooperation, the motivation and common interest of the cooperation partners in participating. In the cases where neither face to face nor telephone interviews could be arranged, it was made use of questionnaires submitted via E-mail, in some cases this was the start of several rounds of E-mail exchange, a form of research method recognized as substitute to elite interviewing by Burnham et al. (2004).

The interview content was transcribed and analyzed carefully in order to avoid any bias. To guarantee reliability of the information received that were highly prone to produce socially desirable answers; the results were complemented by a study of scientific and newspaper articles on the respective issues.

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<sup>11</sup> Directorate General for Development

## CHINESE SOCIAL POLICY IN PERSPECTIVE

In order to make a prediction what form and characteristics the future Chinese Welfare State will feature a look at the development trajectory to date is necessary. The empirical part of the research project will provide information necessary to give a picture of the developments of the Welfare state and key employment and social policies in Mainland China<sup>12</sup> same as of the factors that have been identified in the theoretical part as possible explaining factors. The results of the three individual chapters will later on be used in the analytical part.

The first chapter will give an overview of the socio-economic trends in China from the 1950s to present that materialize in form of *functional pressure* on the system. The indicators for these developments will be the ones operationalized in the part of the research design.

In the second chapter a chronological overview of the development of the Chinese Welfare State and its employment and social policies in the time since the establishment of the PRC is provided – in some cases it might be appropriate to deviate from a strict chronological order to stress links between policies. This overview will allow identifying characteristics of the system and domestic institutions that changed and others that remained stable over time.

In the third and final chapter of the empirical part the issue of *policy transfer* will be addressed in respect of the role of foreign experience and expertise on the development of policies in China. After a general overview of the entities identified as policy lenders, the EU-China cooperation in the field of Employment and Social policy will be studied in detail. Started in 2005 it will be taken as a case for outlining the openness towards and the provision of new opportunities for policy exchange at the beginning of the 21<sup>st</sup> century.

### **IX. The origin of functional pressure: Socio-economic trends and perspective**

As stated in the theoretical part challenges originating in socio-economic development in a country are taken as necessary precondition and trigger of social policy-making and therefore in explaining the establishment and continuous development of the Welfare state and social policy. Following the specifications made in the paragraph on the research design the development in the economy and the ones in the society will be dealt with in separate paragraphs.

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<sup>12</sup> For a consistency in terms of the geographical area the two provinces with special administrative status – namely Hong Kong and Macao – are not part of the research. Due to their colonial past independent systems of social welfare have been established that have not been changed after becoming a part of the PRC in the late 1990s. The terms PRC and China will be used synonymous in the ongoing study.

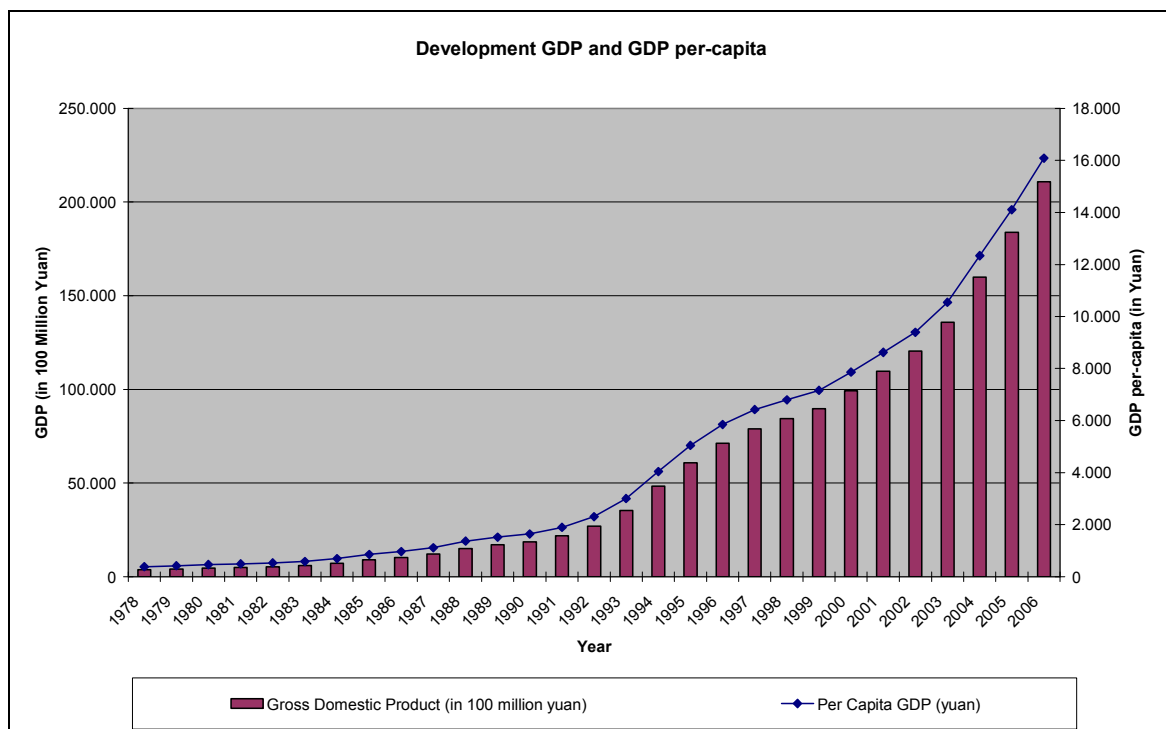
## 1. Economy

In this paragraph a number of factors on the development of the Chinese economy since the 1950s will be presented. Whereas the Western industrialized countries entered the phase of industrialization in the middle or end of the 19<sup>th</sup> century and the secondary sector became soon the main sector of economic activity, the Chinese economy by the end of the Second World War was still dominated by the primary sector and especially agriculture.

### Economic Growth

The development of GDP can be taken as an indicator for economic growth. The per-head GDP can be used to measure the productivity of the individual. As the graph shows, both indicators were on a continuous rise since the 1978 whereas the GDP per-capita was keeping pace with the steep rise of GDP.

Graph 2: GDP and GDP per-capita



Source: Data NBS China (2008a)

Graph own design

## **Development of the three sectors of the economy**

Economic activities are generally divided into primary (agriculture and extraction of raw materials), secondary (manufacturing) and tertiary (services) sector. It is assumed that the share of GDP of these activities, same as the part of total workforce can help to draw a picture of the maturity of a national economy.

## **Employment in the three sectors**

Graph 3 shows the share of employment in the three sectors in a selection of years for which data is available - from 1952 to 2006 - and gives a picture of the great changes in the structure of the employment.

Especially the time from the mid-1970s onwards is representing decisive shifts away from the dominant employment in the primary sector. Whereas in this sector until the mid-1970s a share of around 80% of the total workforce were employed, the end of the Cultural Revolution and opening-up and reform period in the middle 1970s initiated a steep fall of this share. In this course the shares of employment in the secondary and tertiary sector increased. A pattern that can be perceived is as follows: In the early years after 1975 the secondary industry was expanding very fast, the share of the employed in the tertiary sector also grew rapidly and in the mid-1990s it already surpassed the share of the secondary sector. A factor that can explain the stagnation of employment in the secondary sector is the technological innovation.

In 2006, according to official figures the tertiary sector employment stands at 32.2 % of all employed. The secondary sector ranks third with the lowest but still rising share of 25.2%, whereas with a share of 42.6% of the total employed workforce the primary sector still ranks first but lost by far its prior predominant position.

The development is not only stunning because of its numbers, but especially due to the short time in which it has occurred- a time period of little more than 30 years, which is less than the average number of years of active participation in the labour force. Such major changes in the economic structure have a huge impact on social policy provisioning. Employability in the secondary and especially in the tertiary sector requires another skill structure and educational background of the employees than the primary sector did. Since the shifts have occurred in a relatively short period of time, this means that huge demand of training for the acquisition of skills had been necessary especially to enter the tertiary sector. A transition is not easily to achieve for everybody and therefore there must have been provisions for those employees that have become redundant or were missing skills, these provisions can be made in form of training opportunities or the availability of basic pension schemes or unemployment assistance.



**Share of GDP of the three sectors**

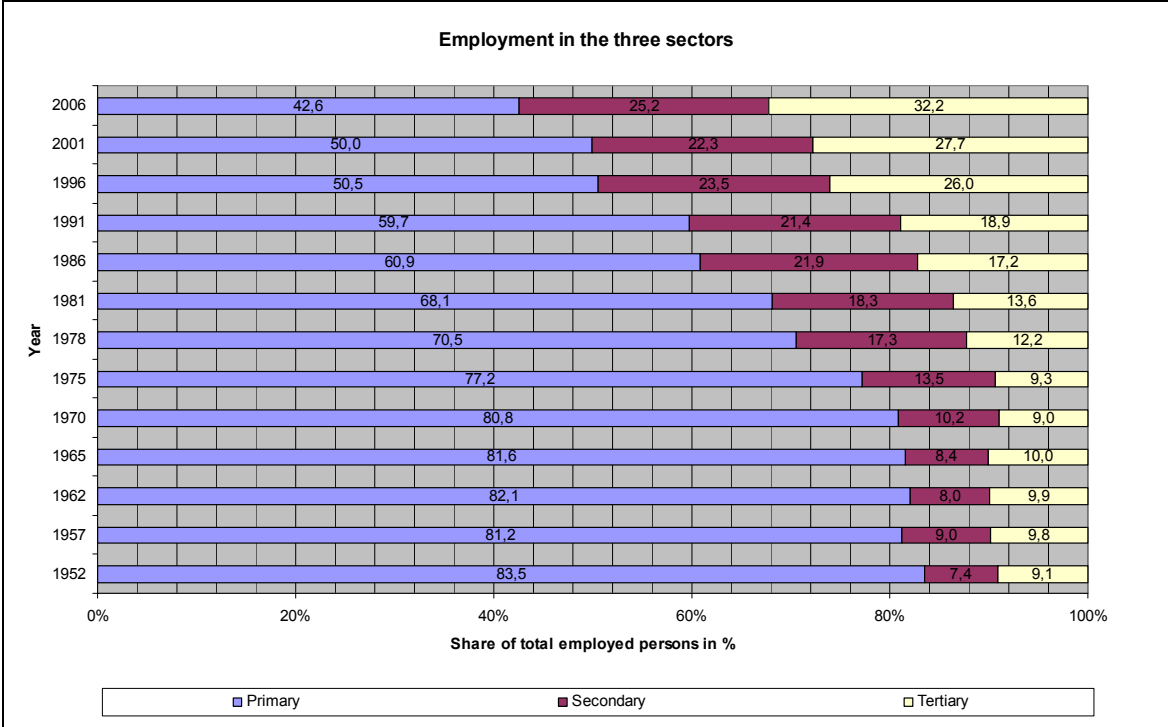
Knowing about the employment shares in the different sectors, the additional information on the GDP share of these sectors is relevant for making a calculation of the productivity of the individual worker in the specific sector. This is shown in the graph on the share of GDP of the three sectors for the years from 1978 to 2006. With reference to the data set and the graph the following observations can be made on the development of the shares of the three sectors of the GDP total.

The primary sector started from a share of 28.2% in 1978. In the early years of the opening- up and reform period up to 1982 the share even grew up to 33.4% - one third of the GDP total. Except for a short regain in its shares in 1990 the primary sector was losing constantly in respect to the other two sectors and accounts in 2006 for only 11.7%.

The secondary sector accounted constantly the biggest share with well over 40%, after some fluctuations the share reached its peak in 2006 with 48.9%. A difference of one percentage point to the 47.9% measured in the starting year of the data-set in 1978.

After the presentations of the developments of the first two sectors it is clear that the winner in shares of GDP total is the tertiary sector. Also faced with fluctuations and the interaction with the two other sectors, it increased its share from 23.9% to 39.3% in the time covered in the data-set.

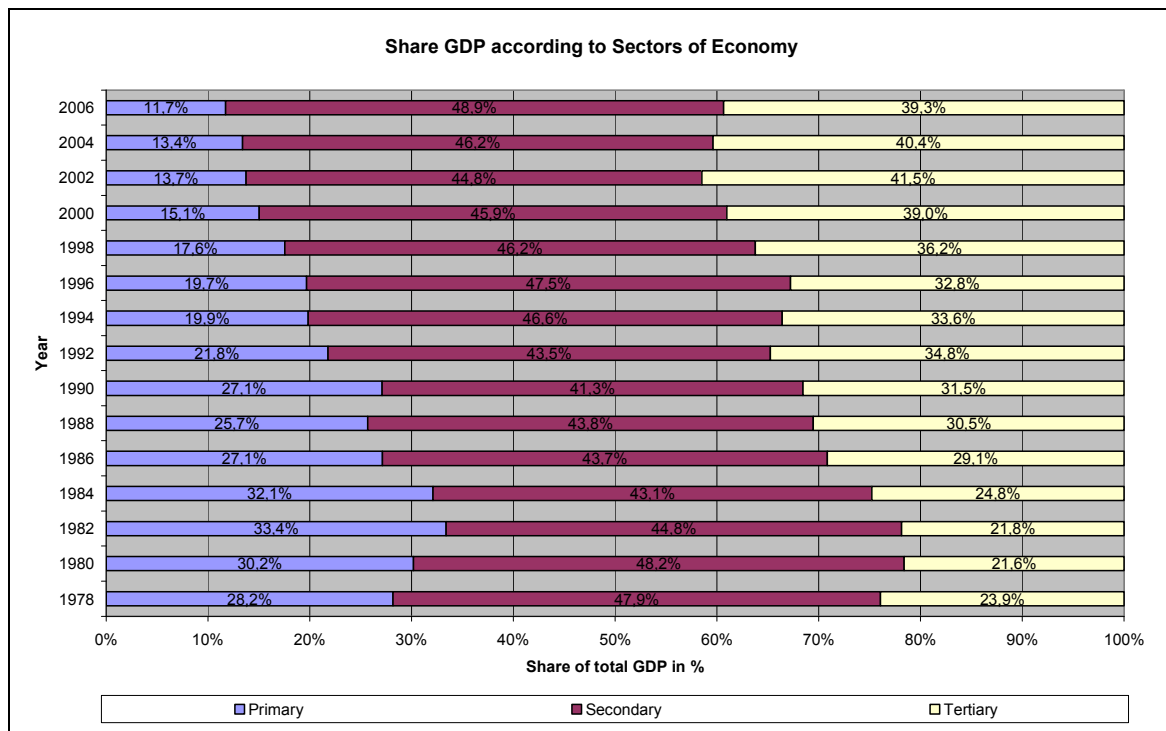
**Graph 3: Employment in the three sectors**



Source: Data NBS China (2008b)

Graph own design

**Graph 4: Share of GDP of the three sectors**



Source: Data NBS China (2008a)

Graph own design

Taken the lessons of both Graph 3 and Graph 4 together it can be stated that China in general is on its transition from the agricultural to an industrial or already post-industrial service society. Close to 40% of the GDP is created in the tertiary sector, in comparison to the secondary sector this is a rather low output taken into consideration the higher share of employment. The biggest problem will emerge from the primary sector which is the least productive taken the high share of employment and the low GDP output together. The better work and especially remuneration in urban areas in the secondary or even tertiary industry are therefore an attractive alternative for workers in the primary industry in the years to come.

## 2. Society

### General development of the Chinese population and demography

The Chinese population grew from 554 Million in 1950 to a little more than 1.3 billion in 2005, according to the estimates of the United Nations the Chinese population will grow in number until the mid 2030s; only from then on a slightly decrease can be expected (cf. UN 2007). The cause for this decrease is to be found in the one-family-one-child policy implemented in the 1970s. The consequences could already be perceived in a steep decline of the birth rates from 1990 onwards. The long term consequence will be the emergence of an old age society. For an overview see Graph 6.

## Ageing and retirement

As stated in the previous paragraph the declining birth rates will lead to a decrease of the overall Chinese population from 2030 onwards. Other changes and especially the challenges that will grow out of them will be perceived at an earlier moment in time, namely the ageing society and the respective challenge for social security and especially pensions.

In regard of the age cohorts the Chinese population changed significantly in the last years. Whereas China was a relatively young country until the mid-1980s, China is nowadays one of the countries with the fastest ageing rate and it will soon turn into an ageing society. From the 1950s to the 1980s the share of persons aged 60 and over accounted for between 7% and 8%. The one-child policy, better medical conditions and services are mainly taken as explaining factors for the turn in the mid-1980s.

In 2000 the share of persons aged 60 and over accounted for already more than 10%. This figure is on a steady rise, for 2010 a share of 12,5% is estimated, by 2020 the share shall already be as high as 17,1%. Whereas in the Western industrialized countries the old-age dependency ratio is measured by the relation of persons aged 65 and over total- the retired persons- to the persons aged 15-64- who are assumed to be working and independent, when calculating the dependency ratio for China some facts have to be taken into consideration. Although the requisite age for retirement is in general 60 years for men and 55 years for women<sup>13</sup> official statistics have shown that in 2000 the average retirement age was 51.2 years (cf. China Daily 2006). One of the reasons for this huge divergence is the arrangement that a huge number of employees of SOEs “have been allowed to retire in their 40s or 50s to make openings for new graduates and others” (China Daily 2006b).

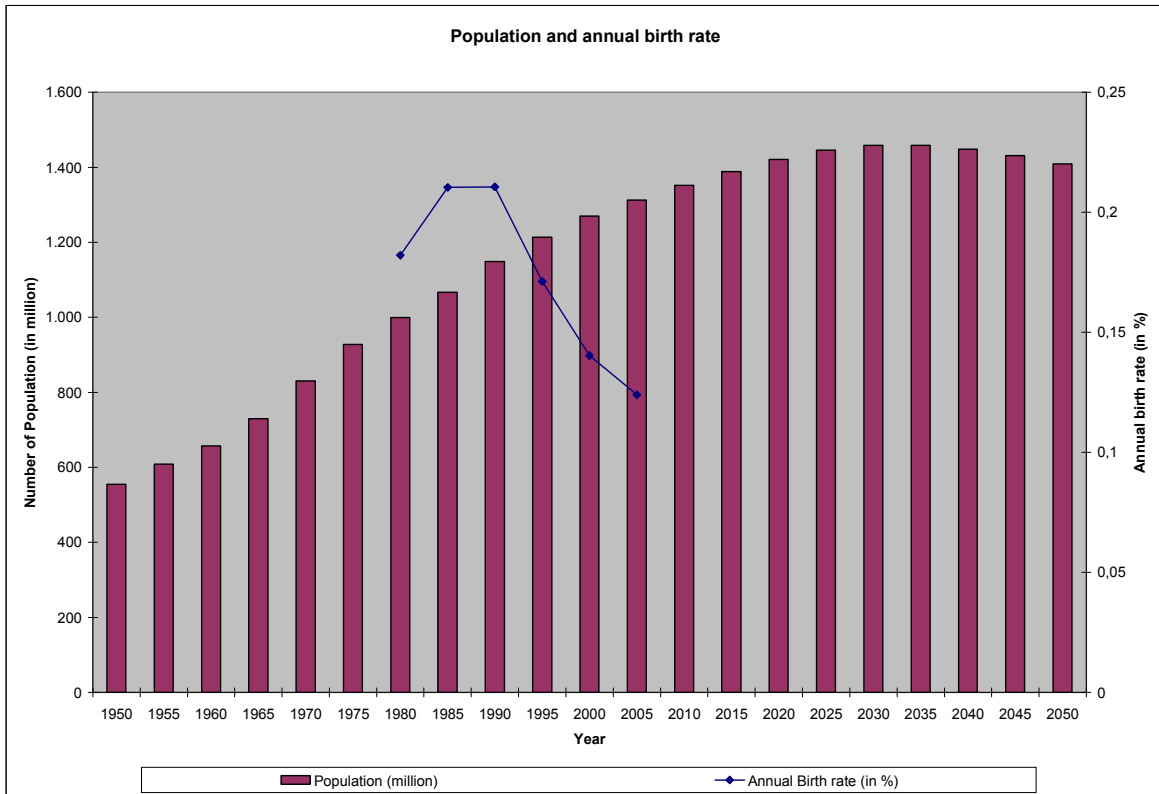
An increase in the requisite age of retirement or sanctioning early retirement have been repeatedly discussed and renounced (cf. China Daily 2006) since an increase in unemployment is taken as a resulting consequence. “The Ministry of Labor and Social Security (MOLSS) does not think it is the time to do so. It believes the current retirement system is the best available, and the major concern about retirement should be to control retirement in advance. In fact, China might not think about delaying retirement age before 2020.” (CNCA 2008) At least not as long as unemployment remains a problem.

Even setting the reference ages around “15-60” and “60 and over” will not be sufficient for giving a picture on the actual old age dependency ratio. The results of this rising ratio will be hard to be dealt with only in family and will require a stronger role of the state and his commitment shaping a viable social security system for the old aged.

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<sup>13</sup> Workers who are engaged in labour that requires more physical strength or that is harmful- e.g. mining or petrochemical industry- have the legal right to retire in average 5 years earlier.

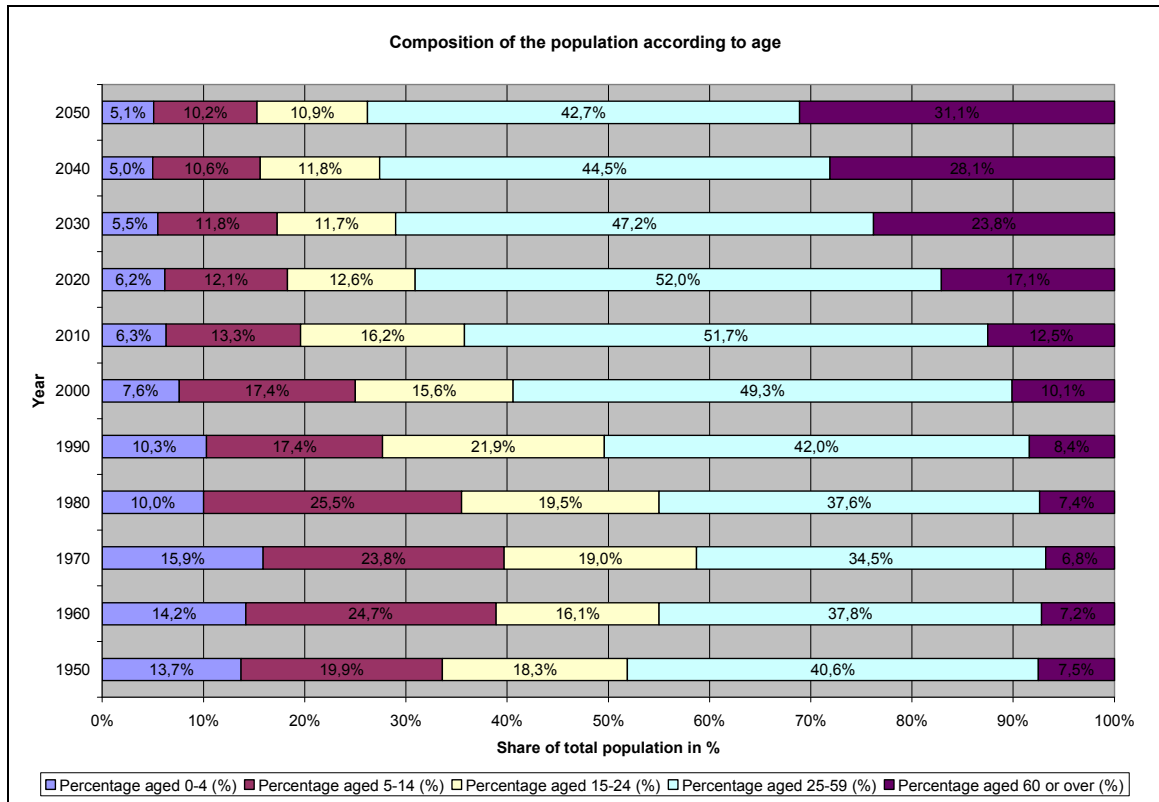
**Graph 5: Chinese Population**



Source: Data UN (2007) and NBS China (2008f)

Graph own design

**Graph 6: Composition of population according to age cohorts**



Source: Data UN (2007)

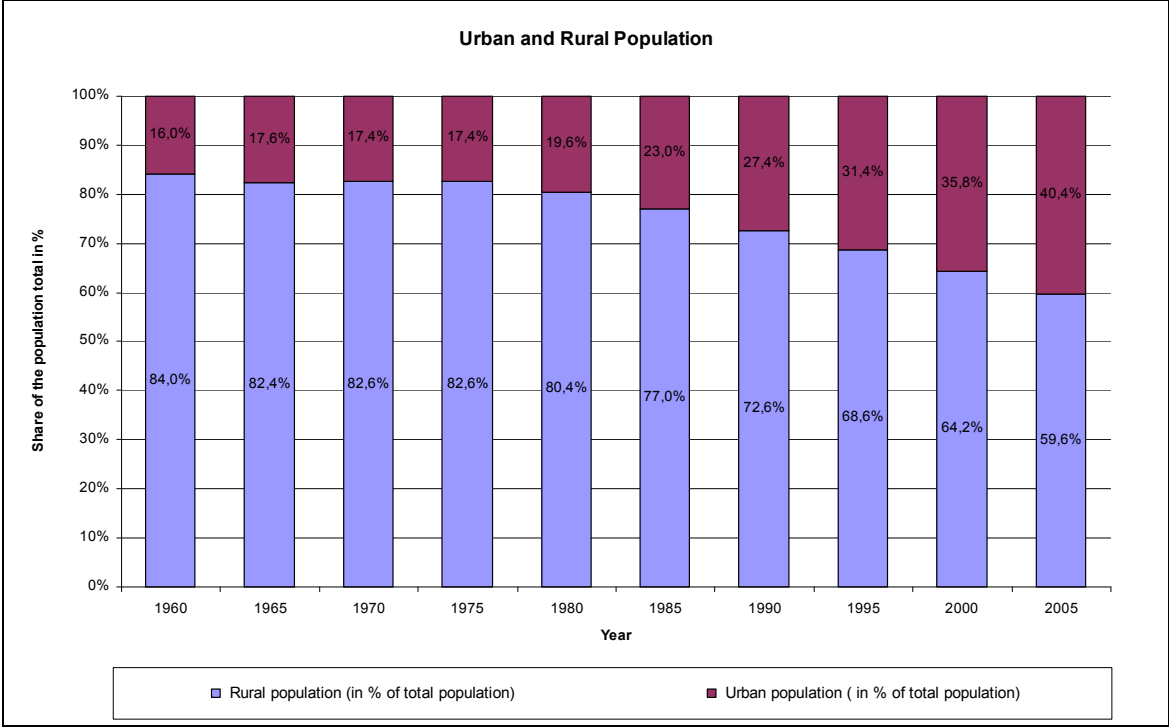
Graph own design

**Urbanization**

Urbanization is in Europe and other Western democracies a general phenomenon related to the industrialization era. In general two factors can contribute to urbanisation- a higher natural growth rate in urban than in rural areas and migration. In the case of China it is clearly the rural-urban migration that accounts for the urbanisation. Technological advancement creates a shift of labour, whereas it makes more and more workers in the agriculture abundant, the urban areas need surplus workers in production sector. The widening income gap between rural and urban areas is the central argument to drive rural dwellers in China in the urban areas (cf. Zhang/ Song 2003).

In China the urban population made up less than one fifth of the total Chinese population until the early 1980s. Starting with the reform era in 1978 a dynamic rise in the share of urban population can be perceived. This effect is due to the gradual dismantling of the Housing registration system- Hukou, which was established as an effective instrument for migration control in the 1950s. According to the data-set from the mid-1980s the share more than doubled and in 2005 lies at more than 40 percent. Out of the process of urbanization new challenges arise for example the need for more and better living conditions, which have to be implemented via social policy, e.g. housing policy.

**Graph 7: Urban and Rural Population**



Source: Data World Bank (2008)

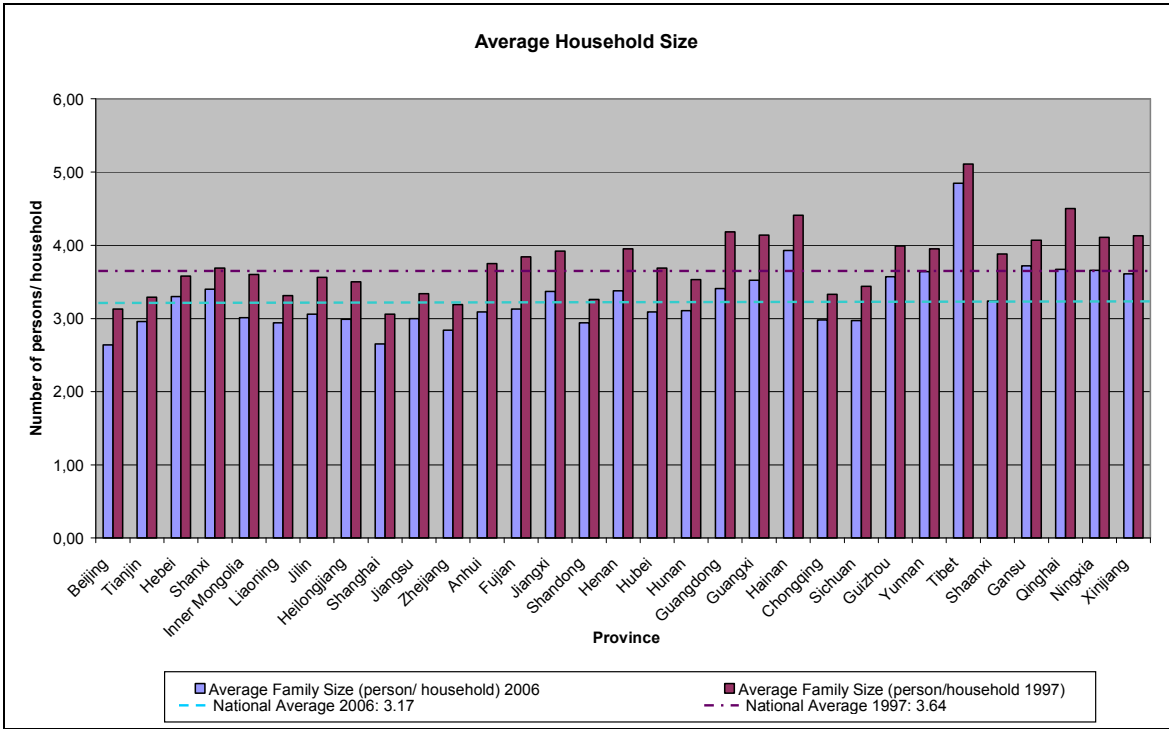
Graph own design

**Family patterns**

Changing family patterns are also a consequence of industrialization and can constitute the need for a change of Welfare State policies. The indicator of the average household size can give a picture of how many dependent, children or elderly live in one household together. A high number of family members can be taken as an indicator for more generations living in one household and the younger generation taking care of the elderly.

According to the data available in Chinese Statistical Yearbooks for the years 1997 and 2007 (NBS China 1998, 2008) the average household size in China shrank in this period alone from 3.64 in 1996 to 3.17 persons in 2006. Refining the criteria and having a look at the situation in the different provinces reveals that the household size in independent city regions are relatively low (Beijing/ Shanghai), industrially less developed provinces show in general a higher number, whereas the province of Tibet shows the highest with close to five persons per household. In the industrialized coastal provinces the picture is a little diverse, whereas most of them remain under the average, one of the leading industrial provinces, Guangdong, shows a number above average.

**Graph 8: Average Household Size**



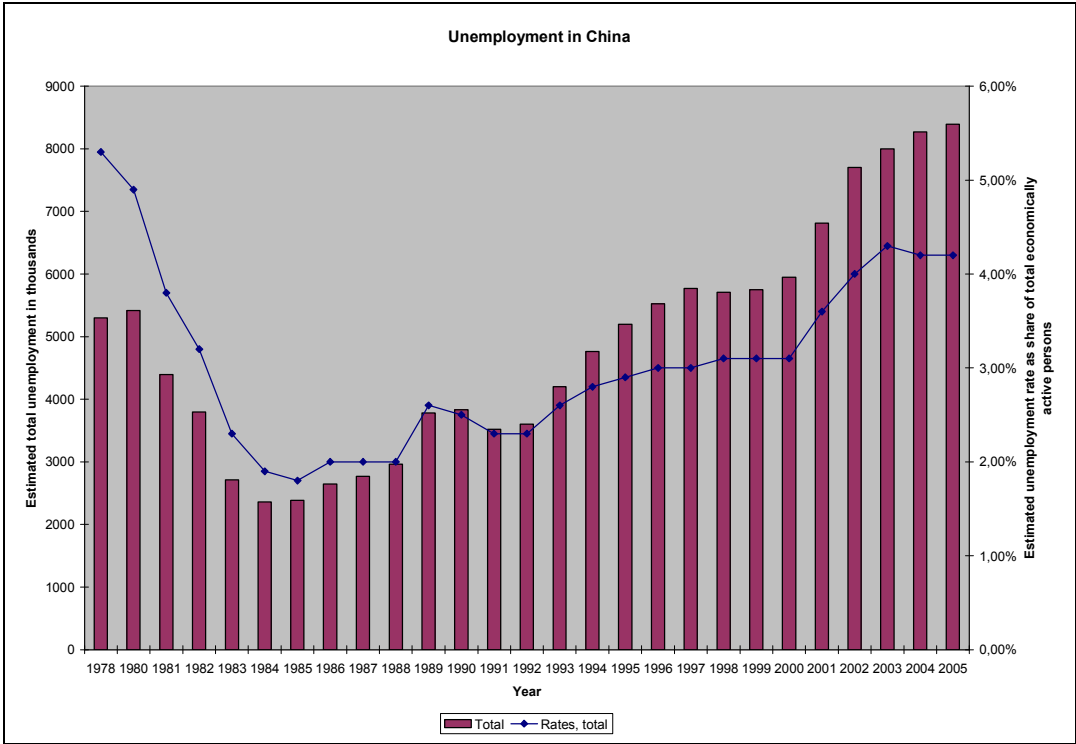
Data: NBS China (2008c) and NBS China (1998)

Graph: own design

# Unemployment

The data available from the year 1978<sup>14</sup> onwards can give a partial image of the development of unemployment. Since official statistics only refer to the registered unemployed in urban areas, the real unemployment rate might be some percentage points higher. Zeng (2005) quotes in a World Bank Research Working Paper the estimations made by two researchers on the urban unemployment rate with 11.5%. Reliable information on the rural unemployment rate could not be retrieved.

**Graph 9: Unemployment rate and Number of Unemployed in total, 1978-2006**



Source: Data ILO (2008)

Graph own design

# Migrant Workers

Since the start of the economic reform migrant workers - rural dwellers who are coming to the urban areas to work – are one of the factors of the fast economic development in China. The share of 40% urban population does not include the growing number of these migrant workers, out of whom only a small proportion is planning to settle down in the city. With a great degree of flexibility and mobility they do not only migrate from the rural to the urban area, but also between cities and their work record is signified by changing occupational status (cf. Cai/ Hua 2008: 182). In 2006 the number of migrant

<sup>14</sup> In the pre-reform era there was no official track of unemployment figures, since unemployment did formally not exist and labour policy had the main objective of guaranteeing full employment, therefore no reliable data is available about the unemployment rates prior 1978.

workers accounted for 132,12 million and the Chinese national bureau of statistics estimates in 2007 that the share of migrant workers of the total number of employed persons in urban areas reached 46.7% (cf. Cai/ Hua 2008: 182). Meanwhile the phenomenon is also “singled out as one of the major economic and social problems in China” (Zhang/ Song 2003: 398). The existing social security system cannot deal effectively with this situation- the question at hands is how to guarantee the social policy provisioning same as a proper managing of their social security accounts. The migrant workers are a priori excluded from a number of welfare provisions as for example basic health insurance which is only directed towards formal urban workers with permanent resident permits (cf. Hassim/ Rasavi 2006:17). Taken their decisive role for the economic development of the Chinese society, the efforts of the government to improve their situation is still in the need to intensify. The fastest progress in this respect is made in Shanghai one of the cities most dependent on the workforce of these group of workers.

## **Inequality**

Social policy is broadly defined as a correction measure for market failure that resulted in rising inequality. The state makes use of social policy in order to carry out regional, interclass, or intergenerational redistribution (cf. Leibfried/ Pierson 1995: 43). The rationale for the state in doing so lies in the interest of keeping social cohesion and stability. In the past the Chinese and Japanese have claimed that there is no need for redistribution in their countries, since the income gap is not as huge as in Western countries. Income is only one attribute by which inequality can be measured others are for example the distribution of consumption, “but also for land and other continuous and cardinal variables” (World Bank 2008a).

## **GINI-Index**

The most prominent measure for inequality is the GINI-coefficient. “The coefficient varies between 0, which reflects complete equality and 1, which reflects complete inequality (one person has all the income or consumption, all others have none)” (World Bank 2008a).

For its measurement the GINI-coefficient depends on macro data provided by the country, therefore the GINI-coefficient might be estimated differently for one year and the same year due to the source and data used. The measurement might include only a part of the area or part of the population. The World Income Inequality Database maintained by the United Nations University provides information on inequality in UN member countries. For the period from 1953 to 2004 there are altogether 121 measurements of the GINI index for China available (cf. UNU 2008). By excluding those GINI indices only partly covering the area of the PRC (only urban, only rural, cities) 30 indices remained. Unfortunately there is no institution or scholar that covers the whole period and guarantees a strict



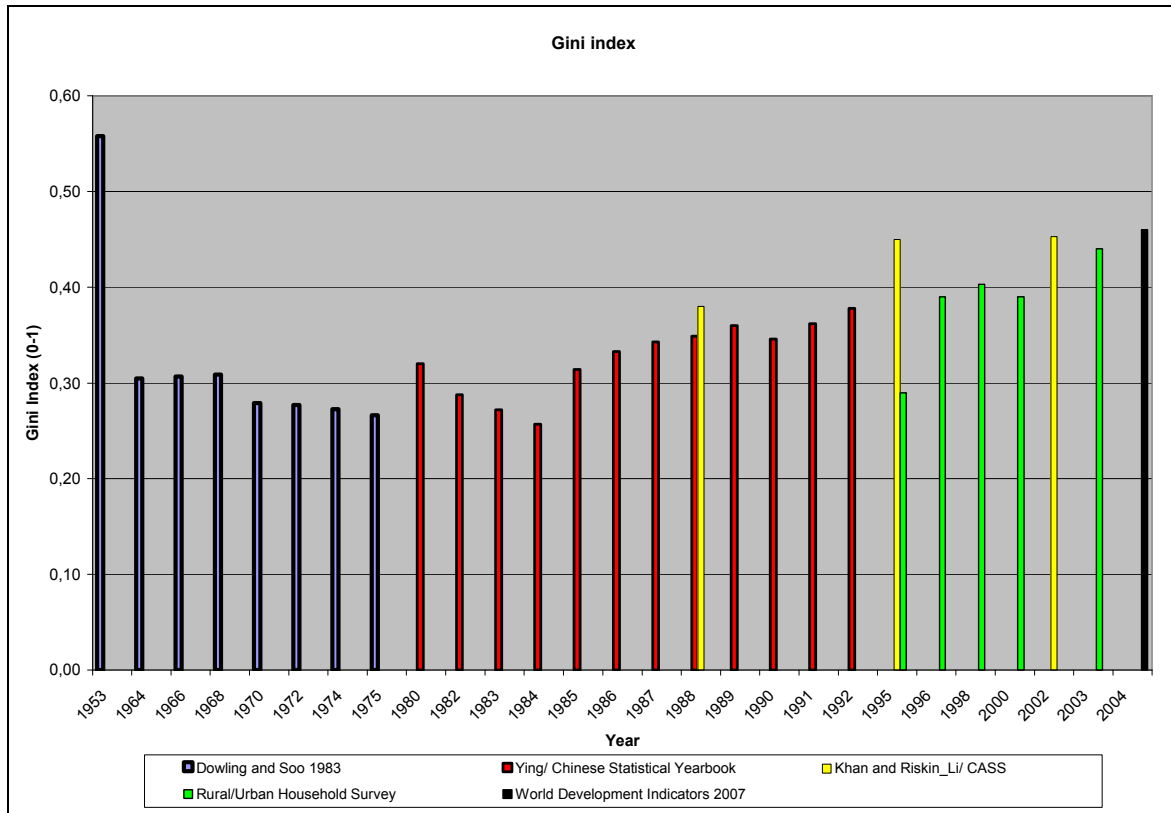
comparability. In Graph 10 the scholars and their primary data source for making the measurement are indicated.

The biggest divergence between two independent sources can be observed in the year 1995. It is a difference of 0.16 between the Index of Khan and Riskin (1998) calculated on the basis of the dataset from CASS and the Index by Chotikapanich et al. (2006) working with the Rural/Urban Household Survey as primary data source. The indices from three different scholars for the year 2002-2004 on the other hand show more congruence.

A general observation of the development of the GINI index as far as this is possible may conclude on the following: from a generally low GINI index around 0.3 from the mid-1950s to the mid-1980s the Index increased and reached according to three independent measurements for the years 2002, 2003 and 2004 values of 0.45 up to 0.47 – a high Index in comparison with Western Industrialized countries in which the GINI index reaches values of 0.21 up to 0.34 (cf. Pestieau 2006: 13). These facts reveal the ambiguity between the proclamation of guaranteeing an equal society and the reality of a widening gap between rich and poor. Due to these conditions claiming that there is no need for redistribution as in the past done by governing elites is no longer valid and the pressure and need for redistributive policies will rise in the future.

Yet there are voices against such an interpretation of the GINI index. In 2005 an article was published in the magazine China Economic net on “How to interpret the GINI-coefficient in China” (China Economic Net 2005). The first argument questions the usefulness of the application of the GINI- Index on China: “The special national condition of huge gap between urban and rural areas make it impossible and unreasonable to simply judge China's income gap by common standards of Gini coefficient”(ibid.). Additional arguments refer to the delay effect of policy adjustment, political programs directed to fight inequality are on their way but it will take some more time until they render effective.

**Graph 10: GINI Index**



Source: Data UNU (2008)

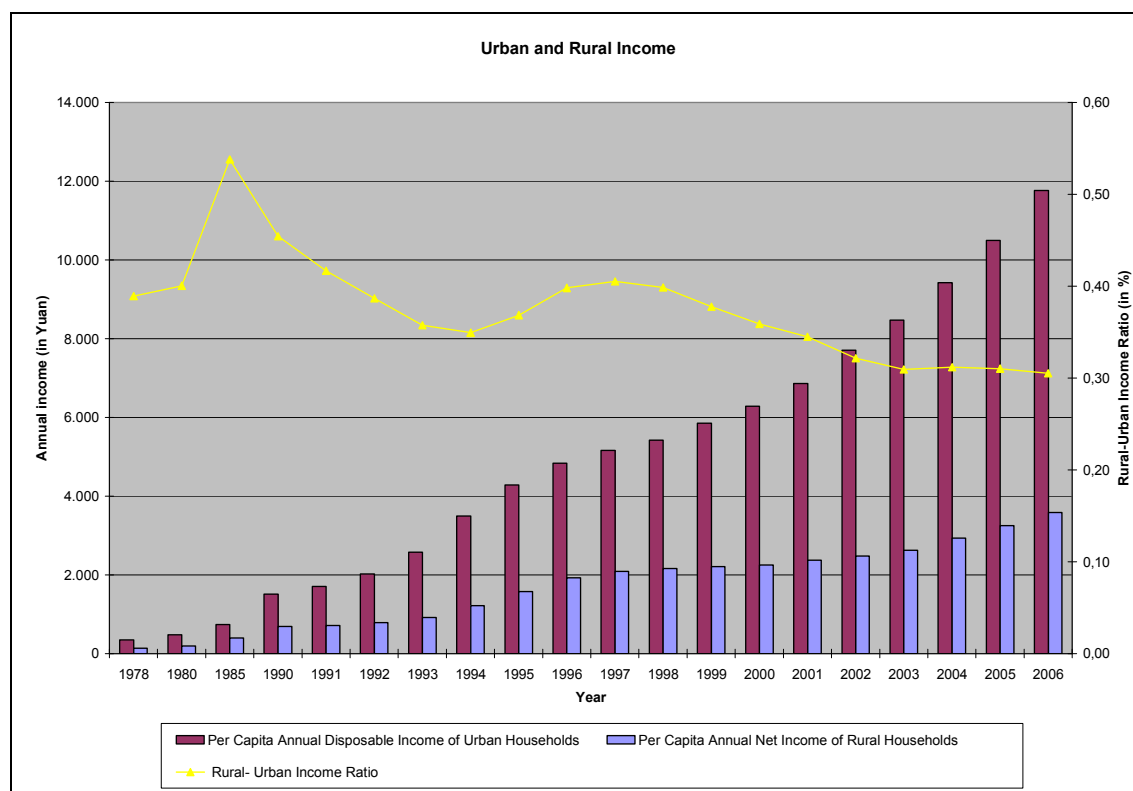
Graph: own design

### Development Rural – Urban income ratio

Since the application of the GINI index is not uncontested and due to the different sources no continuous assessment can be made, a simple overview of the development of the ratio of rural and urban per capita net income shall be made in order to trace the long term development since 1978.

Whereas in the first years of the reform the rural urban income gap narrowed, in so far as the rural net income reached 55% of the urban income in 1985 it gradually widened again. In 2006 the net annual income in rural areas accounts for only 30% of the net annual income in urban areas (see Graph 11).

**Graph 11: Annual per capita income - Urban/ Rural**



Source: Data NBS China (2008d)

Graph own design

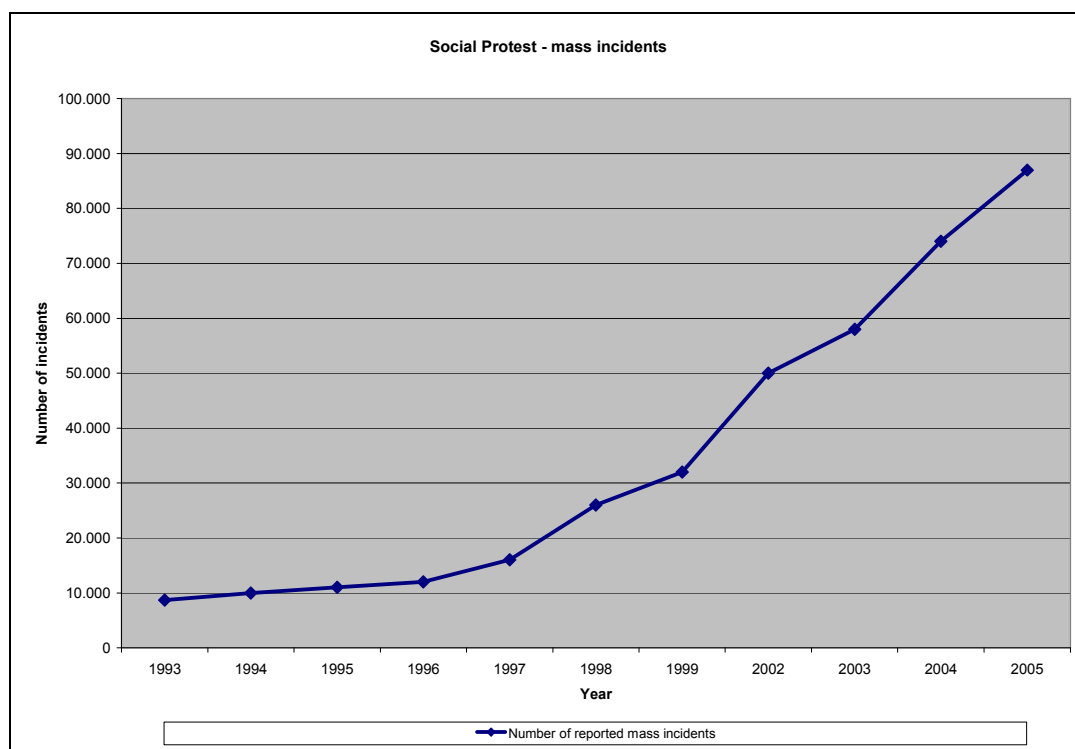
## Social Unrest

The inequalities and negative effects of reform also resulted in a steady annual rise of the number of so called “mass group incidents” (quntixing shijian 群体性事件) since the end of the 1980s whereas the number increased dramatically in the ongoing 1990s. These incidents comprise “sit-ins, strikes, petitions, rallies, demonstrations, marches, traffic-blocking and building seizures, and even some public melees, riots” (Tanner 2005:2). Figures are reported by the Ministry of Public Security, the number of these incidents developed as follows “from 8,700 in 1993, to 32,000 in 1999, to about 50,000 in 2002, and surpassing 58,000 in 2003” (Tanner 2005:2). Kreft (2006) quotes the official numbers of the mass group incidents as 74,000 reported incidents in 2004 and 87,000 in 2005 (cf. *ibid.*:19).

The north-eastern provinces of China are identified as region of most social protest. As Tanner states “Workers in this aging “rustbelt” of state- owned factories suffer greatly from layoffs, illegally withheld wages and pensions, and shady factory buyouts.” (Tanner 2005:2).

Although the protests are motivated by dissatisfaction with their jobs, the economy, or their local officials and the anger does not turn against the central government per se, the latter is deeply concerned with improving the situation due to the sheer number of incidents and the danger of major social unrest.

**Graph 12: Social Protest (major incidents)**



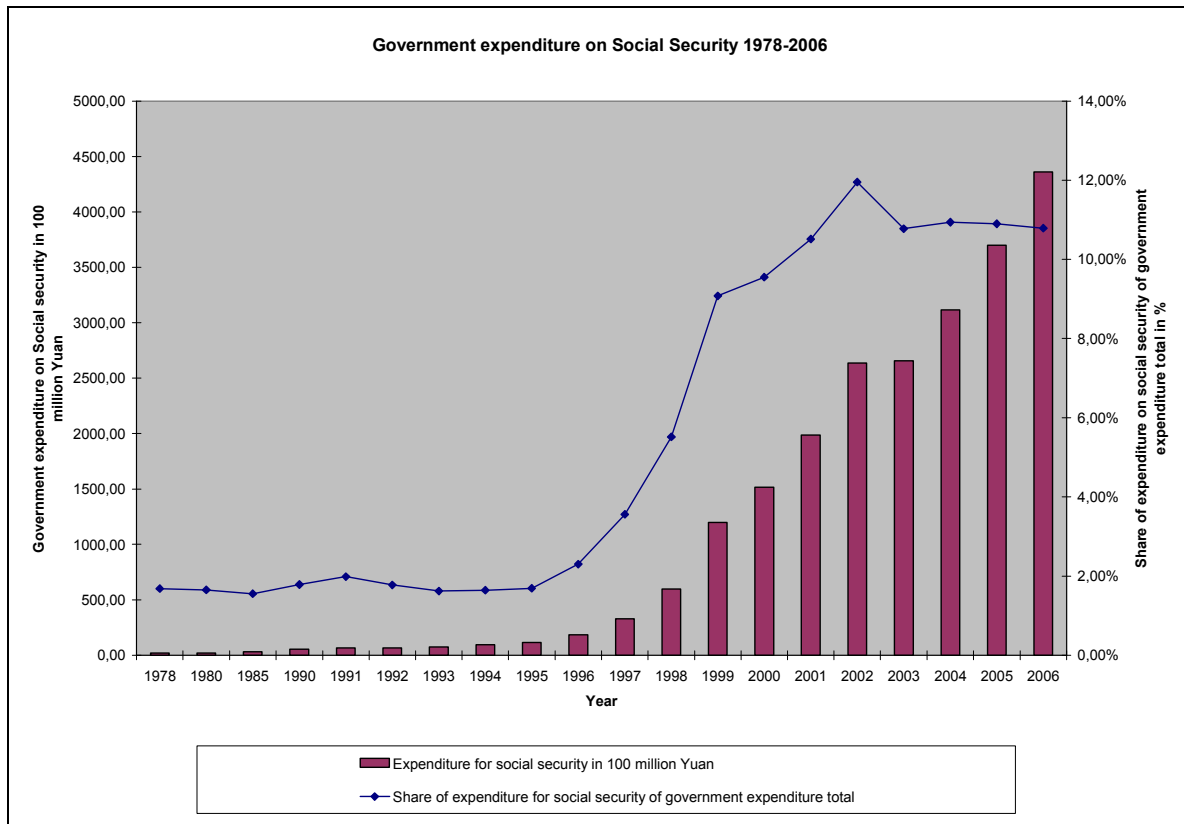
Source: Data Tanner 2005/ Kreft 2008

Graph own design

### **Rising government expenditure on social security**

Based on the data on the government expenditure in the years 1978 to 2006 the graph shows the development trajectory of the government spending on social security in total and as a share of the government spending total. An extremely steep increase in government spending in absolute same as relative terms started in the years after 1996, while the relative share has since the fallen back a little and since 2002 stagnated, the absolute spending is still rising in high rates.

**Graph 13: Government expenditure on Social Security**



Source: Data NBS China (2008e)

### 3. Conclusion

The research on the socio-economic trends and the resulting functional pressures in China since the 1950s has led to the following results. In general the time under research can be distinguished into two macro-periods, the pre-reform era of high equality on a low level of economic development and the post-1978 era of economic reform, high growth and rising inequalities.

In the years from the early 1950s up to 1978 the Chinese economy grew at a little annual growth rate, while the per capita GDP was equally low. The primary sector was dominant in respect of share of the persons employed and since there was no real market for the products of the primary sector its share of the GDP cannot be measured adequately. In terms of the development of the society the following results can be presented. Except for the increase in the number of the population of the PRC all other factors have been relatively stable as for example the unemployment figures, high equality and a stable ratio of the rural-urban population. In comparison to the economic development status of the Western Industrialized countries China found itself lagging decades behind. From such a development status

there was no urgent pressure of the establishment of large scale social policy making. A major achievement in respect of the starting point in the early 1950s was to lift millions out of poverty.

The second period starts with the reform and opening-up in the middle of the 1970s and the key date of 1978. Whereas in the first years of the reform period the economic growth rate was relatively low, from the 1990s onwards there was a steep increase in the GDP and the per-capita GDP which was primarily lead by export and the freeing of market forces. Along these developments major challenges emerged for which the existing welfare system was not fit: high levels of unemployment, changing family patterns, migration and occupational mobility that resulted in rising inequality and in turn civil unrest, that puts pressure on the government to find immediate solutions.

The stronger role of the secondary and tertiary sector of the economy and the rising inequality between rural and urban income fuelled urbanization and (mainly illegal) labour mobility. Furthermore “(T)he shift of the rural labour force to non-agricultural activities has brought with it the risk of unemployment and a retirement at a particular age” (Li/ Feng/ Gizelis 2008: 8).

The Chinese population is still growing and relatively young, whereas due to the one-child policy, the birth rate was falling since the early 1990s. Although in 2008 there is still a favourable old age dependency ratio, the future estimates underscore the importance of the establishment of a social security scheme that is viable to guarantee the welfare of the future aging society.

A more imminent threat to the existing social system is the change of family patterns. In the decade from 1996-2006 for which reliable data is available the national average household size shrank from 3.64 to 3.17. The traditional extended family structure gives way to small-size, nuclear households; in combination with the labour migration flows this results in the loss of functioning family support systems in the case unemployment, sickness and old-age dependency.

Further pressure stems from rising inequality in the 1980s, measured with the GINI index but also the rural-urban income gap. In combination with major layoffs, rising unemployment rates and market failures at the detriment of the workers these factors caused in many cases a social unease that resulted in a growing number of social protests since the 1990s. Decisive increases in the government expenditure on social security in the same period could not reverse this trend.

If the government does not find ways to deal with these major challenges in the framework of social policy making the political stability of the country will be at stake. In the demographic changes it can be perceived best that China is running out of time and needs to come up with solutions in the near future. In order to get a better picture what are viable options to reform the Chinese Welfare a look into the history of the PRC is needed clearly focussing on relevant decisions for the Welfare state system, its institutions and policies is needed. Such a chronological overview will be provided in the next chapter.

## **X. Welfare State policies in the PRC**

This chapter of the empirical part is dedicated to give a chronological overview of the development of the Chinese Welfare State and key social and employment policies. The information is mainly retrieved from secondary literature- the work of distinguished scholars in the field of Chinese Social Policy and to a lesser extent of Chinese government resources which are provided in English. Tracing the major developments in the social policy making in the years from 1949 to 2008 helps to identify critical turning points for the development of the Chinese Welfare State same as constant and changing characteristics of the system.

Setting a special focus on the developments since the current leadership of the PRC- President Hu Jintao and Prime Minister Wen Jiaobao- started their first term in office three macro-periods will be distinguished a priori: the first period starts with the establishment of the PRC in 1949 and ends with the official start of the reform and opening-up period in 1978. The second period covers the reform era from 1978 onwards until in 2002-2003 the Hu – Wen - leadership is assuming office. This event marks the starting point of the third period that comprises the latest information on decisive decisions and developments until 2008.

### **1. The early period of the PRC (1949 – 1978)**

#### **The emergence of a Chinese Welfare State in the first years of the PRC**

The roots of the modern Chinese social security system fall in the days of the founding of the PRC (cf. Williamson/ Zheng 2003: 9). Between 1948 and 1950 the Chinese Communist government induced social programmes including old age pensions, health insurance, workers' compensation, paid sickness leave and many other welfare services (cf. Saunders/ Shang 2001: 275).

After a long period of instability and military conflicts, that originated back in the time of the Chinese Empire in the middle of the 19<sup>th</sup> century and culminated in the war against the Japanese aggressor (1936-1945) and the Civil War (1945-1949), the People's Liberation Army (PLA) finally won the upper hand. The victory gave the Chinese Communist Party (CCP) the legitimacy for the official proclamation of the founding of the PRC October 1<sup>st</sup> 1949. Instantly the CCP laid a political focus on economic development, the provision of employment and social security in the framework of an equal society. Technologically backward the economic recovery and the build up of infrastructure were mainly based on the use of mass labour and depending on the technical assistance of Soviet Russia. With the intervention in the Korean War in 1950-1953 China was putting itself in opposition to the West. While the West was imposing a trade embargo on China faced a further slow down of the

economic recovery and increasing dependence on Soviet Russia for foreign support and learning. The Chinese Welfare system was therefore strongly influenced by the characteristics of the Russian socialist model.

Two institutions that were established in the infant stages of the system remained decisive for the set-up and understanding of the Chinese system: the Labour Insurance Regulations and the “Hu kou-system”.

The Labour Insurance Regulations were promulgated and came into effect in 1951 (cf. Dixon 1981: 31). “(...) (P)roviding the framework of various benefits based on the principle of lifetime employment and association with a state owned enterprise. The regulations were patterned after the Soviet model.” (Salditt et al.2007: 14) In the Chinese case the regulations were applied on all enterprise forms: state owned enterprises (SOEs), collectively owned enterprises (COEs) same as private enterprises exceeding a workforce of 100 workers. “Not all workers and staff employed in the work units participating in the labour insurance program were eligible to receive all the program’s benefits” (Dixon 1981: 36), excluded were those “deprived of political rights” and non-permanent workers (cf. *ibid.*). “The labour insurance program provided a range of categorical benefits payable upon the occurrence of a contingency” (*ibid.*: 37). The services and benefits also included the dependent family members of the worker and were clearly targeted towards guaranteeing an adequate livelihood for the worker in order to encourage productivity. “The costs of labour insurance benefits were either paid directly by participating work units or from a labour insurance fund into which the work units paid a monthly contribution equivalent to 3 per cent of their monthly wages bill” (*ibid.*:42). This share was not deducted from the wages of the workers but paid by the work unit. Private enterprises participating in the program had “to direct at least 15% of their net after-tax profit into a “workers’ relief and premium (bonus) fund.” (*ibid.*:52)

Hu kou (戶口) –is the name for housing registration system established in the 1950s in China; Individuals’ employment, welfare provisions and public services are bound to this system (cf. Wang/Wong 2007: 174). Additionally a change of the living place required the permission of the local administration; therefore it was an effective instrument to control migration and a main impediment for the development of a real national or even provincial labour market. With the aid of this system the rural and urban labour force could be kept separated what in the long run caused high divergence of the provisions along this urban-rural cleavage.

The outcome of these early features is a “welfare dualism” (Lin 1999: 85) that remains a constant feature till present. A difference in the organisation and generosity of provisioning between rural and urban areas can be perceived. Whereas for the urban residents a social insurance system was built to be known as ‘iron rice bowl’- Aspalter (2001) refers to it as “a Chinese version of the ‘cradle to grave welfare system’ in Sweden” (*ibid.*:6); welfare in the rural areas remained dependent on mutual



assistance in the extended family (cf. Lin 1999: 84). For an overview of the difference in basic arrangements of welfare provisions in urban and rural China see Table 2.

The normative basis for the system lay in the Marxist- Leninist but also Maoist ideology. “Socialist Welfare is the premise that it is in the best interest of society to alleviate poverty and to assist those unable to care for themselves, by increasing production rather than embarking on a protective policy of income distributions”(Dixon/ Kim 1992: 2). According to Mao’s Thought, “all workers who are ‘socialist constructors’ and their dependent family members have a right of welfare guaranteed by the socialist state but implemented by workplace” (cf. Lin n.d.: 5). The existing welfare dualism established from the beginning same as the outstanding role of the working class was therefore in line with the basic premises of the system and the prospect that the gap would narrow down as a result of economic progress.

At the beginning of the 1950s most private owned enterprises were nationalized. A collectivization of the agriculture followed and by 1956 already a reported 90% of the peasants had joined the Agricultural Producer’s collectives (APC) (cf. Lin 1999: 85).

The moment in which the economic system was dominated by the public ownership in forms of SOEs and COEs, these firms became the state units of production and also central for the welfare provisions. These nationalization efforts did mark the last step on the establishment of a so called “enterprise welfare” system in which the state could direct the actions of the firms in respect of welfare programs for the workers and their dependents. The system of “enterprise welfare” was an egalitarian centrally planned system, operated for protecting “socialist labourers” with a distinguished feature of collectivism. Health care, pensions and other welfare provisions were made by the work unit - the dan wei (单位) (cf. Lin n.d.: 3). After the nationalization of the economy 99% of urban workers are employed by state-owned or collectively owned enterprises; in rural areas agricultural producers’ cooperatives were in charge of the provisions of welfare which were highly different from the ones in urban areas as can be seen in Table 2.

In urban areas the provisions were made by enterprises at a generous level according to the state regulations and even enterprise-based welfare facilities as for example hospitals, kindergartens and schools were established. China at that time enjoyed a high level of welfare provision in comparison to the low income of its people (cf. Guan 2000: 117). Williamson and Zheng (2003) characterize this output as “one low three high”, which is low salary, high employment rate, high subsidies, and high benefits.”(ibid. 9).

Since full employment and a life long tenure were provided, no general social benefits were available from the state, e.g. in the name of citizenship, but only through the intermediary of the enterprise. Under these circumstances a social redistribution mechanism did not have to be installed (cf. Lin

2001) and Williamson and Zheng (2003) are going so far to claim, the system cannot be classified as a social security system but merely and enterprise security system (ibid. 9).

**Table 2: Basic arrangement of welfare provision in China before the reform**

Basic arrangement of welfare provision in China before the reform

Main aspects	In urban areas	In rural areas
Social security	<ol style="list-style-type: none"> <li>1. The governmental financial subsidy towards food, clothing and other basic subsistence materials; so that urban residents could benefit from lower prices;</li> <li>2. “Labour insurance” for workers in the state sector and governmental staff, which covers pension, medical care, occupational injury, etc.;</li> <li>3. Cash benefits for the urban “Three Nos” (no working ability, no family and no income).</li> </ol>	<ol style="list-style-type: none"> <li>1. <i>Wu Bao Hu</i> system: a rural collective-organization-based social relief provision for the elderly and disabled who had no family support;</li> <li>2. Natural disaster relief system: governmental relief projects for villagers suffering from natural disasters.</li> </ol>
Education	<ol style="list-style-type: none"> <li>1. Public schools and other education facilities financed by the government and state enterprises;</li> <li>2. Low schooling costs for students in primary and middle school;</li> <li>3. Free enrolment to higher education (although only for those who passed the entrance examination).</li> </ol>	<ol style="list-style-type: none"> <li>1. Public primary and middle schools financed mainly by the rural collective organizations and subsidized by the government;</li> <li>2. Lower schooling costs for students in primary and middle schools.</li> </ol>
Health services	<ol style="list-style-type: none"> <li>1. Preventive health action organized and financed by the government and state enterprises;</li> <li>2. Public hospital system financed by the government and state enterprises; low prices in medical care as a result;</li> <li>3. Free medical care for state workers and governmental staff.</li> </ol>	<ol style="list-style-type: none"> <li>1. Preventive health action organized and financed by the collective organizations and subsidized by the government;</li> <li>2. Rural cooperative medical care system, based on the rural collective economy.</li> </ol>
Employment	<ol style="list-style-type: none"> <li>1. Full employment policy: all urban labour could be assigned a job in either state or collective sectors;</li> <li>2. Stable employment: state workers were free from the risk of losing their job, once they got it.</li> </ol>	Full & stable employment for all rural labour based on the public ownership of farmland; all labourers had the right to work and get grain and a cash income from it.
Housing	<ol style="list-style-type: none"> <li>1. Public housing: most urban houses and flats were owned by the government and state enterprises, and distributed to workers and staff free of charge;</li> <li>2. Lower rent: the average rent of public housing and flats is even lower than the basic maintenance standard.</li> </ol>	No.

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Personal services	<ol style="list-style-type: none"> <li>1. The public caring facilities and services financed by the government and urban communities for the elderly, the disabled and orphans, etc. who had no family support;</li> <li>2. Daily services in childcare, elderly care, mess service, etc. by state enterprises and community organizations.</li> </ol>	Some public caring facilities and services in some rich villages, financed by the collective economy, for the elderly, the disabled and orphans, etc. who had no family support.
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Source: Guan 2000: 116-117

### **From the Great Leap Forward (1958-1961) to the Cultural Revolution (1966-1976)**

The PRC established a planned economy and five year plans were set-up in order to realize an economic growth. The first of these 5-year plans covered the years 1953-1957 and focused on industrial and infrastructure projects, since it did not produce the expected economic growth and improvement in the living conditions of the population, the Chinese leadership of the time embarked “on an ambitious great leap to achieve economic prosperity and communism” (Dixon 1981: 87). This campaign was put forward in a period of welfare austerity, since Chou Enlai had reported on the Third Plenum of the 8<sup>th</sup> Central Committee Meeting of the CCP that the social expansions were increasing too fast in comparison to the development of the Chinese economy, a report that had the tightening of the criteria for receiving welfare provisions as a consequence (cf. Lin 1999: 85).

In the years from 1958 to 1976 there were two opposing political camps in the CPC with diverging national development strategies to improve the system.

On the one side was Mao’s attempt to use mass labour “to achieve the objectives of economic growth and a socialist egalitarian distribution” (Fung 2001: 261). These objectives were perceived as sufficient “non-material incentives” (Dixon 1981: 87) for the masses to participate in the campaign. For Mao believing that “with sufficient enthusiasm and proper administration” China’s economic problems could be solved, did pursue the so called “labour mobilization strategy”. At the heart of this strategy was the conviction that an active and productive labour was the major impetus for reform and economic growth, making up for the lack of technology imports from the West (cf. Heberer 2008: 25).

On the other side adherents of the Soviet rational planning model, with the main figure of State Chairman Liu Xiaohu were less interested in ideological campaigns and more aiming at balanced growth under the planned economy making use of employment contracting and technological expertise. For them the main impediment for economic growth and effectiveness was to be found in the over-manning and over-sizing of SOEs that resulted in serious problems of labour management. Redundant workers and missing or wrong skills combined with a general lack of material incentives rendered the enterprises ineffective. Nonetheless the “iron rice bowl” kept its ideological and political position in this scenario, although its provisions were planned to be contained in order to raise the incentives for productivity. The lessons a delegation had drawn during from a visit to the USSR in

1956 were the following: “enterprises should be given the power to dismiss workers according to contracts, and workers were to be given the freedom of choice in employment”; “New recruits were to be employed according to contract, while existing tenured posts were to be turned gradually into contract posts” (Fung 2001:266). Even a sort of unemployment assistance for dismissed workers was planned.

A specific proposal of the camp that was directed towards the challenge of massive inflow of labour from rural areas was a two tier employment system of “worker peasant mix”. According to this proposal SOEs should be given the ability to employ rural workers on contract basis in time of rising production demand and discretionary power to decide on re-employment once each contract was terminated.

### The Great Leap Forward 1958-1961

In the period of the second 5 year plan which covered the years 1958- 1962, the camp of Mao was prevalent: the Great Leap Forward (GLF) movement was launched in 1958. The focus was put on major national infrastructure projects and the development of heavy industry in the name of the development of socialism. Besides Mao’s labour mobilization strategy features of the opposing camp were rare but yet implemented, as for example the worker peasant-mix. The participating masses were told, “that if they would work hard and endure austerity for a short time they would have ‘rich clothes and sufficient food in abundance’.”(Dixon 1981: 87) The use of the worker-peasant mix, which foresaw to contract peasants on temporary basis for work in factories made the number of contract workers to peak at some 12 million what equals a quarter of the industrial work force of the time (cf. *ibid.*: 89). These rural contract workers had only restricted access to the welfare provisions in the urban areas.

In regard of the financing of the system, it is reported that workers had to make first direct contributions to the labour insurance program (cf. *ibid.*: 90). The CCP took over the responsibility for the administration of the system.

Accompanied by an Anti-Rightist movement and two disastrous harvests the GLF ended in imbalances in the national economy, fiscal deficits and the death of many people as a consequence of hunger uprisings and epidemics. In the last phase rationing methods to distribute goods and services had to be established to protect what was left.

### Economic rationalism and pragmatism 1961-1965

The disastrous outcome of the GLF same as the abrupt withdrawal of Soviet assistance at the end of the year 1960 gave way to a period of economic, political and social readjustment (cf. Dixon 1981: 93).

In terms of politics, the GLF ended in a compromise between the camp of Mao and the camp of Liu. Mao resigned from his Presidency and wanted to concentrate on cultural, military and foreign affairs, whereas Liu and his adherents should be in charge of the economic and social policies.

Contract employment, the Labour insurance program and the worker- peasant mix were extended. In order to trim down the size of the urban workforce drastic actions were taken: until 1963 up to 17 million workers were removed from the urban SOEs and partly sent to the countryside. This number was including the vast majority of the rural workers who entered the urban labour force during the GLF period and with them a number of urban workers (cf. Fung 2001: 261-262). Giving stronger material incentives to the workers, material benefits were granted on the one side, while a job guarantee was no longer valid for new recruits entering the workforce in a time of economic depression on the other hand. These reforms, although economically rational were dangerous in terms of politics and ideology. They met strong opposition from the worker side, which perceived themselves deprived of employment security.

Another factor aggravating the situation was the rising student unemployment rate; to buffer this development the program “Educated Youth going to the Hills and Villages” that was first introduced as temporary voluntary program in 1957 was turned into a long-term policy of employment allocation. The program was in place until the end of the GPCR and by its end nearly all high school graduates, about 17 million of them, were being sent to the countryside. The CCP’s involvement in welfare provision was also trimmed down and more responsibility was transferred to the enterprise management and primary trade unions (cf. Dixon 1981: 95)

### The Great Proletarian Cultural Revolution 1966-1976

Still today the period of the Great Proletarian Cultural Revolution (GPCR) leaves many questions unanswered as for example in what its motivation can be found - was it a naked power struggle or a clash of ideologies and visions within the CCP. This is not the place to deal with such basic questions of a turning point in the modern history of China. The GPCR has become a synonym for political and economic anarchy- an experience that should shape the later history of China and manifest in the minds of generations as a period that shall never be repeated.

Started by Mao Zedong in 1966, the GPCR developed an unintended dynamic which caused industrial anarchy in the first two years and an uncontrolled violence that left millions dead. The Chinese national economy was brought to a near stand-still. Universities and other academic institutions had been closed down for a long part of this era and left a whole generation without education. Contacts to foreign nations were reduced to a minimum and China was to be found in a self-induced isolation.

Not only individuals but also state bureaucracies became the target of the revolutionary forces. Latest changes in the economic system, as for example material incentives and contract work same as the

Welfare system were stigmatized as revisionist sins (cf. Dixon 1981: 118). Since the problems of contract labour became one of the most important issues for revolutionaries (cf. Fung 2001: 267) they attacked the Labour Ministry in January 1967 and declared contract labour as antithetical to socialism. In the follow up “the Ministry and the All China Federation of Labour Union were forced to sign a ‘Communiqué’ stating that the dismissal of contract workers and part time workers was to be abolished” (Fung 2001: 267). In a later stage the Trade Union was banished completely. Even the action of the Central Committee of the CCP and the State Council could not win the upper hand in this struggle by declaring the ‘Communiqué’ illegal. Under the anarchic social and economic conditions the revolutionaries and workers forced the enterprises’ management and trade union cadres into converting all contract labour into full-time permanent posts (cf. Dixon 1981: 121). Enterprise based institutions of welfare provisioning were combined or completely abolished. Since money was constantly drawn out of the labour insurance fund for various purposes, the government saw no other means than ordering in 1969 that enterprises had to establish their own welfare funds financed by their profits (cf. Lin 1999: 87).

Mao’s wife Jiang Qing and her supporters founded a new revolutionary labour organisation. Another output of the revolution was the emergence of a new Welfare Philosophy centred on the education of the individual. The individual should practice a political self-cultivation by studying Mao’s thoughts, such a study should lead to the creation of a communist society, in which men are “selfless and devoted, who would work harder and desire no personal remuneration in return”. (Dixon 1981: 125) The welfare provisions and material incentives of the past were condemned as “contaminating the ideological transformation of men’s minds” (ibid: 125)

Dixon (1981) judges the GPCR and the new Welfare philosophy as a turning point for China “moving further away from the sacrosanct welfare-state model (...) in the West”.

When the People’s Liberation Army (PLA) restored order and the CCP recovered swiftly its strength and influence in 1971 a great deal of the developments could not be reversed. In regard of employment policy a strong legacy should bear that “almost all of the 6.5 million temporary jobs, contract jobs and apprenticeship had been finally converted to permanent worker status” (Jiao 1991 as cited in Fung 2001). The major damage in economic terms was not so much the volume of production as the arousal of a class struggle against economic order and discipline, leading to irreverence and disobedience in the labour force. The lessons drawn for the regime were one the one hand the understanding that labour productivity through political mobilization was ineffective and on the one other that a reform of the employment system was more necessary than ever but had to be conducted in the run of a piecemeal cautious process.

After the heydays of the GPCR, a reconstruction of workers social assistance system was made. The only significant difference to the pre-GPCR system was the Welfare administration, while the

revolutionaries rendered the welfare administration dysfunctional but failed to install a viable system of their own, the bureaucracy was in this field reduced decisively. From 1972 onwards the trade unions gained advisory and supervisory powers but their influence remained far behind the one in the pre-GPCR period.

Only after Mao's death in September 1976 - which was followed by a brief power struggle that did result in the ascendancy of the economic pragmatists including Deng Xiaoping - a number of further changes were made. Material incentives same as a "responsibility system of industrial management" were reintroduced and the trade unions were again directly involved in the administration of welfare provisions (cf. Dixon 1981: 131-133). It was obvious that in order to deal with a number of past legacies that hampered any economic recovery had to be dealt with in far reaching economic reforms; one of these was to set an end to policies as for example sending urban educated youth to the countryside. This misallocation leading to inefficiency should constitute one of the major reasons for the opening up of the labour market during the later part of the economic reform era (cf. Fung 2001: 263).

## **2. The Transition period: Economic Reform and Opening-up (1978 – 2002)**

It is more than just a single but numerous transition processes that are started with the economic reform and opening-up in 1978 - the date marks also a watershed in social politics (cf. Aspalter 2001). Along with the economic reforms, the society and the state organisation underwent major changes, hereby in the research a focus is set on two issues: the development of a social security system and the establishment of a Labour Market.

### **Deng Xiaoping and the establishment of Socialism with Chinese characteristics**

A new chapter in Chinese economic same as social and employment policies was opened by Deng Xiaoping. After the end of the GPCR a new ere was started by the reforms initiated by Deng Xiaoping and the economic pragmatists around him. Himself discredited as 'traitorous scab and renegade' during GPCR (cf. Grasso/ Corrin/ Kort 2004), he was reinstated of all his previous posts during the 11<sup>th</sup> Party Congress in 1977. His regained power he used to bring forward economic construction and stability as prevailing factors of reform and the CCP on the way to modernization. Under these conditions the social philosophy underlying the system had to be transformed. Focusing on economic recovery, Deng Xiaoping was very cautious in not loosing the control of the developments and not breaking with the traditions and thought of Mao. The experience of the GPCR with its devastating outcome was still omnipresent. In his reform agenda he underscored the compatibility with *Mao Zedong Thought* and spoke of the necessity of the development of "socialism with Chinese characteristics". In 1978 "developing the forces of economic production and raising the livelihood of

the Chinese people” was established as the foremost task of the CCP relegating “waging class struggle to as secondary task” (Miller 2007: 6).

Key feature of the economic reform was a gradual reduction of the intervention in enterprise management and the market by the State and the CCP (*zhengqi fengkai* 政企封开) (cf. Wang/ Wong 2007: 31). The opening of the Chinese economy for foreign investment and the set-up of foreign-Chinese joint ventures were planned to lead to more competition and efficiency. In 1978 the government was making a decision for the permission of foreign direct investment in several *Special Economic Zones* (SEZ)<sup>15</sup>. The attraction of foreign enterprises was expected not only to bring financial means but also expertise and technology, which would curb the competition in China and lead to more efficiency in the Chinese economy.

Although social security was subordinated to economic growth, the regime did not neglect the need for the State to develop a state-managed, unified system of social security.

A main goal of the economic reform was to improve the efficiency of the Chinese economic system. The overstaffed and in many cases inefficiently working SOEs should be transformed into profitable enterprises, therefore they were granted a higher degree of managerial and financial autonomy. The major challenges of the recovering economy were the huge demand for educated young employees and to maintain high levels of employment for the growing number of workers in urban areas. Since the public job placement system was under strong pressure to deal with these challenges Deng Xiaoping endorsed in 1978 that the state should give up his monopoly on job placement and the enterprises were given more autonomy in recruiting their staff.

The reintroduction of the labour contract system was also on the agenda. Aware of the possible labour unrest, the regime was very cautious in its proceedings. A beginning was made with an experiment in the collectively owned sectors: newly employed workers received labour contracts, whereas existing permanent jobs should be converted into contract labour at a later point in time (cf. Fung 2001: 268). This incremental introduction of a labour contract system met with little resistance in the labour force and by the end of 1985 in most provinces the experimentation was turned into practice. Along the same lines a system was introduced in SOEs.

After the third Plenum of the twelfth CCP Central Committee in 1984 the regime began to carry out structural reforms in the urban economy and tried to marketize its enterprises by means of contracting out industrial and business projects. Away from the old focus of macro economic effectiveness, efficiency of enterprises was a new priority for the regime. The labour contract system was thus substantially refined and improved: enterprises were given more discretionary power of labour

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<sup>15</sup> The first SEZs were established in 1980, all situated at the Eastern Coast Line.



dismissal under the contract-out system, while the regime was preparing for a new social security programme that would replace the “iron rice bowl” by unemployment insurance and social assistance. The growing number of non-public enterprises put additional pressure to reform the old system.

When the reform reached the industrial areas and the privatization of SOEs accelerated by the mid-1980s the system of the *enterprise welfare model* was shaken in its foundations. While the marketization and privatization of the economy accelerated, new institutions had to be set up to deal with the negative consequences of the economic reform. Commentators as for example Mok (2006) see the main rationale for the reform of social policy and the adoption of strategies of privatization, marketization, commodification and societalization as a means to reduce the state burden in financing and providing social welfare and social services and less as a direct answer to pressures stemming from market failures. Many of the policy measures launched in the 1980s were paving the way for later development. In many cases experimentation on trial and error basis were used to find viable and appropriate measures.

In April 1986 “(t)he 7<sup>th</sup> Five Year Plan for National Economic and Social Development with a chapter on social security was adopted at the 4<sup>th</sup> meeting of the 6<sup>th</sup> National People’s Congress”(Chow/Xu 2001: 134). In September of the same year “(t)he State Council promulgated directives for the employment of new workers at state-owned enterprises on contract terms and the setting up of unemployment insurance for workers dismissed or laid-off by bankrupt enterprises”(ibid.:134). Participation in the unemployment insurance scheme was made compulsory for all wage employees in urban areas (cf. Zhu 2002:47). One of the objectives of this initiative was to relieve the enterprises of the burden of hidden unemployment (cf. Saunders/Shang 2001: 280). Another measure to disengage the enterprises from their commitment to welfare provisioning and administration was the introduction of individual contributions to the pension system. Although the biggest share of contributions was still made by the employer, the collective funds were operated by Social Insurance Agencies (cf. Salditt et al. 2007: 16).

### **Aging as a new issue on the political agenda and the “Enterprise Ordinance”**

An issue that was globally discussed in the early 1990s also entered Chinese policy circles at the same time: Aging. Although China at that time had a young workforce in international comparison and a low old age dependency ratio, it was the falling birth rates as consequence of the *one-family-one-child-policy* and a rising number of workers entering retirement age that made discussions about the future social security system necessary and brought the topic on the political agenda. From 1978 to 1988 the expenditure on pensions increased almost 19 times (cf. Salditt et al. 2007: 16) and according to Chai (1992) the worker – pensioner ratio fell in the same time from 30.3 to 1 to 6.4 to 1.

In June 1991 the State Council issued a “Decision on the Reform of Old Age Insurance System of Enterprise workers”, a “three-tier old age insurance system for enterprise workers was formally adopted and implemented” (Chow/ Xu 2001: 135). These tiers “were a basic pension for all retirees jointly financed by the state, enterprises and the workers; a supplementary scheme funded by the enterprise from its trading surplus; and an account funded by individual worker, on a voluntary basis, and payable at retirement as a lump sum.” (Salditt et al. 2007:17)

Since the decision was working with recommendations to establish social insurance funds on provincial level and no binding directives were issued, provinces started to experiment with different models. Next to, since the above mentioned decision only was applicable to the urban workforce, the State government launched an initiative to broaden the coverage by introducing pension schemes for the rural population. In January 1991 the Ministry of Civil Affairs was assigned by the State Council to develop old-age social insurance in rural areas the "Basic Plan for Old Age Social Insurance in the Countryside" (cf. Salditt et al. 2007: 17). By January 1992 it sent out a “Basic Proposal (Trial) on Old Age Insurance in the Villages at the County Level” (Chow/ Xu 2001:135) and soon after first experiments were run in rural areas (cf. China Report 2005: 96). The scheme is administered by county-level rural social insurance organisations, each participating individual is entitled to a benefit based on the accumulation in his account at the age of 60 (cf. Zhu 2002: 41).

In the same year an *Enterprise Ordinance* was enacted. With this ordinance “the efficiency principle was further extended and enterprises were given the power to determine the conditions, methods, quantity and period of labour utilization” (Fung 2001: 269). For enterprise managers this ordinance translates into the opportunity to downsize and re-engineer their oversized business units.

### **Towards a ‘Socialist Market Economy’ under Jiang Zemin**

At the beginning of the 1990s China entered a new phase of opening-up its markets to the outside - Deng Xiaopings famous words “kaifang (开放) – open up” made during his “Inspection visit to the South” are unforgotten as they are central to the economic and social development in China till present. The decade should be imprinted by China’s ambition to become a member of the GATT, later known as the WTO. On the 14<sup>th</sup> National Congress of the CCP in 1992 the establishment of a *Socialist Market Economy* was set as the key task in the 1990s. In 1993 Jiang Zemin assumed the position of President of the PRC (1993-2002) and during his presidency the transition to the Socialist Market Economy should be completed.

The system of so-called Socialist Market Economy (shehui zhuyi shichang jingji 社会主义 市场 经济) is not easy to put in words. Fernandez-Stembridge (2004) describes it as follows: “It appeared as a

combination of planned and market economy, which may really be translated as a non-officially recognised capitalism, but which exists, is applied, and is part of the day to day life in China's big coastal cities: it is de facto capitalism" (ibid.: 380).

Besides the challenge for further opening-up and the development of the economy the negative consequences of the economic development path started to manifest in rising inequality and unemployment figures. The high growth rates of the Chinese economy alone could no longer make up for the major lay-offs in SOEs and COEs which resulted in a rising unemployment problem. Especially the bankruptcy of SOEs as a consequence of the competition with foreign invested enterprises - which were clearly superior in their capital structure, technology and management techniques - was a common feature of those days which came along with major lay-offs. The inequality between individuals was rising and the gap in the development level between the coastal regions and the hinterland grew<sup>16</sup>.

Under these conditions the leadership was put under pressure to find solutions to the twin challenge of guaranteeing economic growth and the adhesion to the GATT on the one side and providing adequate social provisions on the other. Since the justification of economic growth as priority above social development was increasingly difficult to justify Zhu Rongji - the Prime Minister in office - was referring to foreign competition pressure as major driving force for change and using it as a scapegoat for the negative effects of the restructuring of the Chinese economy (cf. Zweig/ Chen 2007: 35).

As the major orientation for reforming the existing welfare system at that time Guan (2001) names the reduction of labour costs, competitiveness and efficiency. In order to achieve these objectives the state was cutting down on social expenditure. In this view and the one of Mok (2006: 6) the basic objectives of the regime had shifted completely away from the traditional values of social equality, protection and social justice over to the pragmatic goals of improving the economic efficiency and maintaining social stability.

#### Changes in Labour Market policies and the social security system 1993-1997

At the beginning of the terms in office of Jiang there are a number of important decisions in respect of employment and social policy which shall be presented hereafter.

The earlier mentioned unemployment insurance scheme was implemented in 1993 in order to provide the eligible employed with a basic living allowance, medical supplements, re-training and self-help productivity programs.

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<sup>16</sup> For more details on the difference in development between the regions see UNDP (2005)

A far more important decision was made by the Third Plenary Session of the 14<sup>th</sup> CPC Central Committee on November 14, 1993 in regard of the establishment of a social security system. In the Decision of the CCP's Central Committee on Some Issues Concerning the Establishment of a Socialist Market Economy Structure, it was declared that China will adopt a partially funded pension model that combines social pooling funds with individual accounts (cf. Zheng 2004: 91-92).

The adoption of a new labour law in 1994 (effective from 1995) completed the reform package and did mark the transition from the planned labour system to a labour market (Hebel/ Schucher 2008: 7). It established a uniform legal framework for all workers independent of the form of enterprise they were working with. Along with this legislation the financial burden of welfare was shifted from state and onto the employees and employers themselves by stipulating a contribution based social security system. In ideological terms, labour had become a commodity.

Foreign-funded enterprises had become the places for experiments on collective negotiations in enterprises (cf. Zheng 2002: 21). Based on the results of these experiments the Ministry of Labour and Social Security and the Ministry of Foreign Trade and Economic cooperation jointly promulgated on August 11, 1994 the "Provisions for Labour Management in Foreign Funded enterprises" granting trade unions in foreign funded enterprises the right to sign collective contracts through negotiation. The collective contracts with the management comprise labour remuneration, working hours and holidays, labour safety and health, insurance and welfare.

Another innovation was the introduction of an employment injury insurance scheme in 1996. "The Ministry of Labour Experimental Measures on Employment Injury Insurance (EII) for Enterprise Employees" (Zhu 2002:48) is a scheme financed from employer contributions according to a differential rate covering workers in urban areas.

Faced with soaring unemployment rates the unemployment insurance and the social security scheme turned out to be incapable of dealing with the challenges ahead. Whereas in regard of the unemployment insurance the coverage was very narrowly defined on SOE workers and the contributions and benefits equally low, the scheme was not able to meet the basic needs of a rising number of unemployed. The socialist regime saw no other treatment than to keep the enterprises in. In the mid-1990s instructions were issued that enterprises had to maintain the livelihood conditions of laid-off workers. Workers were nominally still employed by their enterprises of origin and had to report to them on a regular basis. In turn the enterprises had the obligation to arrange alternative employment opportunities and provide living allowances to alleviate hardship of its workers. Once the allowance funds established by the enterprises had been exhausted, regional authorities were obliged to subsidize the deficit.

A social safety net – more remedial than preventive in nature - was constructed around the enterprises that kept political and social functions while the regime remained hesitant in its direct interventions in

social provisioning. Nonetheless it was clear, that this was not an arrangement for the future, but that the socialist regime had the responsibility for dealing with the problem of employment insecurity and rising inequality in the near future.

The social security scheme lacked proper compliance and run high deficits. The reasons for the unfunded pensions' liability are manifold. The first is to be found in the high rates of early retirement, the second in the misuse of the capital of social security funds (cf. Zhu 2002: 43). Apart from these reasons, the problems of compliance stemmed from institutional defects of partially funded pension schemes. The combination of social pooling and individual accounts had become an anti-incentive – employees were not eager to pay for their individual account, while the default payments would not correlate with their future returns, and employers were not too serious in paying their contributions either.

It is clear that this is only the general picture, given the difference in economic development and corporate profit levels between the different regions, it is evident that those underdeveloped regions or enterprises with poor profit levels which default on paying contributions to the social security fund are actively advocating the raising of the social security coverage level while the well-off do quite the opposite (cf. Zhu 2002: 43). In the end the central government has to step in “to ensure the payment of pension benefits on time and at the full rate” (cf. *ibid*: 43).

The policies in the field of labour law, industrial dialogue and employment injury insurance faced less critique but still showed major operational shortcomings, especially in regard of the assignment of competences and monitoring.

#### Changes in Labour Market policies and the social security system 1997-2002

Since the approach followed in the early 1990s did have its set-backs, from 1997 onwards new policies were brought on their way and the aforementioned operational shortcomings were tackled.

In 1998 the responsibility and competence of the management of the social- security funds of 11 industrial sectors have been transferred to provincial governments (cf. Zhu 2002: 42). “The basic pension fund is pooled at the provincial level and the contribution rate varies from one province to another” (*ibid.*: 41). Whereas this step was intended to create conditions for the future unification of national social security fund and to strengthen the capital prowess of local funds, both objectives were not met. In the contrary, in 2000 the funds in 24 out of the 31 provinces were running deficits and the central government had to step in to ensure the payments (cf. Zhu 2002: 43).

Zheng Bingwen (2004) advocates the establishment of a social security scheme according to the Notional defined contribution model (NDC) in order to prevent the moral hazard, that he makes main responsible for missing payment incentives. Other local and foreign experts advocate measures

centring on three instruments: to curb early retirement, to extend retirement age and to extent the coverage to all urban employed integrating the civil servants' pension scheme with the basic pension scheme for urban workers (cf. Zhu 2002: 43)

In order to assess the impact of incremental changes to the social security system and to develop a long-term effective system, a social security reform project was launched in Liaoning Province and some cities in other provinces in July 2001. The variation from the general system were to be found in an increase of the employee contribution rate, the downsizing of the individual account, the recapitalization of the individual accounts through non-contributory revenues, an increase of the pension benefit under the pooling scheme same as the encouragement of private or occupational pension schemes through tax concessions (cf. Zhu 2002: 44).

A number of other government initiatives were clearly designed to shift the responsibility in welfare provisioning and management once and for all away from the enterprises on to the State and to define clearly the responsibilities and competences of the different state organs. Examples are *The Decision on Establishing a Scheme of basic Medical insurance for Urban employees* stipulating that the role of financing health care insurance benefits shifted to local authorities (cf. Lin/ Kangas 2006: 68); by far the most important innovation that signalled a momentous new phase in social policy making was the establishment of the Ministry of Labour and Social Security in 1998. The new ministry was assigned with the responsibility and supervision authority for social insurance and labour affairs that were previously in the hand of a number of ministries. With this measure the government intended to stop "departmental turf wars" (Zhu 2002: 40) that hindered a proper development of policy lines and implementation of strategies. The task of social relief including programs targeted on the long term non-working population and urban poor remained with the Ministry of Civil Affairs (cf. Duckett 2003:220; Zhu/ Nyland 2005: 54).

Further initiatives of the late 1990s were the reform of the unemployment insurance scheme, with "the enactment of the State Council Regulation on Unemployment Insurance in 1999 (...) the unemployment benefit is now a flat-rate amount (...) as determined by local governments." (Zhu 2002: 47). After the benefit entitlements under the Unemployment insurance were exhausted, workers could apply for means-tested urban social relief, called Minimum Subsistence Guarantee for Urban residents (cf. *ibid.* 48). This means-tested social assistance programme was first introduced in Shanghai in 1993 on experimental basis and in 1997 the State Council demanded the local authorities to provide a minimal living standard guarantee for urban residents (cf. Lin/ Kangas 2006: 68). The assistance level "based on the minimum cost of basic necessities in the city and the financial capability of the local government" (Leung/ Wong 1999: 45) and the strict criteria for applicants -the government referring cases in which grown-up children do not support their parents in need and the denial of any

support in case two job referrals from employment agencies are denied by the beneficiary – underlining ideology of the State and its residual role in welfare provisioning.

### **3. The period of new objectives (2002-present)**

Whereas by some scholars the years 1998-1999<sup>17</sup> are identified as turning point of the government policy towards a new balanced development paradigm it is the transition from the Jiang Zemin to the Hu Jintao Presidency in 2002-2003 that has brought along a new orientation of development strategies.

The leadership-duo of Hu Jintao as President of the PRC and Party Secretary of the CCP and Wen Jiabao as Prime Minister of the PRC set their focus on a balanced economic and social development. Hu Jintao promised already in 2002 when the transition from the Jiang to his presidency was not yet complete<sup>18</sup> to make China's development path more human and people centred, adhering to the "Three people's principle: power to be used by the people, concern to be shown for the people and benefits to be enjoyed by the people" (Wang/ Wong 2007: 4).

The 15<sup>th</sup> Party Congress underscored the comprehensive well-being of the society being a higher value than just economic development and the Fifth Plenum approved the 11<sup>th</sup> 5-year Economic and Social development plan (2006-2010). The main objective in the plan is to build a *harmonious socialist society* by the means of redistribution mechanisms and major improvements in the fields of education, medical care and social security. The approval of the 5-year Plan by the National People's Congress followed in March 2006.

#### **A new development Paradigm**

China's future growth depends on how government tackles the socio-economic problems in order to guarantee social stability (cf. Wang/ Wong 2007: 95). The most salient problems of the system are: social injustice, corruption, income inequality and environmental degradation (ibid: 153) and the maintenance of harmonious and stable labour relations (cf. China Report 2005: 93). These problems are the reasons for rising discontent in the population that can be perceived in the rise of the number of uprisings on the countryside but also in urban areas.

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<sup>17</sup> The time of the Asian financial crises had without doubt also an effect on the thinking of the governing elites.

<sup>18</sup> A complete transition of power was only achieved by early 2003, when Jiang Zemin gave up his position as Chairman of the Central Military Commission

The new development paradigm that is impersonated by Hu Jintao comprises certain key concepts and ideas. The ideas of the *Scientific Development Concept* (kēxué fāzhǎn guān 科学发展观) along with the *people oriented development concept* were introduced as guiding principles for the future socio-economic development. With the *objective of building a harmonious socialist society* a special focus is put on social policy governance and social welfare developments in China (cf. Mok 2006: 27).

Hu Jintao and Wen Jiabao institutionalized these concepts as additions to party doctrines as their predecessors did with their concepts before. Since the 17<sup>th</sup> National Congress of the CCP in 2007 the *Scientific Development Concept* is the current socio-economic guiding principle of the CCP and is interpreted as extension and successor Ideology to Marxism-Leninism, Mao Zedong Thought, Deng Xiaoping Theory and the Three Represents.

### Harmonious Socialist Society, Scientific Development Concept and the People-oriented development

After the previous paragraph dealt with the history and rise of these two concepts towards its position as guiding principle for the socio-economic development, this paragraph is dedicated to their content.

A *Harmonious Socialist Society* is according to Party discourse a society built on “democracy and rule of law, justice and equality, trust and truthfulness, amity and vitality, order and stability, and a harmonious relation with nature” (Holbig 2006: 27). The vision is a society “in which all the people will do their best, each individual has his proper place, and everyone will get along in harmony with each other” (Xinhua 2005, as cited in Holbig 2006). The main themes are *Stability* and *Social Harmony*- for some scholars this is a clear reference to the age-old, historical preoccupation of Chinese rulers with stability (cf. Rappai 2006: 297). From the viewpoint of a communist party the declaration of this objective “suggests that it has abandoned the concept of “class struggle”” (China Daily 2006c<sup>19</sup>) and that it “wants to let every member of the society share the benefits of development” (China Daily 2006a) in a “spirit of sharing” (cf. *ibid*).

The two concepts of *Scientific Development* and *People oriented development* “were introduced to promote a more comprehensive, coordinated and sustainable, as well as a harmonic development of economy, society and human” (CCCCP 2003, as cited in Mok 2006). They mark a turning point away from the neo-liberal strategy adhered to by the regime in the 1990s and specify the understanding of the meaning of the *Harmonious Socialist Society*.

The *Scientific Development Concept* incorporates the features *sustainable development, social welfare, a person centred society* and *increased democracy*. Good governance and the establishment of a law based government (fazhi zhengfu 法治政府) are milestones for the realization of the concept.

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<sup>19</sup> The author of the article is a researcher with the China Foundation for International and Strategic Studies



The scientific qualifications of the party state are reflected in the so called *five overall plans* (wu ge tongchou 五个统筹) attached to the new concept, these are:

- the coordination of development in both urban and rural areas;
- the planning of regional development;
- the integration of economic and social development;
- the planning of harmonious development between man and nature;
- the coordination of the domestic development and the opening up to the outside world.

(cf. Rappai 2006: 298; Holbig 2006: 26).

The political discourse of the *People oriented development* concept is according to Ngok (2005 as cited in Mok 2006) underscoring the awareness of the political regime for the issues of the people and the re-orientation of social policy paradigm towards *Social justice* and *Social equality* (cf. Mok 2006: 27-28). The crucial question remains how more resources can be allocated to help the less advantaged groups and improve their livelihoods and how an equal access to health care, education and other provisions can be guaranteed.

In order to keep employment rates high and to narrow the gap of inequalities the big challenge lying ahead is to reform the labour market and the welfare system. Since the economic and institutional reforms starting in the 1970s have diminished the fiscal capacity of the state considerably, the CCP will be in the need to find alternative solutions to finance the welfare provisions, this will most probably lead to the adoption of a more redistributive policy (cf. McNally 2008: 158).

### **Reforms in social and employment policy 2002-2008**

In the following the measures by the Hu –Wen leadership until mid-2008 shall be presented. Since the Central Government is dependent on the local governments' administrative bodies for policy implementation the leaders are making extensive use of formulating national guidelines for local practices (cf. Wang/ Wong 2007: 178). This leaves the local officials with discretionary power for implementation (cf. *ibid.*: 19) and room for policy experimentation, which can also lead to the development of a local practice becoming a model for a national policy. In the report on the work of the Government in 2007 Wen underlines the importance of balance in the “relationship between central and local government organisations to give full play to the initiative of each” (Wen 2007).

From the aforementioned five overall plans, the first and third are most important for the social policy in China. The first plan of coordinating the development in rural and urban areas is directed to set an end “to yawning disparities between both people and their regions” (Xinhua 2008). The building of the

new socialist countryside (jianshe yi ge xinde shehui zhuyi guojia 建设一个新的社会主义国家) is therefore one of the key projects. Its main objectives are raising the rural income and improving the living conditions by fostering the infrastructure development, promoting training and education of people and improving the health services on the countryside (cf. Wen 2007). Launching a reform of the Hukou system in 2003 can also be subsumed under the first overall plan. The urban social security provisions shall be made accessible to migrant workers under the conditions that have been tested in local experimentations in Shanghai and Shenzhen.

In respect of the plan to integrate economic and social development a number of initiatives are built on prior projects as for example the new directive on labour injury insurance in 2003.

A great achievement in labour legislation was the adoption of the new Labour Contract Law and the Employment Promotion Law. They are characterized of a highly inclusive approach, since not only formal but also informal employment is included (cf. Hebel/ Schucher 2008:26). Informal employment is a common phenomenon in East Asia that has contributed to a widening of income inequality and the creation of a two-tier labour market- also in China. In the future the workers in informal employment will also benefit from the system of labour protection, e.g. rural workers will also receive the right to enter official trade unions.

The Employment Promotion Law sets a clear framework for future labour market development and introduces measures to combat discrimination against internal migrants, while the Labour Contract Law seeks balance between better employment protection and flexibility for firms to compete in the labour market (Adecco Institute 2007). In addition the Labour Dispute Law as taking effect from 1<sup>st</sup> May 2008 will professionalize the resolution process for labour disputes and herewith safeguard the rights of labourers far better than in the past (cf. Hebel/ Schucher 2008:12).

The renewal of the welfare system is taking place under conditions of an aging population and in accordance with different objectives: on the one hand, the new system has to comply with the entitlements of employees and workers under the old labour regime and, on the other hand, new guidelines have to be established to cover new groups within the workforce as for example workers in informal employment (cf. Hebel/ Schucher 2008). Education is named “the bedrock of China’s development” (Wen 2007) and providing more and better forms of education is made a strategic priority in social policy reform.

The social security reform project that has been started in the Liaoning Province in 2001 was further extended. In 2006 it covered 11 provinces<sup>20</sup> that comprise 39% of the Chinese population (cf. Salditt et al. 2007: 18). The results are expected to provide necessary information to implement an effective social security system nationwide in the near future.

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<sup>20</sup> Henan, Hubei, Hunan, Shandong, Shanghai, Shanxi, Tianjin, Xinjiang, Jilin and Heilongjiang

#### 4. Conclusion

From the study of the Chinese Welfare State institutions in three distinguished periods the following results can be retrieved.

The first three decades of social policy making and welfare statism in the PRC have not been signified by a comprehensive approach; the developments have been driven or hindered by major ideologically motivated turns in the development strategies as for example the GLF and the GPCR same as the power struggle within the CCP. Except for an interim period the CCP remained an unquestioned authority. Although the strategies to fight poverty were successful and millions were lifted out of poverty neither the anticipated goal of a fast economic development nor generous welfare state provisioning could be realized at full.

Despite its appraisal for its equality features the practiced enterprise welfare model showed in reality many shortcomings. The welfare provisions made by the enterprises were dependant on many factors as for example the nature and administrative level of the firms, same as their productivity. Since the work places were institutionalized into numerous self-managed and self-financed small societies, there was a lack of coordination of a multiplicity of enterprise based system – this resulted in a high fragmentation and only weak redistributive effects of the system (cf. Lin/ Kangas 2006: 65; Xing 1999). The gap in the provisioning between the urban and rural population could not be closed down. Whereas the generous provisions of the so called “iron rice bowl” only applied to urban residents the main change for the rural population was the stronger role of the commune in providing welfare provisions under a more universal approach. Under the motto “each according to his needs” the original 5 guarantees<sup>21</sup> for rural dwellers were in some places extended to up to 16 guarantees (cf. Dixon 1981: 196) what also depended on the commune and its means. Since life-long tenure was guaranteed in both areas the work incentive structure was very low. Furthermore the strict control of the labour movement between rural and urban areas in form of the “Hukou-system” hindered the establishment of a national labour market that provided urban enterprises with workers on a more flexible basis. All these factors contributed to a low economic growth and in turn the inability to extend the generosity of the Welfare State system further.

In the transition period from 1978 until 2002 the institutional relations and the practice in social policy were gradually transformed. The reforms followed in general the line of freeing the enterprises of their

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<sup>21</sup> The original five guarantees are food, clothing, housing, health care and sick leave, maternity benefits that are supplied partially free. Additional reported guarantees are education, funeral and wedding ceremonies, haircuts, entertainment, heating, lighting, tailoring, upbringing of children, transportation, a small marriage grant, and old age care (cf. Dixon 1981: 196).

role and burden as provider of welfare and make them concentrate on the business operations while clearly defining the responsibilities and competencies of public bodies.

Economic growth was made the first priority and in the early 1990s a clear neo-liberal strategy was followed openly by the government centring on marketization, liberalization and deregulation. The modern market-based enterprise system was based on the notions of profitability, economic efficiency and the authority of managers – a clear opposition to the old ideas of the socialist welfare system, in which there was also a say of the workers in enterprise decision-making. Increasing numbers of industrial disputes- that make-up a big share of the so-called mass incidents- and a rising number of social inequalities caught the attention of the regime. This showed the need for a reform of public welfare services but also the lack of institutionalized channels for expressing social grievances and moderation before the problems become public (cf. McNally 2008: 158).

Building up new institutions and instruments around the market to guarantee a stable position in the now direct State–worker relationship in social provisioning turned out to be a difficult task and showed many setbacks. Whereas reforms of policies including re-distributional features such as the unemployment insurance scheme and the social security system were examples for setbacks, regulatory policies such as the new labour law and ambitions to provide employment injury insurance turned out as big success and brought the system at least in these respects closer to the state of the art social and employment policies in Western Industrialized countries.

Without doubt the initiatives brought on their way at the end of the 1990s are defining a clearer role of the responsibilities of the government and its institutions on which the future social policy-making can be build. Shue and Wong (2007) are taking this development as an indicator for change towards a new balanced development paradigm (cf. *ibid.*: 2), nonetheless it will be a long way from the retreat from neo-liberal ideology to the implementation of a development strategy that includes more redistributive measures.

Under the new leadership of Hu and Wen the party ideology and the guiding principles were changed in a decisive manner and mark a departure from the neo-liberal strategy that was adhered to by their latest predecessors.

Nonetheless reported ongoing rise in inequality, the aggravating unemployment and the still unsolved pension problem have to be judged in a long-term perspective. The impact of the government programs that have been brought on their way to fight inequality of individuals by investing in structural programs to boost local economic development is lower than expected and it will take time for the effects to materialize.

In respect of Chinese politics the full implications of the reforms brought on their way by Hu have to be judged after the second term in office of the Presidents, since it is characterized by a stronger political influence of the man in office - one of the underlying reasons is the appointment of followers to important positions, which are useful for the implementation of the respective policy (cf. Kleining

2007). In his first term Hu appointed a number of his followers of the so-called fifth generation on positions formerly filled by members of the so called Shanghai Clique - the group around Jiang Zemin who followed a neo-liberal strategy.

For some critics the paradigm is not taken as a new one, but merely a reference back to the historical preoccupation with stability and social harmony derived from Confucianism and practiced in the Chinese Empire or even go as far as establishing parallels to the ideology in the former Soviet Union (cf. Miller 2007: 9). Furthermore the critique goes that the rural population is left behind whereas the educated urban population is favoured. For the openness to foreign practice they also draw parallels to the experience in the late Qing dynasty, where foreign techniques were adhered to, while other important aspects for the working of the system are left aside as for example a stronger role of trade unions (cf. Wang 2007: 21).

The paradigm shift calls for further opening-up to the outside world including deepening the cooperation with foreign actors in functional areas. In the third chapter of the empirical part the role of foreign expertise in social policy making in China will be put under research.

## **XI. Opening – up to ideas for Welfare State innovation**

In the third chapter of the empirical part the role and relevance of foreign expertise for the development of the Welfare state and social policy making in China will be studied. In the first paragraph the different cooperation partners of China over time will be identified, the second paragraph deals in detail with the cooperation in the field of Social and Employment Policy between China and the EU.

### **1. Overview international cooperation in social policy**

Since the economic reform era China gradually extended its international commitment same as its openness for foreign expertise and norms. A popular Chinese slogan in this respect is to “link up with the international track” ( yu guoji jiejui 与国际接轨), according to Wang Hongying who made a study of the meaning and the application of this term came to the conclusion, “that Chinese thinking about international norms varies across time, sectors and issue areas” (Wang 2007: 1).

#### **China and its cooperation partners**

The first phase of the PRC was signified by a close cooperation with the Soviet Union. From the 1950s until the break of ties with Soviet Russia the PRC was importing policy experience from latter in order to build up a socialist society. The Labour Insurance Regulations in the early 1950s were patterned according to the Soviet Model, same applies to the nationalization and collectivization of the economy. Next to it, the official visits of Party officials in Russia for studying the system in the early 1960s underscores the close relationship and the common efforts to build systems of Socialist Welfare as antipode to the Capitalist Welfare states. Nonetheless an ambiguity between learning from the Russians and building a unique Chinese system was prevalent from the very beginning. At the end of the 1960s the ties between the two socialist countries were broken over a geopolitical issue. After the start of the GPCR, the Chinese government was strongly constrained in its policy making by the anarchic rule of the masses until the start of the 1970s.

The opening-up and reform era can be seen as a shift of orientation towards the West for policy learning. Western concepts of liberalization and marketization stood model for the economic reforms. After not being committed to any mainstream international organizations for the first decades after its foundation, the PRC took China’s seat in the Security Council and became a member of the UN and its specialized agencies in the mid-1970s. China left its path of stressing self-reliance and turned towards international agencies such as the UN Development Program in order to receive economic and technical assistance. “By the second half of the 1980s, China's participation in international organizations reflected the two primary goals of its independent foreign policy: furthering domestic

economic development through cooperation with the outside world and promoting peace and stability by cultivating ties with other nations on an equal basis.”(Country Studies 2008)

From being an outsider China transformed into an active participant in the international relations and its influence in international affairs is steadily growing (cf. Medeiros and Fravel 2003).

China’s application for a seat in the GATT in 1986 and the later membership in its successor organization - the World Trade Organisation (WTO) – had a strong influence on the domestic employment and social policy. Due to the strict entry regulations of the organization China has been making a huge progress in its labour market liberalization which is a key requirement for membership. Furthermore White (1998) speaks of an involvement of experts from the World Bank and the IMF in the drafting of the Social Insurance Law proposed in China during 1994-95 and the Adecco Institute speaks of globally inspired labour law when referring to the latest Labour Market reforms in 2007 (cf. Adecco 2007).

By the early 1990s China was enjoying high economic growth, but it also became clear that importing Western economic models had its negative consequences: the old enterprise welfare system was no longer viable, the unemployment figures and welfare costs were rising tremendously, and inequality was on its way ahead. The search of the Chinese government for answers to these challenges did meet with a number of potential models established in countries that industrialized at an earlier moment in time.

The models for borrowing can be grouped in three: the *liberal US American Model* which can be set equal with the Washington Consensus under the motto of freer markets for greater returns same as the strong role of individual responsibility; the *European Model* combining the free market idea with both equality and growth; the *productivist model* adhered to by the Japan and the other newly industrializing countries in East Asia putting economic development first and only making well directed commitments to functions as education and health care.

Since the paradigm shift for the socio-economic development in China at the beginning of the new millennium brought along a convergence of the objectives with the ones of the EU and leading scholars in the government think tank speak in favor of an adherence to the European model (cf. Zhou 2007), the cooperation activities between these two entities in the field of Employment and Social Policy shall be studied in detail.

## **2. The EU China cooperation in the field of social and employment policy**

The EU and the PRC find themselves in the fourth decade of official relations. While at first sight, the two entities seem not to share any common features – the political and institutional settings are completely dissimilar, a different ideology and different cultural background - on closer examination

this perception does not hold. “China and Europe have more shared understandings and expectations than usually taken for granted” (Geeraerts 2007:3). It is the content of this paragraph to shed light on the question what the reasons are for the two entities to cooperate in the field of employment and social policy and to outline the structure and content of the cooperation and as far as possible also its impact.

In order to clarify the position and relevance of the cooperation in the general framework of EU-China cooperation the history and evolution of the EU-China relations will be the content of the first part of this paragraph; followed by an in-depth presentation of the cooperation elements in the field of employment and social policy in the second.

### **A relationship in its making**

The year 1975 marks the date of the establishment of official relations between the EU and the PRC. In those days the European project was still restricted to a small number of policy areas, excluding external relations. China on the other hand found itself in the beginning of a transition phase after the years of the GPCR, during which contacts to foreign nations had been the exception. The economic reforms and the opening-up initiated by Deng Xiaoping paved the way for cooperation and contacts between China and the West.

The interest in Trade and business relation was of utmost importance. European companies had a big interest in exploring the Chinese market and China was in the need to attract foreign investment and technology in order to build up and reform its economy.

Taken these conditions into consideration it is not a surprise that trade was the first policy field cooperation was brought forward. In April 1978 a China-EU trade agreement had been signed, that was followed by a textile agreement in 1979. Already in 1980 China became a beneficiary of the “EU’s GSP Scheme (Generalised system of Preferences) allowing the country to increase its exports of industrial products to the EU” (Andreosso-O’Callaghan/ Nicolas 2007:15). First political consultations at ministerial level in the year 1984 gave proof that the two sides were interested in more than just sound trade relations. In 1985 the Trade Agreement was replaced by a Trade and Economic Co-operation Agreement that put a stronger focus on broad economic cooperation and investment. Fields such as scientific exchange, development, same as academic and cultural exchanges were included in the cooperation framework (cf. Dai 2006: 5). The opening of the delegation of the European Commission in Beijing 1988 should mark a major breakthrough in the relations, but the events on the Tiananmen Square in 1989 caused a set-back in the relations. As a reaction to the crackdown of student protest, the European Community decided to freeze all bilateral relations with China and to set-up an arms embargo against it.



Despite remaining tensions in regard of human rights issues the EU- China relations improved constantly since 1990 and were completely normalized in 1992. Nonetheless it was no earlier than the mid-1990s that the relationship grew in intensity outside of trade issues in economic, political and security political terms (cf. Algieri 2008:64).

Since 1994 the institutionalization of cooperation between China and the EU has taken decisive steps. In 1994 a number of institutions had been opened as arenas for dialogue: ad-hoc meetings between foreign Ministers; annual meetings of the Chinese Foreign Minister with the ambassadors of EU member states in Beijing; meetings of high officials in different functional policy fields (cf. Shambaugh/ Sandschneider/ Zhou 2008).

The annual EU-China Summit that was established in 1998 brings together heads of states and governments and while there are voices by scholars in the field acclaiming the Summit as being far too symbolic and having not to much practical relevance, it is indeed the most important institution in the EU China relations. The yearly Summit is the arena to set-up new arrangements; discuss strategic issues of the partnership and to make an evaluation of the achievement of the previous year of cooperation (cf. Vazquez-Garrido 2008). The Summit Statements which are known as being relatively long are covering all the issues that have been dealt with during the summit and give an outline of the objectives for the year ahead.

Besides the Political Dialogue there do exist more than 20 co-operations in a wide range of functional areas, in which so called “sectoral agreements” and dialogues are set-up between the two entities (for an overview see Annex 1). Mergenthaler (2007) describes this development as “accelerating and deepening institutionalization” (ibid.) of the cooperation.

The maturation of the relationship in the 1990s to present has been accompanied by the publication of several EU China policy papers and a single EU policy paper of the PRC that kept track of the evolution of the relationship. The EU policy papers spoke of a *long term relationship* (EC 1995), a *comprehensive partnership* (EC 1998), a *maturing partnership* (EC 2003), a *strategic and enduring relationship* and finally in the policy paper of 2007 of a *strategic partnership*. The one and only EU policy paper of the PRC dates to the year 2003 and stresses the importance of the partnership and summarizes the framework of cooperation (cf. Office of the State Council China 2003)

### **Cooperation in employment and social policy**

The EU same as the PRC are highly concerned with policy issues of sustainable development, economic growth, the equal distribution of the fruits of economic success and guaranteeing access to social protection in order to maintain a broad social cohesion.

As can be learned from the overview of the sectoral dialogues two official dialogues exist at present in the field of Employment and Social Policy: one between the European Commission and the Chinese Ministry of Employment and Social Security (MoLSS) and the second between the European Commission and the Chinese Academy of Social Science (CASS). A third dialogue in the field of health and safety at the work place will most probably be concluded on the next EU China Summit in December 2008. Additionally there is the EU-China Social Security Reform Project in which several DGs same as the EU Delegation in Beijing are involved.

The initiative for cooperation in the field of social and employment policy between the two entities came from the Chinese who approached the European Commission. A visit of the Chinese Minister for Labour and Social Security to the European Commission in November 2001 was the first official step towards the set-up of cooperation (cf. Tricart 2008). On this occasion the issue areas for cooperation have already been framed. Due to a constraint in human resources and bureaucratic burdens to be overcome the first cooperation project was officially started in 2005. The background of the different components of the cooperation- their history, structure and content- will follow in the third part of this chapter after a short introduction in the EU employment and social policy.

### **EU employment and social policy**

After the Chinese Welfare State and its challenges had been the subject of the first two chapters of the empirical part, a short introduction in the EU employment and social policy is a necessary step at this moment to better understand the further cooperation arguments.

Starting out from the project of economic coordination of six founding countries, the EU and its institutions in 2008 are representatives for a project that is more than a common market but an ever closer form of political union of 27 European countries. Whereas perceived by many as a neoliberal project centering on economic policies, liberalization of markets and deregulation, it developed into a key actor in a number of other policy fields as well. More than 500 million persons are living in this economic area that shows big interregional disparities in respects of income, economic development same as the systems of social provisioning.

In most areas of economic, employment and social policy the member states of the EU have to meet reform challenges that are similar throughout Europe: namely figures of low economic growth, high unemployment rates, rising welfare costs due to the effects of an ageing labour force and maturing welfare entitlements that make the strive for more sustainability in the funding of national pension systems necessary (cf. Europa 2008). The convergence of challenges has been driven by the creation of the common market, the effects of the fast changing global economy, technological innovation and demographic change.

The harmonization of social policies has been an issue of European Integration ever since the negotiations leading up to the Treaty of Rome (cf. Begg 2004: 250), yet each enlargement raised new barriers to this objective. Harmonization remained constrained on the fields of *Security and Health at the work place* and some other minor issues in order to prevent market distortions in the newly establishing common market. With an ever greater diversity of member states' welfare systems, harmonization came to be seen as impossible as well as unnecessary (cf. Chassard 2002) and coordination seemed a more appropriate approach.

In the Amsterdam Treaty in 1997 a chapter on employment was included, outlining the “Community objectives in the social area, namely, to promote employment, improve living and working conditions, ensure social protection and a more active dialogue between employers and employees association” (Follesdal et al. 2007:79). In the same Treaty the so-called ‘convergence strategy’ was laid down, which foresaw that common objectives would be used to guide national policies while taking into account national practices and the principle of subsidiarity – a strategy that should be transformed into the Open Method of Coordination (OMC) (cf. *ibid.* 2007: 79). It needed the extraordinary Luxembourg Summit in November 1997 to bring along the implementation of the new treaty provisions centering on the *Luxembourg Process*, formally known as the European Employment Strategy (EES). The process stood for the development of a new iterative process of benchmarking national progress towards common European objectives, supported by organized mutual learning. This governance structure built on the experience with earlier methods<sup>22</sup> developed for the coordination of Member states policies during the 1990s.

The central aim of the EES was to raise the level of employment participation throughout the EU, allowing for different national strategies to contribute to this aim. Every member state agreed to develop an annual national action plan for employment (NAPempl) in order to translate the common guidelines into clear cut national policy measures, supplemented by policy goals (Hemerijck 2004: 30).

All these efforts culminated in the proclamation of the Lisbon Strategy. Adopted at the Lisbon Summit in 2000, it calls for a coordinated commitment of the member states to make the EU the most competitive, knowledge driven economy by 2010, characterized by strong social cohesion (cf. EurActiv 2004). Whereas the economic competitiveness and the 3 % of GDP investment in R&D are the most prominent parts of the Lisbon Strategy social renewal is the second integral part of it (cf. EC 2000). The first evaluation report of the Lisbon Strategy was made public in 2004. Based on its results and the overall change of the environment conditions, the European Council and Commission decided in 2005 “that the Lisbon Strategy needed to be amended and centered on growth and jobs” (Spidla

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<sup>22</sup> The Broad Economic Policy Guidelines (BEPGs) and the Essen procedure of annual reporting on national progress towards the EU common employment priorities.

2007:3). The re-launch of the Lisbon Strategy in 2005 features a stronger ownership of the national action plans by the member states themselves.

Although common objectives for the improvement of competitiveness have been agreed upon in Lisbon and other occasions that also refer to the welfare state provisions and social policies in general, no country within the EU wants social uniformity. The developments to date have shown a “limited tendency towards convergence in spending levels and the broad structure of provisions” (Pestieau 2006: 148). A transfer of additional competences to the EU seems therefore highly unlikely and the soft governance using the OMC, guaranteeing subsidiarity and national sovereignty in the social policy-making can be regarded as the best way of coordinating social and employment policy within the EU being fit for international competition (cf. Pestieau 2006: 60).

### **The Chinese interest in cooperation**

The Chinese made the initial step towards the cooperation and they are in the role of the policy importer therefore their interest in the cooperation shall be researched prior the one of the EU.

China is concerned with the objectives of setting-up a national labour market and strives for the establishment of a social system that can guarantee growth and stability, since the old institutions developed under the planned economy have become obsolete (cf. Zhou 2007:12). The framework conditions of an ageing society, rising unemployment rates, the problem of labour migration and the rising inequality between individuals and regions makes the task all the more difficult. Furthermore the central government of the PRC has lost part of its power for steering the country with its integration in the international economy and its decentralization efforts; the need for new instruments to influence the social development of the country effectively is more than obvious.

When the Chinese approached the EU in 2001 their main issue was to learn more about the problem of the ageing society (cf. Tricart 2008) but soon the interest was extended to unique features of the EU social and employment policy. With a paradigm shift in the socio-economic development strategy in 2002-2003 that shares some objectives with the Lisbon Strategy- as for example sustainable development, regional development and social cohesion- the interest in the EU policy instruments used for coordination of employment and social policies increased. In a Memo of the DG EMPL China’s interest in “EU’s integrated approach to competition, employment and social cohesion” (EC 2005:1) is underscored and set in relation to the harmonious development concept of the Chinese government.

European Studies in China endorse the research on the European Welfare states, articles and books on country comparisons are translated in Chinese in order to make it accessible to a broader public. China is keen to learn from the experience of EU member countries in dealing with the challenges of the

post-industrial society, welfare state reform and the role played by the EU in coordinating policies and facilitating policy transfer between the member states (cf. Zheng 2008).

Ever since the EU acts as an active policy promoter within the EU member countries and a facilitator of exchange between experts in government and academia this policy experience is equally relevant for China. The *Open Method of Coordination* (OMC)- the central instrument of the Lisbon Strategy is therefore of great interest for the Chinese, by making use of *soft law* in the coordination of social and employment policies in an economic area with high income disparities and different stages of economic development has been made possible (cf. Zhou 2007; Zheng 2008). Same can be assumed for information on the role played by the EU in establishing a common market with a free flow of goods, persons and services in order to prevent market distortions since the Chinese want to establish a truly national labour market in face of rising labour mobility.

Still paralyzed by the dissolution of Soviet Russia, China is interested how the transition to a market economy and the reform of the social security system could go as smoothly as in the CEEC (cf. Tricart 2008).

The EU has established platforms to bring together national experts in the respective issue areas for Social Policy as for example pensions, labour market or health insurance. A cooperation that includes the exchange with distinguished experts on employment and social policy from different countries offers far more room for discussion and learning than the experience of a single country. When Zheng (2008) who participates in the EC-CASS cooperation on the Chinese side, names the *Third way model* of Great Britain as the most interesting and relevant model (cf. *ibid.* 2008) colleagues of him will have a contradicting view favoring the Scandinavian models and so forth. The EU can offer the presentation of the different existing models with their evaluation against an EU internal benchmark.

Vazquez-Garrido (2008) states that the Chinese representatives with whom the terms of cooperation are discussed are concrete in terms of what aspects of the European experience they want to learn more from when approaching the Europeans (cf. *ibid.* 2008).

Besides from the above mentioned rationales, the Chinese side might also like the idea to achieve legitimacy for its homemade reforms by cooperating with the frontrunners in employment and social policy-making that stood example for many models around the world. Both - domestic same as international critics of Chinese social policy-making - could be silenced.

### **European Interest in the cooperation**

The interest of the EU is consistently reported from the EU's interest in stability and the improvement of living and working conditions in China (cf. Tricart 2008; Hughes 2008; Vazquez-Garrido 2008; Wissenbach 2008; Filon 2007). From the Chinese side the opinion on the cooperation is split, whereas

the participants as for example Zheng (2008) do not perceive any different interest of the EU, there are critics who “express concern over the “hidden agenda” of the Europeans” (Ting Wai n.d.:14). This hidden agenda comprises for them the attempt “to transform China basing on the value system of the Europeans” (ibid. 14).

Although the EU acts as a promoter of its various social security models it does not claim to be the superior in the cooperation, merely the cooperation is described to have entered a phase of “joint interest cooperation” (Filon 2007). The joint interest can be perceived in global social policy making, a China with a social system developing along the improved record is merely seen as a reliable partner for the future in social policy governance on global stage. Tricart refers to the decision on a recent ILO protocol in which a coalition of China, the EU countries and some G77 countries could bring along decisive changes in the text against the liberal opposition (cf. Tricart 2008).

The notion of economic interests behind the actions, as for example the increasing non-wage labour costs in face of a deteriorating trade balance for Europe has been taken as irrelevant. For the EU these considerations are less of an interest as for national governments (cf. Vazquez-Garrido 2008, Hughes 2008).

Another feature might be the prestige for the Lisbon Strategy in domestic same as international respect. The learning from this strategy could underscore the domestic and international perception of the EU as not only a neoliberal project but a project towards sustainable future oriented development in which social and economic development are on equal footing. Hughes (2008) states this might be a by-product although he would like to see a more active promotion of the European model.

### **3. The four current components of the cooperation**

The four components of the cooperation in the field of employment and social policy will be analyzed in terms of the indicators established in the chapter on the operationalization of the variables.

#### **Structured Dialogue between the European Commission and the Chinese Ministry of Labour and Social Security<sup>23</sup> (MoLSS)**

The agreement on areas and a possible basis for future cooperation dates back to November 2001 when the Chinese Minister for Labour and Social Security at that time paid a visit to the European

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<sup>23</sup> In 2008 the Ministry was renamed Ministry of Social Security and Human Resources

Commission. Due to a lack of human resources<sup>24</sup> on the side of the EU Commission the cooperation could not be pursued directly (cf. Tricart 2008).

Whereas in the meantime the Chinese side approached the EU delegation in China directly, out of which another cooperation project is the off-spring, it took until 2004 that on an ILO-forum in China the contacts between the Commission and the MoLSS were renewed, leading up to the preparation of a cooperation agreement (cf. Tricart 2008). During the eighth China-EU summit that was held in Beijing on 5 September 2005 the two sides endorsed a memorandum of understanding on labour, employment and social affairs (EC 2008d). This memorandum is used as a framework for the so called “structured dialogue on labour, employment, and social affairs of labour, employment, human resources development, social protection, labour legislation, labour relations and social dialogue”(EC & MoLSS 2005).

The dialogue is structured into horizontal and sectoral items, whereas horizontal means the exchange on cross-cutting issues like institutions, legislation and implementation. Sectoral discussions will relate to special issues that are found in the field of employment and social policy, e.g. migration. For the dialogue’s venues it was concluded that meetings will take place at least once a year alternating between Brussels and Beijing – or any other venue agreed by the Parties. The composition of the delegations of the parties is to be decided between the Parties. The delegates can be relevant stakeholders, civil servants same as workers and employers representatives (cf. EC& MoLSS 2005).

As part of this cooperation the following events have taken place so far that center on labour market reform and employment policies.

Beijing 2005:	Vocational training and Human resources
Brussels November 2006:	Labour Mobility in the EU and China
Beijing November 2007:	Labour law/Dispute settlement

**Structured Dialogue between the European Commission and the Chinese Academy of Social Science (CASS)**

CASS is the highest academic research organization in the fields of philosophy and social sciences in the PRC. As think tank it plays an important and active role in the reform process taking place in China, since the researchers have high quality expertise and political influence. Again the initiative was lying on the Chinese side; the DG EMPL took over the initiative on the side of the EU and the

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<sup>24</sup> The staff was bound with the preparations for the EU Enlargement- the accession of the 10 new Central and Eastern European, former socialist countries (cf. Tricart 2008).

negotiations were leading to a second partnership between China and the EU in the field of social and employment policy (cf. Tricart 2008).

The first jointly held seminar on employment and social policy between the DG EMPL and CASS took place in September 2006 in Brussels and the signature of a Memorandum of Understanding in January 2008 formalized this cooperation and laid the basis for to an intensification of the cooperation between the EU and China in the realm of social and employment policy.

The purpose of the cooperation is to bring independent scholars and members of think-tanks or government research institutes of China and the EU together to exchange on the following issues of employment and social policy: “employment; social security; demography; social dialogue and labour relations; governance; and other relevant issues jointly identified”. (EC 2008c)

A second seminar was hold in Shanghai in January 2008; headlined “Employment, Social security and Economic growth in the context of ageing” seventeen experts in the field took part on the EU side. Besides five participants working for the EU and a representative from the OECD, all others were from research and governmental institutions of the EU member states. In three sessions they discussed and exchanged their views on adapting social policies in the context of structural change, the issue of an ageing population and the labour market prospects and the modernization of the social security system in an ageing society with their Chinese counterparts (cf. EC 2007)

In the future seminars will be hold annually back to back with the EU-China Summit. Specific workshops and expert meetings are seen as appropriate floors for exchange; additionally both sides will organize regular internships and exchange programs for dialogue partners, including government officials, representatives from social partners and civil society and other relevant stakeholders. It is expected that these opportunities will help to improve the exchange of experience, best practice, views and information on topics of common interest.

### **The EU China social security reform co-operation project**

The start of the project can again be traced back to a first Chinese initiative, this time the request had been addressed to the EU Delegation in Beijing. Besides the delegation in Beijing, the preparation and planning of the co-operation project on EU side was in the hands of DG RELEX and DG DEV. Formal agreement on the co-operation project was given on the EU – China Summit in 2004 in the Hague, during which the financing agreement was signed (cf. EU 2008a). Under the headline of Social security reform the project covers the issues of old age pensions, health and unemployment insurances policy (cf. EUCSS 2008a).



## **Project objective**

“The overall objective of the project is to support the transition to a sustainable social security system in China which guarantees accessible, adequate and affordable social security benefits to all Chinese citizens” (EUCSS 2008a: 2). Therefore the co-operation project incorporates the support and the promotion of policy capacity building activities as well as the exchange of best-practice by using international know-how and expertise in forms of conferences, seminars, workshops, trainings and study tours.

## **Project Administration and set-up**

The executive authority of the project is the Chinese Ministry of Commerce (MOFCOM). The DG EMPL participates in this project at the policy level (Project Steering Committee), since the project is an operational and focused complement to the cooperation with MoLSS that was established in 2005. In charge of the implementation of the project is an office in the Chinese Ministry of Human Resource and Social Security. This office is supported in its work by a technical assistance provider contracted by the European Commission.

The total amount of money available for the project is €40,000,000, whereas each side is contributing the amount of €20,000,000. The overall project duration is estimated 57 month, starting in 2006 and ending in 2010. Since the project offers a wide range of activities and services, it has been split up in two components.

### **Component I: Social Security Policy Development (SSP)**

The first component is centered around activities on national level. Starting on April 1st 2006 it will last for 57 month. During this time period the following activities are envisaged:

- Capacity building for policy development and implementation, covering Social Security Laws, unified systems, the 3-pillar financing systems, medical insurance for disadvantaged groups, fund sustainability versus retirement age and retirement equality and rural social insurance coverage.
- Develop guidelines and Terms of Reference for the elaboration and support of PROMISS-Plans under the systems/administration development component (PROMISS-Plans: Pilot Provincial Modernisation Initiatives for Social Security).
- Organise of yearly EU-China High Level Round Table on Social Security.
- Organise high level Policy Advisory Group and dialogue.
- Capacity building related to establishment of the national Social Security Training Centre.

(EUCSS 2008d)

### Achievements:

In terms of organizing EU China High level Round Tables on Social security, the project has proved to be successful. The first round table was held in Beijing, September 2006, High level policy makers and stakeholders in Social Security discussed the two themes of ‘cost containment in medical insurance’ and ‘social security for rural migrant workers’ (EUCSS 2008c). In 2007 the Round table took place in Berlin under the theme of ‘Ageing societies – the challenges to sustainable social security systems’. The headline topic was sub-divided into the three supporting sub-topics of Pensions, Health Care and Social Care’ (EUCSS 2008c). In September 2008 a Round table was held in Beijing. Another occasion for high level dialogue under the auspices of the EUCSS was given on the ‘Seminar on work injury’ held in Bonn, September 2007. In addition several study tours have been organized, so that Chinese practitioners and scholars could learn about the functioning of European systems at place. In 2007 there was a Pension study tour to Austria and Slovakia in November and Human Resource Management study tour to Romania and France in December (cf. EUCSS 2008b). In 2008 there was so far Medical Insurance Study Tour to Netherlands and Germany.

### **Component II: Social Security Systems/Administration Development (SSS/A)**

This part of the project aims to support the implementation and administrative oriented co-operation on local level– provincial, municipal government and provincial social security bureaus. After its launch on September 16th 2007 it will have an overall duration of 36 month.

For the implementation of 20 pilot projects the following six provinces and cities have been selected, with specific topics related to the challenges the entities are facing:

Name of the province/ city	Topics covered in pilot projects
Beijing	Employment Promotion, Unemployment Forecasting, Rural Migrants
Gansu	Medical Insurance, Work Injury, Social Security Administration
Hunan	Social Care, Social Security Administration
Jilin	Work Injury, Provincial Pooling, Medical Insurance, Social Security Administration
Shandong	Medical Insurance, Social Security Administration
Sichuan	Social Care, Farmers who have lost their land, Social Security Administration

(cf. EUCSS 2008d)

The lessons learned of these pilot projects will also serve as basis for possible replication of the improvements achieved to other provinces.

The project is in 2008 fully operational and the homepage of the project [www.eucss.org.cn](http://www.eucss.org.cn) provides not only information on the project and its proceedings, but can be used as a portal for Chinese practitioners and scholars to retrieve research papers and training materials in English and Chinese that deal with the models in place in Europe, their basic functioning and principles. Besides there is also information and assessment of the current Social Security in China provided, presenting the state of the art and challenges lying ahead.

### **EU China cooperation in the field of “health and safety at work”**

This last cooperation component is the first that is built on an initiative from the European side. Since the field of “Health and safety at work”- especially in the coal mining sector- has been left out of the dialogue between the MoLSS and the European Commission, starting in 2005 the European Parliament and the European Trade Unions invited DG EMPL to implement and additional dialogue in this field (cf. Hughes 2008, ETUC 2006).

The reason that this field could not be included in the dialogue at first place was a bureaucratic one: the MoU stipulated that only agencies directly under the supervision of the MoLSS would be included in the cooperation. The Chinese government agency in charge of this issue did not meet these criteria at the date the MoU was signed.

While it is one of the core competencies and issues of the DG EMPL and there was also an interest of the Chinese side, the issue found its way easily on the agenda. Especially the coal mining sector and its safety provisions are seen as a prospective and fruitful area of cooperation, since the pressure for improvement of regulations due to the rising number of reported mining accidents in China rises. The DG has still experts at hands that have participated in setting-up the legislation and technical stipulations within the EU (cf. Tricart 2008; Hughes 2008).

Discussions between the DG EMPL, DG RELEX, the European Commission Delegation in Beijing and the Chinese State administration of Work safety led to the official support statement by the EU China Summit in 2007. The signature of the MoU planned to be made during a visit to China by the President of the EU Commission Barroso and nine other Commissioners in February 2008 had to be postponed. Again it was a bureaucratic problem that stopped the cooperation, this time a shift of competencies between organizations that brought the signature to a hold at last moment (cf. Vazquez-Garrido 2008). The signature will most probably take place during the next EU-China Summit in December 2008 in France.

#### **4. Judgment of the EU - China cooperation in the field of social and employment policy**

The mutual interest in cooperation can be clearly traced: China has a clear interest in learning about the European solutions to the problems of the industrial and post-industrial society and the instruments for policy coordination within the EU; the EU expects to gain a deeper knowledge of the socio-economic developments and challenges in China. Supporting China to build a modern social security system the EU also pursues the objective of gaining a partner in future global social policy governance.

The four components of the EU China cooperation in the field of employment and social policy are showing that a number of channels have been established to facilitate exchange between the EU and China in this field. The different components of the cooperation bring together a number of actors from different backgrounds: Chinese civil servants on central and local level and civil servants from the EU and member state level; think tanks including leading experts from government research institutes and Higher Education institutions; experts from other International Organisations as for example the OECD; consultants. This lays the groundwork for the establishment of epistemic communities, whose influence on domestic policy making is uncontested but also hard to measure.

Although there are other sectoral dialogues that catch more attention as for example the cooperation in the field of environmental protection, it is a promising field of cooperation to deepen the EU China relations since it is free of political or ideological constraints.

The cooperation has a good resonance on the European same as the Chinese side (cf. Zheng 2008; Tricart 2008; Hughes 2008; Vazquez-Garrido 2008) and except for the bureaucratic burdens- as for example a constraint of managerial resources on both sides, and the still ad-hoc and to a lesser extent institutionalized form of exchange need to have attention in the future. Language as burden for cooperation does not play a role in the academic and high level meetings but could constitute a problem in respect of practitioners on local level. Efforts on translating books and essays about the development and reform of Welfare states in Europe into Chinese should be taken as model for the European side to do it alike.

#### **5. Conclusion on the role of Policy Transfer**

The third chapter of the empirical part has shown that China- same as other countries- has a long tradition in making use of foreign experience in its social policy making. After a dominant influence of Soviet Russia at the beginning of the PRC, at the end of the 1970s China oriented itself gradually towards market economies for policy transfer. This development was only possible through a gradual change of ideas in the minds of the leading elites.

After the deterioration of the relations with Soviet Russia in the end of the 1960s and paralyzed by the GPCR for nearly a decade until the end of the 1970s, the economic reforms and opening-up to the outside world could not simply be restricted to the economic realm. In the years after 1978 the PRC became a member of numerous International Organizations and established contacts with a number of Western countries. Departing on the way to establish a market economy came along with more pragmatism in policy making and leaving the path of ideological guidance. Turning its attention towards Western capitalist countries and the EU for policy transfer at the beginning of the new millennium can be traced back to a number of factors. First of all the Asian Economic Crisis at the end of the 1990s had shown that the productivist development paradigm adhered to by its neighboring countries could not guarantee sustainable economic development and high levels of employment the CCP was striving for in order to keep up social stability. Second the former communist countries in Eastern Europe were in most cases on their way to reform their welfare states with the help of the expertise of the EU and its member countries. The third and last reason can be found in the Lisbon Strategy that outlined a new development paradigm for the EU and centered on the objectives of sustainable economic development and social cohesion. Furthermore the EU had established new instruments to effectively coordinate policies across an area of highly diverse national economies that are for China of relevance which are highly relevant issues for China as well.

The gradual extension of the EU and China cooperation as stated in the last paragraph that improved the channels for policy exchange between experts and practitioners confirms this reorientation and openness for policy expertise from Western capitalist countries. It is another issue to what extent these new opportunities are taken and have an influence on the final policy making – this can only be estimated. A fact is that the Chinese government makes direct use of foreign expertise in order to achieve an informed view of the policies they are planning to introduce. The drafting of the Social Insurance Law preceded close consultation of foreign experts of national and international organizations. In the field of labour market policies the reform package brought on its way in 2008 shows according to experts also features of the European models.

## **EXPLORING THE FUTURE OF THE CHINESE WELFARE STATE**

In the Analytical Part of the research project the results of the Empirical Part will be used to answer the questions that have been standing at the beginning of the research. The sub-questions will be dealt with in the first two chapters of this part, whereas the main research question building on the results of these chapters will be answered in a separate chapter.

### **XII. The reform trajectory of the Welfare State till 2008**

Along the economic reform and opening-up period at the end of the 1970s the Chinese government gradually developed a market economy, in this course it also had to reform its Welfare system. From a socialist model of work units providing welfare services and life long tenure in which enterprises played a central role, a Welfare state compatible with a market economy was established. The development trajectory the Chinese Welfare state took since 1978 will be assessed in comparison with the identified Welfare state models as presented in the theoretical part in order to answer the first sub-question on the characteristics of the Chinese Welfare State. The time from 1978 to 2008 shall be subdivided in the era under the leadership of Deng (1978-1992) and Jiang (1992-2002), whereas the third era remains as in the second chapter of the empirical part the period from 2002-2008..

#### **1. Deng Xiaoping era (1978 – 1992)**

Under the development paradigm of “let’s get some rich first” in the Deng Xiaoping era from 1978 to 1992 growth was given the number one priority for the economic development; emerging inequalities were tolerated as temporary negative by-product of the reforms. Thoughts of efficiency and not equality reined the actions of the politicians who were convinced that everyone would benefit of the economic growth in the long run.

An analysis of the set-up of the welfare mix, the enterprise remained the main provider of welfare services in urban areas; only in the early 1990s a turn towards a stronger role of the State can be perceived. Rural areas were still dominated by the family as main source of welfare provisions.

In regard to the market as source of welfare first experiments were launched in the field of pensions. Whereas separate schemes for old-age insurance systems in rural and urban areas were introduced- both including individual accounts the coverage was very low and same applied to the acceptance of these early schemes (cf. Fung 2001: 269). In terms of stratification, the majority of the Chinese people was benefiting of more economic freedom and growth and only from the early 1990s a change in the wealth/ resource distribution structure took place that paced up the speed of rising social inequality (cf. Zhou 2008: 119).

The labour market system was in its infancy and enterprises were given more managerial autonomy in the recruitment and lay-off of workers, the commodification of labour on the other hand was not yet completed. The State as direct and indirect provider of welfare services introduced laws that in the long run made the population more redundant on work in order to receive any welfare provisions.

Taken all the features together the Welfare state system of that era was clearly transitional and socialist in its orientation so it lacked the criteria to be compared to any model of capitalist welfare states.

## **2. Establishment of 'Socialist Market Economy' under Jiang (1992-2002)**

In the years that lead up to the accession of China to the WTO the government put more efforts in the establishment of a market economy and the relief of enterprises of their role as welfare providers. The ideology underlying the social policy making could be classified as highly neo-liberal. The focus of the reforms of the economic same as the social security system was more than in the previous period put on efficiency.

Although the financial burden for financing the social security system remained at the enterprises, the State became the dominant provider of welfare services through a number of legislation. Marketization efforts in the field of social security faced major set-backs and the State became the most important provider of welfare provisions in urban areas, in rural areas the dominant role of families as source of welfare provisions remained unchanged.

In 1994 – an early moment in time of the period we are looking at- the new labour law meant a complete shift from the planned labour system to the labour market. Since the emergence of social security provisions and social assistance schemes were lacking behind this development the commodification of labour was the consequence. The introduction of social programmes took until the end of the 1990s, when in the run of the implementation of schemes for minimum living allowances a shift towards labour de-commodification was realized.

The social stratification was aggravating at fast pace due to the neo-liberal economic strategy lacking re-distributive policy schemes. Welfare provisions as for example health care and education were offered to a greater extent on market basis which intensified the stratification.

Summing-up these aspects, the Chinese system in urban areas resembled a lot the ones in its neighbouring countries Japan and South Korea in the 1990s. These two countries were known for following a developmentalist/ productivist approach. Ideologically economic development was put first and social policy was subordinated. Whereas the biggest part of government expenditure was used for large construction projects, a great share of the government budget bookmarked for the functional category *Social Services, Culture and Education* was spent on productive factors such as

education. “The Chinese government has taken strong measures to advance education development and reform and remarkable success has been achieved” (Hong/ Wang 2006: 33). The commitment of the government on public education can be measured in the share of Government expenditure on education as share of the Government expenditure total (cf. Hong/ Wang 2006). In respect of this feature China’s government spending patterns come close to the ones observed in other East Asian Welfare States studied by Gough (2000)<sup>25</sup>. An overview of the development of government spending on Education in the years from 1953 to 2006 is given in Annex 2.

### **3. Towards the establishment of a harmonious socialist society (2002-2008)**

At the beginning of the new millennium the CCP made a shift of the socio-economic development paradigm. The comprehensive well-being of the people was put on equal footstep with the goal of economic growth. Social security and social equality were made new strategic priorities in order to establish a *harmonious socialist society*. This sets a clear line of separation to the productivist models mirrored in the experience in Japan and Korea in the 1990s; but does it bring China closer to the European models or does it mark one of the last steps leading to the completion of a genuine Chinese welfare state model?

In respect of the underlying welfare ideology the development paradigm of Scientific Development and the objective of establishing a *Harmonious Socialist Society* shows more similarities with the paradigm of the EU social policy as presented in the *Lisbon Strategy* as unifying elements of European Social and Welfare State policy than with any of the established regime types: Sustainable economic growth, poverty alleviation and a broad social cohesion are features to be found in both paradigms.

With the maturing market economy enterprises had been relieved of their role in welfare provisioning and the State stepped in to fill the gap as main provider of Welfare provisions. Province governments and other local administrative bodies administer the funds and distribution of benefits. Although this was planned as a step towards a fully national system, there are already huge problems in guaranteeing an effective administration of these provincial funds.

The role of markets is still residual and in the field of health services it has lead to much unrest since it is broadly perceived as fuelling the process of increasing inequality. In the field of old-age insurance and unemployment insurance, the rate of non-compliance is high and the coverage insufficient. The State will have to make huge efforts in order to set-up regulation efforts in the future to make the markets a working alternative for State provisions.

The strong role of families in the rural welfare services was re-confirmed although measures as for example minimum living allowances give way for a residual role of the State in poverty alleviation.

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<sup>25</sup> Countries in his sample are Korea, Malaysia, Thailand, Philippines, Indonesia.



The State furthermore supports a stronger role of families and NGOs in welfare state provisioning, as can be seen in the offer of a policy stream taking care of elderly without family and more supportive regulations for setting-up an NGO.

The efforts for decommodification were intensified and besides the above mentioned rural poverty relief system also urban ones have been implemented. In respect of stratification, the government is following a clear line to narrow the gap of inequality. It broadens the coverage of social programs, implements policies that are designed to diminish the differences in the welfare service standards in urban and rural same as integrating migrant workers in the current urban social security systems. The campaign of building a new socialist countryside and huge structural programs to boost the development in regions in Western China are omnipresent. If this policy proves to be successful and the establishment of a more equal society is to be the outcome will the future bring.

Taken the general features of the Chinese Welfare State together it is without question that it cannot be grouped in one of the established groups of regime types, nor be conceptualized as a regime hybrid.

The underlying philosophy comes close to the one promoted by the EU in respect of the equality features and the one adhered to by the governing elites in other North East Asian<sup>26</sup> countries in respect of the preoccupation with stability but is yet distinct.

Regarding the welfare mix the position of State in urban areas has been extended, in rural areas there is a clear reliance on the Family as basic provider of Welfare provisions. Programs making decommodification a reality have been introduced and their coverage rate is constantly rising. Efforts to narrow down inequality have been so far ineffective and the degree of social stratification has been going up in recent years.

#### **4. Conclusion**

From the analysis of the characteristics of the Chinese Welfare State over time it can be concluded that the indicators show changes in nearly all aspects. The Welfare Dualism that is rooted in the early days of the PRC on the other hand remained a constant feature that has to be taken into consideration regarding the Welfare State characteristics in China, therefore the arrangements in rural and urban areas can strongly deviate from each other. The answer to sub-question 1, the characteristics of the Chinese Welfare State will be featured at the end of this chapter in Table 3.

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<sup>26</sup> For a closer analysis of the mentioned ideologies see Aspalter (2006)

**Table 3: Overview development Welfare State characteristics**

Period		1978-1992	1992-2002	2002-2008
Welfare State Ideology	Relation economic and social development	Focus on economic development; social policy clearly subordinated	Focus on economic development; social policy clearly subordinated	Sustainable development: social and economic development on equal footstep
Welfare mix (dominant source)	urban	enterprise	transition enterprise-state	state
	rural	family	family	family
State of Decommodification		none	commodification	decommodification
Stratification		low	medium-high	medium-high

Source: own

### **XIII. Factors causing the welfare state changes**

In the following it shall be analyzed to what extent the developments of the Chinese Welfare state and its employment and social policy from the end of the 1970s to present can be explained by the variables identified in the theoretical part. These are the evolving functional necessities in form of functional pressure and the mechanism of policy transfer as independent variables, same as the context variables of the domestic political-institutional system, Culture and historical/ epochal context. Herewith it is directed towards answering the sub-questions 2-4.

#### **1. Functional Pressure**

China at the end of 1970s has only little in common with China that presents itself the world as global economic power in 2008. From a mainly rural society with 80% of the population living on the countryside and with 70% of the employed population working in the primary sector, China made its step into modernity. Within a period of less than thirty years China developed from an agricultural into an industrial and to some extent post-industrial society, from a relatively young into an ageing society, from one of the countries with most equality into a country with one of the highest GINI-Index.

The pressure these transitions caused to modernize the former welfare state arrangements is unquestioned. Aspalter (2001) traces the welfare state extension in China back to the “economic and demographic transitions in combination with pro-welfare ideologies” (ibid.8) agreeing on this point the transition processes can be seen as necessary condition for the set-up of modern welfare state institutions but they cannot sufficiently explain the development trajectory of the Chinese Welfare State. The decisive impulses to the developments were given by the CCP who prior to the economic reform era hold back the developments of urbanisation and industrialization by restricting economic freedom and labour mobility by more than party ideology.

#### **2. Policy Transfer**

The opportunities for drawing lessons from the experience of other countries in setting-up welfare provisions were much better than in the time of the set-up of the Welfare States in the Western industrialized countries. Without question the availability, the use of this experience and application of instruments and policies developed in foreign countries had an impact on the development trajectory. The Chinese government could introduce programs at an earlier point of economic development than the Western counterparts did in their reform trajectory. A special role was played by the experiments run in different provinces. Shanghai must be mentioned as frontrunner in the introduction of modern social policies (cf. Zhu/ Nyland 2005).

Again the variable can be classified as merely necessary but not sufficiently explaining the developments in Chinese social policy making. Same as in the case of the variable of functional

pressure the political-institutional setting and cultural context framed the opportunity structures. A key example of the role of the government ideology for the use of foreign expertise is the GPCR. During this period all Western expertise and support were banned and people supporting Western ideas were persecuted. China's self reliance was underlined and foreign support was deemed unnecessary and traitorous. The start of the reform and opening-up period can only be understood from the perspective of evolutionary change through social learning. It was an ideational change that made the gradual shift to openness towards foreign expertise possible; from the ban of everything foreign China even started to support policy learning from the West under the slogan of keeping up with the international track.

Taken the results and achievements of the reform to date, the experience of policy transfer made within Europe holds true. Policies concerning regulatory measures are more easily accepted and implemented than re-distributive policies. Whereas in the field of labour law a huge progress can be perceived and the latest laws from 2008 already incorporating provisions close to the ones in Europe, there is huge set-back in the establishment of a social security system. This is only partly due to the more serious conditions the system has to deal with; a much bigger problem is compliance. The compliance in China is pretty low, similar to the one in developing countries. The reasons for it can be found in a lack of trust in the system and its administration, but also in the unfamiliarity with such re-distributive mechanisms due to the underlying cultural values and customs (cf. Ramia/ Davies/ Nyland 2008: 10). Without question China can make use of policy transfer from the West in building-up welfare states, but it is selective in its choice what is its proper right (cf. Zhu/ Nyland 2005: 66).

### **3. Contextual Variables**

After the analysis of the two identified independent variables has shown in both cases a strong role of the contextual variables, the role of the political-institutional system, Culture and the historical/ epochal context of the development shall be studied.

#### Political Institutions

Since formal establishment of the PRC in 1949 the CCP is the single ruling party and key factor in Chinese politics. According to the Marxist ideology the CCP as a proletarian political party "determines the nature of the socialist state of the People's Republic of China" (Yang 2004: 4), representing the fundamental and common interests and demands of the entire society no other political forces are accepted.

These conditions are all that different from the situation in Western pluralistic countries. Since the trade unions in China were also close to the CCP they could not represent an influential institution in social policy making. After the collectivization of the economy there was no basis to establish

institutions as for example industrial dialogue or any other form of corporate structures. In this quasi-authoritarian system the CCP has the monopoly to decide on any new policy lines.

In the run of the GPCR the CCP lost its influence completely to the masses and a state of anarchy ruled politics in the darkest chapter of Chinese history. The aftermath of the GPCR was not only signified by the economic reform era; in the CCP a transition from a leadership guided by ideology to one guided by economic pragmatism could be perceived. Whereas Deng made first steps towards the reform of the CCP it was Jiang Zemin who brought forward the idea to open the party to the productive forces of the country, namely the enterprise managers. His discourse of the “Three Represents” that incorporated this idea was made part of the official Party ideology but found reinterpretation in its use, since the conservative parts of the CCP strongly opposed the idea of giving enterprise managers the opportunity to fill positions in the Party.

The General Secretary of the CCP is the most influential person in the CCP. Jiang Zemin and Hu Jintao assumed besides this party position also the position of the President of the PRC. By the combination of these two offices they were made the most powerful person in the PRC, nonetheless the power is clearly restricted and does not mark a return to an unquestioned leadership cult. Both Jiang Zemin and Hu Jintao had to mediate between the different camps in the CCP and arrange with the respective inter-party opposition.

Chinese political parties not affiliated to the CCP can practice nowadays more consultative rights than ever before and even non-CCP members have been members of recent governments. Although China is said to miss a Civil Society the growing number of civil movements concerned with for example social problems and environmental degradation constitute – although if not permanent - an institution of growing influence on government politics. While the CCP traces its authority back on the broad support of the masses, it has an utmost interest in social stability and needs to be responsive to the public concerns in order not to lose its legitimacy as sole governing party.

The role of party ideology has been mentioned in the last paragraph. The power of party ideology should not be underestimated since it represents the respective ideas underlying politics and governance. A conclusion drawn from the experience of GPCR is to conduct reforms in a cautious way and to prevent any contradictions that could lead to political instability and frictions within the Party. The party ideology constitutes an instrument to guarantee the unity of the CCP and is a guiding principle applied in Public Administration.

### Administrative System

An efficient modern administrative system is by many scholars in Welfare State research taken as necessary condition for the set-up of a Welfare State system. Although China’s leaders are aware of

the requirement of a “systematic construction and management of a whole body of distributional and regulatory social protection institutions” (Zhu/ Nyland 2005:65) and strongly promote institutional reform, so far the lack of institutional capacities in the field of monitoring and enforcement remain one of the reasons for the failure of a number of initiatives. Regulations set-up by the central government do miss a proper transposition on local level due to conflicting incentive structures for the local officials. While enterprises were the central actor in the old welfare system providing the majority of provisions the State and its administrative bodies on central and local level had only been indirectly involved; with the shift towards more government responsibility and the decentralization efforts new institutions for managing social programs and social security funds had to be established and administrative capacity has yet to be built up. Missing a domestic benchmark the look at foreign systems for drawing lessons was therefore a logical step.

The new system requires more coordination between the administrative bodies and to deal with questions of regional adjustment in the field of social policy making - the central-local relations are nowadays a central factor influencing the development of the Chinese Welfare state. The responsibility for education, health and most of the social safety net lies primarily with the local governments (cf. Ahmad et al. 2000: 10). On the first echelon of the sub-national units more than thirty independent entities are found. The differences of these entities are not only in name and administrative status – there are 23 statutory provinces, five autonomous regions, three cities and two special administrative regions<sup>27</sup>- but also in terms of landscape, population density, and level of socio-economic development, same as infrastructure. Below there are at least two more levels involved as for example county and district level.

Since the provinces find themselves also in a competition for foreign investment and economic growth, policies that are detrimental to these ambitions are reluctantly adhered to (cf. Heberer 2008:48). With the decentralization of financial responsibility and decision-making power local actors decide on the measures “to balance the need to pre-empt labour unrest with the interests of local enterprises” (Duckett 2003:227). Due to the institutional lack of means to efficiently monitor the compliance on all policy issues on the local level in the whole country, the central government concentrates on evaluating the factors of stability (wending 稳定) and economic growth (jingji fazhan 经济发展) (cf. Heberer 2008: 50). In this institutional environment non-compliance with social policy regulations is a common phenomenon that goes in most cases unnoticed and unsanctioned, as long as there is no attention by domestic or international media – as for example mining fatalities (cf. *ibid.*:50).

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<sup>27</sup> Hong Kong and Macao, which do have a separate administrative and political system, a feature that made way to the „one country, two system“ approach in China have not been included in the research.

## Culture

Culture is identified as one of the main impediments to the reform efforts in the direction of the Western welfare states. It is the re-distributive policies and the turn away of the traditional family welfare arrangements that meet open opposition.

Different scholars have done research on the question of the influence of Culture in East Asia and its influence on the Welfare State development. The native Chinese Lin Ka (1999) has published a book named the “Confucian Welfare Cluster” where he studies the development of Welfare Statism in East Asian countries in respect of the cultural and historical background of this world region, Rieger and Leibfried (2004) follow a similar approach putting a stronger focus on the issues Culture vs. Globalisation and Confucianism vs. Christianity in order to explain the role of Culture and Religion on Welfare State development.

“In the Confucian Culture, the main contributors to thoughts on charity are Buddhism and Confucianism” (Lin 1999: 38), under these influences welfare relief has conceptualized as paternalistic grant and assistance does not originate from an institutional mechanism but from personal willingness. One of the basic elements of East Asian Welfare States is the family as primary source of welfare (cf. Rieger/ Leibfried 2004: 28, 143). The foundation of Confucian familialism lies in the notion of ‘filial piety’ one of the five cardinal relations in Confucianism that guarantee social order and stability (cf. Lin 1999).

Unifying features of East Asian Welfare States are de-emphasis of public re-distribution and stress of workfare welfare and “the role of the welfare state as a welfare regulator” (Aspalter 2001:1). These features can also be traced back on the cultural background. Ordered re-distribution beyond the extended family is no common feature in the Confucian-Buddhist and furthermore any recipients of social assistance are stigmatised (cf. Lin 1999; Rieger/ Leibfried 2004). Furthermore the Confucian principles oppose the idea of guaranteeing for example generous welfare provisions without return, as practiced in the socio-democratic model of Welfare. The role of the State is to be residual and the individual most strive for self-reliance, as a consequence the benefits can only be means tested and low as in the liberal model.

A cultural historical feature more centred on China that has another detrimental effect on the effective use of policy transfer is an attitude that is deeply rooted in the Chinese self-perception- China wants to learn from the Western Experience, but this willingness to learn meets the strain not learning beyond the functional level (cf. Wang 2007). There is still a big opposition to learning about and taking into consideration basic arrangement that differ from the ones in China as for example the understanding other role of the government or the civil society.

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## The Welfare State and path dependency

The last factor influencing the Welfare State development is the long established routines and basic features of the Welfare State system that are supporting the reproduction of the system. Representative for such factors is the Hukou system that not only excluded rural dweller to come to urban areas for work and social provisions but equally was to the benefit of the urban population enjoying a higher level of social provisioning and job security. The welfare dualism that has existed for such a long time has furthermore diminished the interest of the people to actively support a redistributive policy to equalize the formally independent systems.

### **4. Conclusion**

Functional Pressure stemming from the fast industrialization process and Policy Transfer played a central role for the development of the Welfare State and key social policies in China. Nonetheless it must be stated that they are only necessary conditions for these developments; the decisive variables are the context variables of the political, historical and cultural context of the PRC. It is the approach of the historical institutionalists accounting for the role of ideas in policy change and departing from a solely determinant-approach that prevails whereas the functionalist one is falling short in explaining the development of the Welfare State in the PRC since it does by far not follow the sequences observed in the development of the Western Welfare States.

The decisive moments in the history of the modern Welfare States in the West that stood model for the development of approaches explaining Welfare State development and change and China are different. First of all the modern political system and the roots in culture and history are completely different. In Europe the systems with their basic arrangements were built after the experience of the vast destruction of the Second World War and the need for stability and social cohesion to realize the reconstruction. China on the other hand established a one-party rule and called for construction efforts under the premise of an ideology of equality. Neither authoritarian orientation nor the cultural background can be found as sources for the different development trajectories to its closest neighbours Japan and South Korea<sup>28</sup>. It was the era of the planned economy under socialist ideology - the establishment and practice of welfare dualism of thirty years - that gave the Chinese system a different imprint that prevails to date.

The GPCR could be identified as critical juncture in the newer history of China; institutions in social and employment policy as they had been built up from the beginning of the PRC had been simply swept away and the country was ruled by anarchy of the masses. The CCP took the lessons of this experience and the reform brought forward and the development of new institutions was taken on a

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<sup>28</sup> In South Korea the introduction of democracy dates to 1987



very cautious basis. Economic growth and Social Stability were made the new key objectives of the CCP. The fear of the discontent of the masses which could turn again in anarchy explains the reluctance of Chinese politicians to bring along major changes in the social policies, trusting more in incremental steps, experimentations on trial and error basis and adhering to the decisive role of Party ideology as unifying and progressive element.

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#### **XIV. The Future of the Chinese Welfare State**

At the beginning of the research project stood the question on the development the Chinese Welfare State would take in face of the challenges that other countries had faced at an earlier point of time. The research question of “does China set-up a genuine Welfare State or establish one close to a system in place?” is building on the answers on the sub-questions that have already been given in the in the two previous chapters.

Within a period of thirty years signified by unprecedented economic growth China had to set-up welfare state institutions while dealing with the overlapping challenges of an industrializing, an industrialized and post-industrial society- challenges that materialized in the Western Welfare States in a time frame of more than a century. As a result the PRC meets the ‘triple transition’<sup>29</sup>- challenge the post-industrialist countries are currently going through in a development stage in which the welfare State arrangements are far from being mature and show ambiguous results in terms of functionality and acceptance. Although China is nowadays more open to learn from foreign experience in social policy making and actively participates in bilateral and multilateral cooperation the country is still constrained in its choice for policies by contextual variables as its political-institutional system, culture, political history and lock-in effects in social policy making dating back to the founding of the PRC. The central challenges for the PRC in the years to come are to guarantee the funding of the social security system and compliance to common standards in social and employment policy across the provinces in order to narrow down the inequality that is threatening the stability of the whole system.

While there are several pilot programs running in parallel that are directed towards establishing a future oriented social security system a stronger role for redistributive measures is without question the only viable option. Since direct redistribution efforts have so far not been successful and contradict the underlying cultural settings in China, the CCP will have to think of a stronger indirect redistribution mechanism via taxation. According to a CASS reported quoted by McNally (2008) there are intensifying appeals for economic redistribution in the population and the “workers urge the government to increase taxes upon the rich and increase welfare benefits for the poor” (ibid. 158). Li, Feng and Gizelis (2008) also regard the taxation system as effective means to accumulate the revenues used to finance the rising costs of social welfare programs and make redistribution a reality. In order to

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<sup>29</sup> Pierson (1998) lists the following elements of the ‘triple transition’: “slowdown of the economic growth of productivity (...) associated with a massive shift from manufacturing to service employment; the gradual expansion, maturation and ‘growth to limits’ of governmental commitments; and the demographic shift to an older population.” (ibid: 141)

establish the foundation of the system, the central government will have to initiate major public investments in the Welfare State infrastructure, mainly in a nation wide social security system. Under the current demographic trends any delay of the launch of a nationwide partly funded pension system can only have negative consequences for the future, making the financial burdens for the younger generation even higher and it will be them to bear the costs of a complete transition from a PAYGO to a partially funded pension system.

The implementation and compliance challenge originates from the characteristics of this huge country incorporating a magnitude of regions. Due to the great internal variety in respect of the socio-economic development stage, industrial composition and infrastructure the individual needs and available countermeasures differ from one province to another it is difficult to set-up nationwide policies that meet with the conditions on local level and monitor their proper compliance. A pragmatic approach following the principle 'Do the best according to the local conditions' (cf. Goodman 1994: 13), shifting administrative competences to the local levels and moving ahead with fiscal decentralization was followed in the 1990s. Depriving the central government of its steering abilities and financial means worsened the situation of interregional inequality even more.

Given these conditions the most promising way to establish a functioning Welfare State system in the future is to take account of the diversity and leave room for individual arrangements on local level that have to meet national standards – especially in respect of the welfare mix. Depending on the local conditions the diversity in welfare state arrangements could be similar to the one within the EU. In such a scenario the role of the Central government in social policy making could be equal to the role of the European Commission as agenda setter and guarantor of standards in social and employment policy that are key requirements for social cohesion across regional entities and the functioning of an internal market - for example labour mobility and the transferability of welfare entitlements between the different provinces<sup>30</sup>. In a first phase the PRC would have to refine its administrative capacities and develop innovative tools for social policy making same as policy coordination, this will include definitely making use of the EU experience. An instrument inspired by the Open Method of Coordination (OMC) could be adapted to the Chinese conditions and implemented. A real harmonization of the different systems would be envisaged in a long term perspective taking the learning capabilities and socio-economic development trends within the various Chinese provinces into account. Such an approach would be highly compatible with the development paradigm of the so called Scientific Development Concept established by the current Chinese leadership that has the objectives of social cohesion and sustainable economic growth.

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<sup>30</sup> "unemployment insurance as portable right available to all workers under clearly specified conditions does not exist in China" (Fleisher/ Tang 2004: 25)

The success of the outlined scenario will be most dependent on two factors: first the capability of the central government and CCP to establish a viable system of social security, an effective administration and a functioning system to make regulations and monitor compliance across all provinces and actively promote the trust in government action; second the confidence in and acceptance of the new system by the people. Only a decisive reform in its Welfare State arrangements can help to reverse the trend of rising inequality that is the major threat for sustainable economic development and social stability in the PRC.

The report that was quoted to commence the introduction has predicted the year 2049 to be the birth date of the Chinese Welfare State (cf. China Daily 2008). No doubt the next decades will bring a lot of innovation in the field and equally influence the final appearance of the Chinese Welfare, nonetheless it can already be stated, that the mature Chinese Welfare State to emerge will be a genuine one due to the unique characteristics of the country and its welfare state legacy. Openness for policy exchange and the role China will assume in the promotion of a certain social policy model on the international stage will be factors to influence the final form of the Chinese Welfare State decisively. Whereas China can currently benefit from the Cooperation with the EU, in the future the EU might learn from the Chinese experience in some issue areas. The fact that the form of the mature Chinese Welfare State will have consequences on the welfare states systems of other countries as well is a convincing argument in favour of including China better in future international comparative welfare state research.

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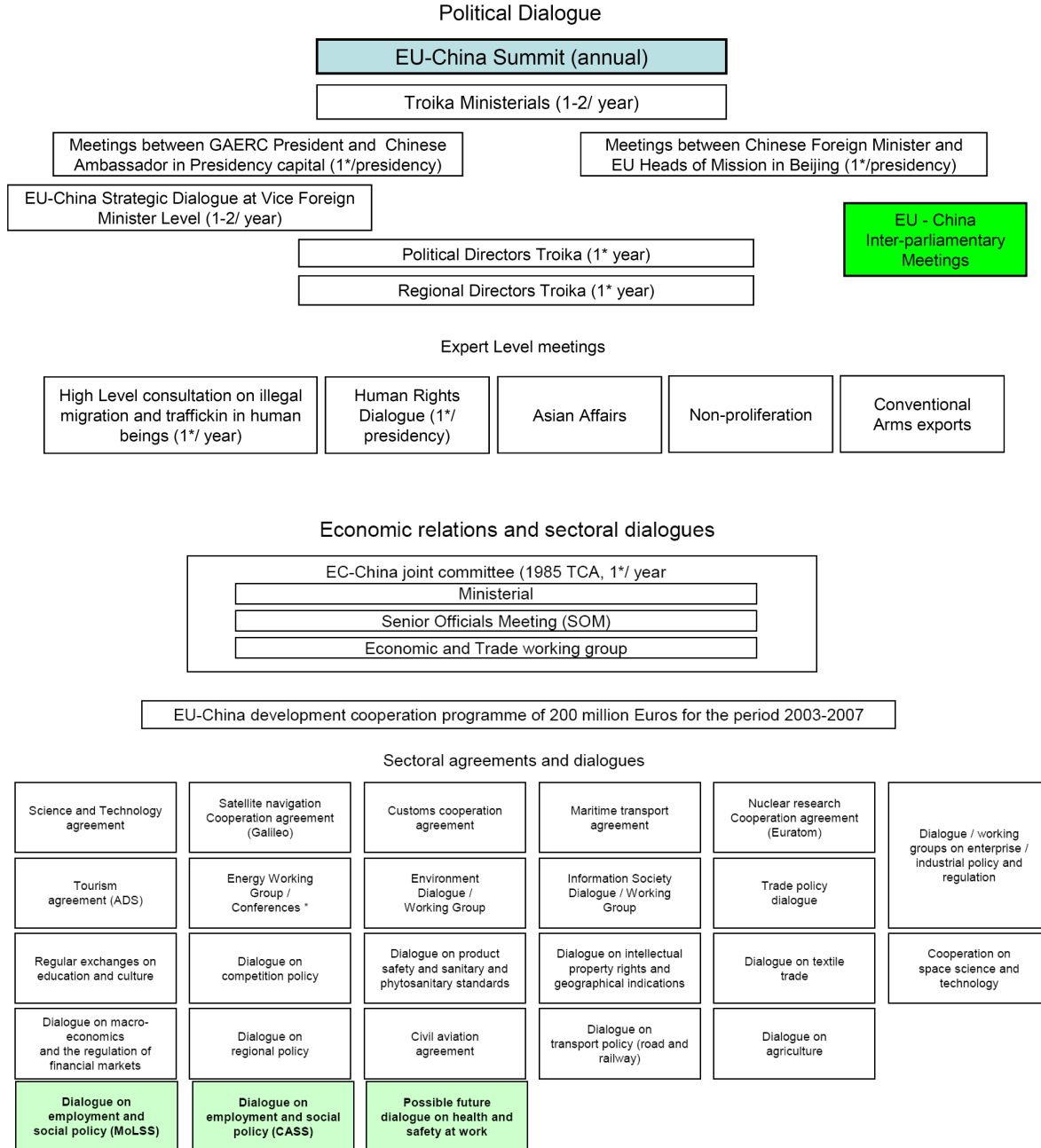
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## APPENDIX

### Annex 1: Overview structure EU-China relations<sup>31</sup>

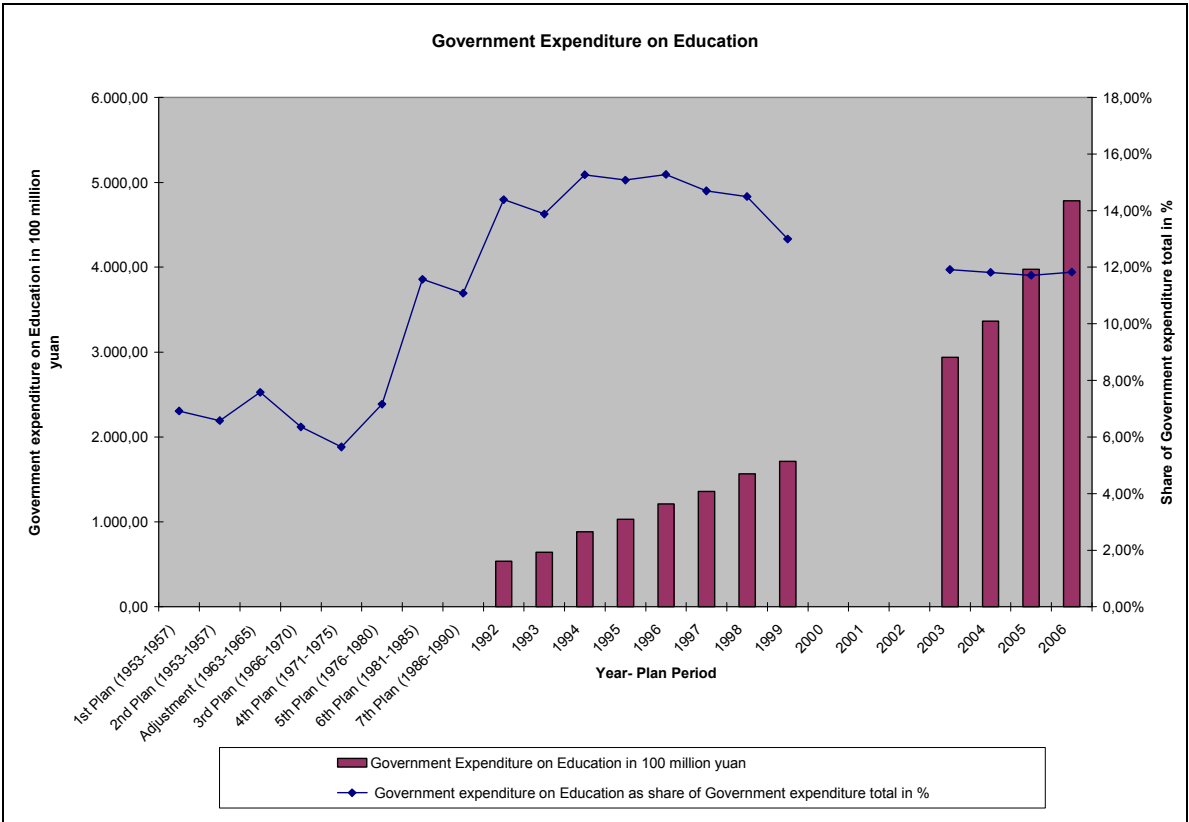


Graph: based on EC 2008b- extended and updated

<sup>31</sup> The parts of the cooperation that are of relevance for employment and social policy are highlighted.



**Annex 2: Government expenditure on Education**



Source: Data 1953-1990 - Tsang 1996: 429 (who computed the data from Ministry of Education (1984), State Education Commission (1989, 1991, 1992, 1993a), and State Statistics Bureau (1992, 1993); Data 1992-1998 – Zhang/ Kabur 2005: 195 (who calculated their data based Comprehensive Statistical Data and Materials on 50 Years of New China (China State Statistical Bureau, 2000); Data 2000-2002 – no reliable resource available; Data 2003-2006 - own calculations making use of the data of the Statistical Yearbooks of China 2004-2007.