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# THE SOCIAL POLICIES OF EMERGING ECONOMIES:

## GROWTH AND WELFARE IN CHINA AND INDIA

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# **THE SOCIAL POLICIES OF EMERGING ECONOMIES: GROWTH AND WELFARE IN CHINA AND INDIA**

Arjan de Haan\*

## **ABSTRACT**

Social policies play a critical role in the transformation of emerging economies. This paper discusses this with reference to China and India, with their very distinctive public policy approaches. Much of the economics literature either does not pay much attention to social policy or regards it as secondary at best or as a market enemy at worst. Views on social policy in emerging economies see this as either lagging or threatening growth. Instead, this paper argues, social policy is congruent and constitutive, and sustainable social policies are those that are formulated as part of economic policies and transformation, and, in turn, shape the conditions of enhancing markets and productivity. The paper describes how the 'great transformation' of both countries shapes social policy responses, the institutions and ideas that give very different shapes to the two countries' policies and the way policies vis-à-vis minorities are situated in both countries' social policies. The conclusion argues for the distinct research agenda that follows from this conceptualisation of social policy.

Key words: social policy, cash transfers, emerging economies, China, India.

## **INTRODUCTION**

The emerging economies are reshaping global economic power. Their growth rates have been consistently above those of the old hegemonic powers, and they managed the impacts of the financial crisis remarkably well—even though post-2010 these are dropping too. China became the world's second largest economy in 2011 and will overtake the USA as the largest in the foreseeable future.

This economic rise is also thought to produce a new form of (state) capitalism. These economies did not succumb to the advice for unbridled liberalisation promoted by Western powers since the late 1970s, and capital controls protected them from the worst effects of the financial collapse in 2008. Moreover, emerging economies' state-owned or -managed companies have risen rapidly on the global economic scene.

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This paper focuses on the role **social** policies play in this global transformation, with particular reference to China and India, the two largest emerging economies, with their very distinctive public policy approaches.<sup>1</sup> While much of the economics literature either does not pay much attention to social policy or regards it as secondary at best or as a market enemy at worst, the OECD's economic history shows the crucial role of social policy in economic transformations. Different views on social policy in emerging economies see this as either lagging or threatening (e.g. creating 'welfare dependency'); instead, this paper describes social policy as congruent and constitutive. Sustainable social policies are those that are formulated as part of economic policies and transformation, and, in turn, shape the conditions of enhancing markets and productivity.<sup>2</sup>

This argument is structured as follows in this paper. The next section provides a conceptual discussion on the role social policy plays in relation to economic transformation and policies. While dominant thinking has relegated social policy to the residualism of sweeping up the negative consequences of the free market, and popular accounts tend to portray the failures of social policies against the growing inequalities of these large emerging economies, social policies are playing distinctive roles in shaping the development of emerging economies.

The subsequent sections discuss the main elements of social policies in both countries, drawing on the framework developed by Gough (2008). The second section discusses the way industrialisation and other macro-level developments structure the way social policies in both countries evolve, including the delayed responses in China to rapid urbanisation and large-scale migrations, compared to much slower urbanisation and industrialisation in India. Section 3 discusses the interests and institutions that shape social policies, of course in very distinctive ways in China and India. Social policies are structured and evolve in ways that are closely intertwined with and constitutive of broader policy institutions, including the articulation of rights and citizenship. The subsequent section describes how in the two countries social policies are deeply impacted by political preferences and historical experiences, and how, in turn, social policy institutions become part of national identities. International influence plays a role in both countries, but that too in distinctive ways.

Section 5 discusses approaches to minorities and marginalised groups, as central elements of social policies and closely interwoven with patterns of nation building. China drew on Soviet approaches to create ethnic homogeneity and economic integration as part of the recent stages of economic reform, while India's policies and specific form of public advocacy have given its social policies a distinctive welfarist emphasis, including in the focus on targeting benefits to specific groups.

The conclusion stresses the large research agenda that follows from this conceptualisation of social policy, and calls for diverse methodological approaches to assess what 'success' of policies means.

## **1 SOCIAL POLICY AS CONGRUENT AND CONSTITUTIVE**

In the definition of the Nigerian sociologist Tade Akin Aina, social policy refers to the:

"systematic and deliberate interventions in the social life of a country to ensure the satisfaction of the basic needs and the well being of the majority of its citizens. This is seen as an expression of socially desirable goals through legislation, institutions, and administrative programs and practices.... [and] is thus a broader concept than ... social work and social welfare" (Aina, 1999: 73).<sup>3</sup>

This consciously broad definition of social policy was formulated in the context of the dominance of neo-liberal thinking during the 1980s and 1990s. This had assigned a residual role to social policy, as merely sweeping up the negative consequences of the operation of free markets and impacts of adjustment—for example, in the form of ‘social funds’ or the ‘safety nets’ of the *World Development Report 1990*, thus replacing a proactive notion of social policy that had dominated in the more immediate post-independence period.

This article uses social policy in the broad sense as defined by Aina, and subsequent work promoted in particular through UNRISD under the leadership of Thandika Mkandawire<sup>4</sup> drawing on experience of late industrialisers, and in a broader sense than a notion of ‘welfare states’. This notion also puts social protection, including cash transfers, in a broader framework of analysis, and highlights the political choices that underlie these programming directions and ‘quiet revolution’ (Barrientos and Hulme, 2008) of—successful—schemes that directly benefit poor people<sup>5</sup>

Particularly with respect to emerging economies, much analysis focuses on the way social policy lags behind economic transformation. In India much analysis stresses growing inequalities, the huge human development deficits, notably in maternal and child health, and education.<sup>6</sup> In China many analysts stress the need for more proactive social policy, as privatisation of services has left enormous gaps and growing inequities, including after the financial crisis.<sup>7</sup> In both countries, budget allocations have remained relatively low, as described below.

While agreeing with these calls and advocacy, the way the notion of social policy is employed here is analytical, as a way to understand how this aspect of public policy evolves and what its drivers are, rather than primarily the outcomes these lead to.<sup>8</sup> For this purpose, the analysis draws on the insights particularly of Esping-Andersen (1990; 1999), who uses a notion of welfare regimes to describe (including in quantitative terms) how welfare is produced through market and non-market spheres, and how such constellations have historically emerged as part of national political histories.<sup>9</sup> He distinguishes conservative, liberal and social democratic social policy models. A large literature exists that draws on—and criticises and extends—Esping-Andersen’s work, and has found entry into the literature on East Asia (as well as Latin America), but less in South Asia including India.

In addition to the work of Esping-Andersen, this analysis of social policy in emerging economies also builds on the work of Gough (2008), who draws lessons from the OECD literature to analyse social policy developments in the global South (also Abu Sharkh and Gough, 2009). Haggard and Kaufman (2004; 2008) emphasise ‘welfare legacies’ in their comparative analysis of social policy in Eastern Europe, East Asia and Latin America, and show different trends on social spending including during economic crises. This paper further builds on the notion of productivist or developmentalist welfare regime in East Asia,<sup>10</sup> and the literature on social protection and security there,<sup>11</sup> which is partly an alternative welfare regime, partly a category cutting across Esping-Andersen’s categories. The analysis here is also informed by Lindert’s (2004) analysis of long-term development of social policy in welfare states, defined as ‘growing public’, implying a congruent development of markets, public policies and institutions.<sup>12</sup>

Public social spending is an important element of the analysis of social policy (as it is in Lindert (2004), referring to the secular trend of OECD countries). Within the OECD context, there is strong evidence that public spending reduces income inequality (Goudswaard and

Caminada, 2010; Goudswaard et al., 2012). No such clear conclusions can be drawn for developing or emerging economies. Lack of quality data has limited analysis, and data problems are compounded in countries with a federal governance structure, and by important off-budget spending. Taxation is barely addressed in the literature.<sup>13</sup> Moreover, much social spending in developing countries is regressive, despite recent initiatives promoting targeted social protection programmes.<sup>14</sup>

As Table 1 demonstrates (and Figure 1, which compares public spending in China and India with that of Brazil and South Africa), social spending as a proportion of GDP in both China and India has remained relatively low (but not necessarily low for its level of GDP). Since they have different political systems, of course, pressures on social spending in the two countries vary, with civil society advocacy directly behind increased commitments in education and public employment programmes, for example, in India, whereas in China such trends are led much more 'from the top', such as in the case of enhanced commitment to the health sector following the SARS crisis.<sup>15</sup>

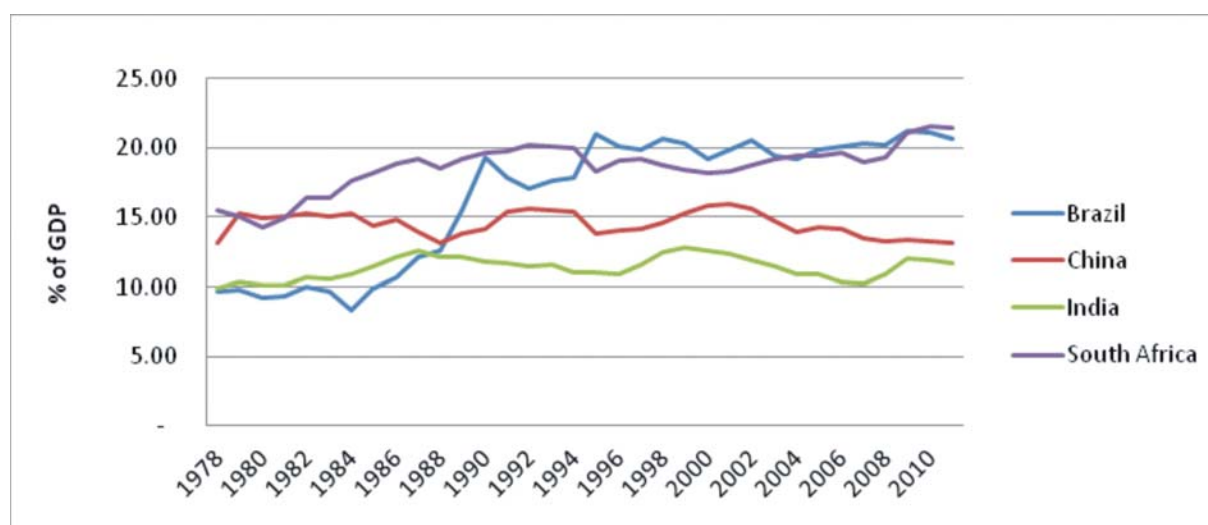
Table 1

**Social Spending in China and India**

	Government consumption expenditure				Social spending (% GDP)					
	(% of GDP)				1998		2005		2010	
	1981	1991	2001	2011	health	education	health	education	health	education
<b>China</b>	15.00	15.43	15.96	13.10	1.82	1.86	1.83	n.a.	2.72	n.a.
<b>India</b>	10.12	11.64	12.40	11.70	1.3	3.61	0.93	3.13	1.18	n.a.

Source: WDI online, accessed 7 October 2012.

FIGURE 1

**General Government Final Consumption Expenditure (percentage of GDP)**

A defining feature of ‘emerging economies’ is that their economic transformation occurs as part of, and is driven by, insertion into global markets. This is occurring at a phase of global capitalism at which a country’s space for developing its own policy has shrunk, compared to the 1950s and 1960s (Amsden, 2007). However, large economies such as China and India tend to have more autonomy than many smaller ones, and in many of the emerging economies, though less so in India than in China, the state takes a prominent role in this process.<sup>16</sup> In the context of globalisation, social policies are pushed in opposite directions.<sup>17</sup> On the one hand, pressures of competitiveness as well as neo-liberal ideologies limit the space for proactive social policy and can impose fiscal constraints. On the other hand, successful globalisation requires a well-educated and healthy labour force, and more open economies may require stronger social protection to mitigate the effects of crises, while globalisation also exposes social policies to the critical eye of a global community. In both India and China, as described below, we see both sets and directions of forces operating.

While popular accounts portray the failures of social policies against the growing inequalities of these large emerging economies, the description below indicates that social policy plays distinctive congruent and constitutive roles in shaping the development of emerging economies. The forms social policies have taken have had an important impact on the road of economic development. China’s social development policies before the 1980s created—even if unintentionally—the pre-conditions for China’s successful integration into the global economy. Social policies under the period of reforms were consistent with the ideological emphasis on ‘growth first’, liberalisation and a focus on individual incentives—a move that was subsequently partly reversed because of growing protests and public health scares. India’s focus since independence on elite rather than mass higher education may have limited its options to support broad-based growth, and, as I will argue below, both the policies vis-à-vis marginalised groups and the post-2004 emphasis on ‘flagship’ social programmes are limited in their contribution to economic (or indeed social) transformation.

## 2 CHINA’S AND INDIA’S GREAT TRANSFORMATION

Classic cases of development of social policy have been associated with industrialisation and urbanisation, as the loss of ‘traditional’ livelihoods and concentration of poverty called for expanding public policy responses. In the case of China, a broad-based system of social security was set up after the 1949 revolution (Drèze and Sen, 1989), though with a significant urban bias. Two major changes overhauled this system which used to provide widespread basic services. First, the reforms that started in 1978 implied a radical privatisation of the economy, starting with agricultural reforms and the introduction of the household responsibility system. While the state maintains a key role in the economy, and linkages between private companies and officials remain close, the largest share of the Chinese economy is now private. This has implied the elimination of the social services previously provided through communes and state-owned enterprises—and the changes in social policy since the 1980s have slowly started to rebuild a system that covers all (but, of course, on very different principles).

Second, following economic reforms and despite continued existence of the *hukou* system, China’s economic miracle implied and was facilitated by rapid urbanisation and large-scale migration. The urban share of the population grew from 17 to 40 per cent between 1975 and



2005. Estimates indicate that there are currently perhaps 200 million migrants, a 'floating population' that has remained outside any of the social service provisions which have remained tied to locality, despite growing efforts to expand social services, and promotion of migration from less endowed and ecologically fragile areas.

Against the background of these economic changes, a large and rapid demographic transition has taken place. China's effective one-child policy initially contributed to a demographic dividend, but, combined with gradually improving life expectancy, China's population will be ageing rapidly. The need to establish an effective pension system is generally acknowledged, but efforts have until recently remained mostly at local level, including in the context of restructuring state-owned enterprises. As in the case of the health insurance system, over the last few years most of China's population has been signed up to a rural public pension system, but benefits are still low, and private savings and inter-generational family support remain the most important forms of protection.<sup>18</sup>

While China's rapid move to a private market economy has driven the collapse of the pre-1978 system of social services, transitions in India have been much more gradual (including the demographic transition), and changes in social policy much less radical. Critically, urbanisation and transition out of agriculture are happening relatively slowly. The urban share of the population grew from 21 to 29 per cent between 1975 and 2005. The pace of urbanisation in India has not been as fast as often assumed and has remained much lower than China's. Migration data show that the rural–urban transition is happening at moderate speed, which some observers have associated with 'exclusionary urban growth',<sup>19</sup> thus suggesting existence of urban bias. Lack of access to urban areas for poor people is probably closely related to the lack of job creation, with liberalisation over the last two decades apparently not having made a big impact in that respect.<sup>20</sup>

A large and even growing part of India's labour force remains occupied in the 'informal' or 'unorganised' sector, which implies they are not covered under the mechanisms of social protection that apply to workers in the 'organised' sector. In line with a continued predominance of rural employment (often implying wage work rather than on-farm or self-employment), much of the attention of social policy has focused on extending social services to rural areas, by expanding primary education and primary health services and, most recently, through the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA). Moreover, while China's rural development policies often include promotion of migration, by contrast India's agricultural and employment guarantee policies tend to include an objective to reduce migration to urban areas.<sup>21</sup> Social security provisions have remained largely limited to workers in the formal sector, with strong urban and gender biases (NCEUS, 2009). Commitments to extend these benefits to the informal sector have not been significant, as SEWA experienced when it had to fight merely to be registered as a trade union.<sup>22</sup>

Finally, trends in inequality in both countries are critically important to understand social policy changes. The growing inequalities alongside demographic and economic transitions in China have been well documented<sup>23</sup> and are often seen as a main driver behind unrest and renewed social policy efforts—although this causation is likely to be much more complex (Whyte, 2010). In India no discernible trend in the consumption inequality Gini has been detected, but inequalities have been growing too (Saith, 2011),<sup>24</sup> and the perception of growing disparities was a major argument for renewed social policy efforts post-2004, as described below.

TABLE 2

**Indicators of Great Transformation**

	GDP per capita		Urbanisation		Demographic shift							
	PPP 2005 US\$	Annual growth (%)	% urban population		Total fertility rate		Poverty \$1.25 (%)		Inequality Gini index		Infant mortality	
	2011	1975–2005	1975	2005	1970–72	2006–07	1981	2005	1981	2005	1981	2005
China	7418	8.4	17	40	5.8	1.4	84	16.3	29.1	41.5	45.8	21.4
India	3201	3.4	21	29	5.4	2.8	59.8	41.6	35.1	33.4	113	57.7

Sources: GDP and urbanisation figures are World Bank data; demographic data World Population Prospects.

### 3 INSTITUTIONS AND INTERESTS

The ways social policies are structured and evolve are closely intertwined with and constitutive of broader policy institutions, including the articulation of rights and citizenship. In the case of China, four institutional features are central. First, the interaction between private markets and public intervention is dramatically reconfigured. Old provisions through state-owned enterprises have been disappearing, with private provisions filling the gap left behind. But these gaps were filled only very partially, and the realisation of these gaps—notably in the health sector—has led to renewed state intervention.

Second, and directly following the reconfiguration of public and private spheres, interaction among government departments and ministries is a key element of how social policies evolve—an area that receives very little attention in the literature. Hsiao (2007) describes the challenges in China's health reforms in terms of the failure in the relationship between Chinese political leaders and the health bureaucracy, hospital directors and physicians, who profit from high-cost treatment. The Ministry of Health—which is responsible for the new rural medical insurance scheme (NCMS), following intense discussions with other ministries—mostly represents their interest, and favours the direct government provision approach. The Ministry of Labour and Social Security mostly represents the interest of unions and labour organisations and is the 'purchaser' in the urban social health insurance scheme. The absence of NGOs or private insurers limits alternatives to "reduce the power of the medical axis-of-power" (Hsiao, 2007: 246).

Third, a strong dualism in provision to rural and urban inhabitants continues to pervade policy implementation. This is rooted in the *hukou* household registration system, which effectively restricts entitlement to social services to place of birth, symbolised in the separation also of rural and urban household surveys. The large number of migrants, literally a 'floating population' between two systems has put the dualism under pressure, and it is widely recognised that this needs to be reformed and changed at municipal levels, but the process is likely to take long and resisted by both bureaucratic inertia and concerns about unaffordability. Many of the new social programmes, including the medical insurance and *di bao*<sup>25</sup> schemes, remain divided between rural and urban areas, and the social policy responses to the reforms in many cases have reinforced the rural–urban differences, even though agricultural taxes were abolished in the second half of the 2000s.

Finally, social policy implementation is deeply influenced by the decentralised nature of public policy design, including financing structures. A key aspect of policy reform in China is its gradual and decentralised nature (in line with strong central state directions). Policy reforms (such as for *di bao*) are piloted in specific areas, and scaled up when successful, and even then usually with locally specific rules (such as the new health insurance and *di bao*).<sup>26</sup> At the same time, decentralisation and the model of public finance has made funding regressive, with poorest areas struggling hardest to fund projects (Zhang and Fan, 2007; Wong, 2009).<sup>27</sup> Social spending, particularly in rural areas, is adversely affected by the model of public finance: not only are total allocations to social sectors low, but a particularly large part of social spending is by sub-national governments. There is evidence that this is improving, however: Xin Zhang (2009) shows increases in welfare spending between 1998 and 2006, and a significant reduction in disparities of that spending between regions.

As in China, liberalisation and privatisation in India are leaving an imprint on social policy configurations, although by comparison India's system of social provision was not as extensive. The number of people covered through formal social security has always been restricted, and the informal sector has typically employed over 80 per cent of the labour force. While health and education systems in independent India have been universal in design, in practice they have left large gaps, notably in poorer provinces, districts and remote rural areas, but also within large cities and industrial areas. Thus, in practice, for example, according to estimates, about 80 per cent of total care has been estimated to be out-of-pocket medical expenditure,<sup>28</sup> and the importance of private education has been increasing.<sup>29</sup>

Second, one of the characteristics of social policy implementation in India is the uncoordinated nature of introduction and implementation of 'schemes'. As I found when summarising existing social protection schemes in Orissa, a fairly large number of schemes are in operation, many with overlapping objectives. This is partly related to divisions in responsibilities between central and state governments, partly to the targeting of services, both discussed later, and bureaucratic dynamics and rent seeking. A further reason is the party-political nature of public policy formulation, notably that individual political leaders introduce social schemes as a means, also, to enhance popularity (which, for instance, makes it much less likely that schemes are closed down).

Third, while India does not have China's strong institutional distinction between rural and urban areas, in practice a gap exists too. Migrants often find it challenging to access health and education services in areas of destination (Planning Commission, 2007: Vol. 1, para 4.48). It has been recognised that the universal health and education policies have failed to reach many of the poorest areas, groups and people; and distinct initiatives are in place that try to address those. Decentralisation of functions to Panchayat level was strengthened with the 1993 constitutional reforms, with much success, certainly in a number of states, but local authorities have not been in a position to contribute to significantly reducing gaps and disparities in social provision at a national level.

Various programmes—and special measures within programmes—have been put in place in India to reach the most marginalised populations, often with significant civil society participation. The MGNREGA scheme is, of course, a key example: it guarantees 100 days of public employment at a stipulated wage rate.<sup>30</sup> The national programme Sarva Shiksha Abhiyan (SSA) focuses on ensuring that primary education reaches the children of poor families, often in remote rural communities, with community planning and management as central features.<sup>31</sup> Rashtriya Swasthya Bima Yojana (RSBY) was initiated in 2007-08, by the

Ministry of Labour, as a national health insurance programme targeting individuals below the poverty line, providing them with paid hospital care of up to Rs30,000 against a nominal subscription fee.<sup>32</sup>

Fourth, as India is a federally organised country, implementation of social policies tends to be the responsibility of states ('subjects'), for which they receive central funding. But the centre also implements programmes directly as 'centrally sponsored schemes', which tend to by-pass state budgets and are implemented by specially created units.<sup>33</sup> While these schemes have implied much progress in terms of access for poor people, they typically are marked by huge differences in performance across regions, often operating least well where they are most needed, partly because (poorer) states fail to provide the required counterpart funding. Compared to China, incentives for performance seem to be less effective in India, probably partly because of public management structures and fiscal decentralisation, and partly because Indian state-level elections provide a greater deal of autonomy.

Thus, given different political and administrative structures, the ways social policies are evolving vary greatly.<sup>34</sup> China's top-down and incentive-driven administration<sup>35</sup> appears to have had significant successes in implementing social policies. India's policies, on the other hand, are often driven by effective civil society advocacy, as well as short-term political expediency, and implemented in a fragmented fashion.

TABLE 3

**Recent social policy initiatives in China and India**

	Scheme	Year started	Target	Number beneficiaries
China	Di Bao Urban	1999	Minimum income guarantee for poor households	23 million
	Di Bao Rural	2006	Minimum income guarantee for poor households	52 million
	New Cooperative medical Scheme (NCMS, rural)	2003	Farming population, reimburses medical costs	Close to 100% coverage
	Social pension insurance	2002 urban 2009 rural	Subsidy to elderly	361 million (rural, urban and rural-urban)
India	Sarva Shiksha Abhiyan (SSA)	2000-2001	Children in villages without school facilities	192 million children
	Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA)	2005	Rural households seeking manual work	50 million households annually
	Rashtriya Swasthya Bima Yojana (RSBY)	2008	Health insurance for BPL families	34 million active smart cards

Sources: de Haan and Li Shi 2012 (based on China Statistical Yearbook), NAO 2012; MGNREGA website; SSA website.

## 4 IDEAS: BETWEEN PRODUCTIVISM AND WELFARISM

Social policies are deeply informed by political preferences and historical experiences, or perceptions thereof. In turn, social policy institutions become part of national identities, as the case of the National Health Service in the UK—and the way this was portrayed during the 2012 Olympics—demonstrates. In both China and India a strong sense of universalism predominates, in the sense of ideology regarding state responsibility for its citizens. Of course, like identities, these institutions remain contested, and the national political processes continue to shape forms of social policy; nevertheless, this section argues, there are distinct differences in terms of perceptions of universalism, targeting and the ‘productive’ role of social policies.

China after 1978 let much of the welfare system of the earlier revolutionary period collapse. The economic reforms were accompanied by a ‘grow rich first’ emphasis, an explicit acceptance of growing inequality, and continued urban bias. The large-scale job loss caused by reforms of state-owned enterprises was expected to be countered by economic growth at the rate of 8 per cent per year. Social sectors were relatively neglected, notably health provisions which were effectively privatised, particularly in rural areas—even though human development indicators continued to improve (see, for example, the infant mortality figures in Table 2). Public spending on social sectors has remained tightly controlled, with a strong focus on avoiding consumptive spending. Decentralised public policy implementation has skewed local policymakers’ incentives to promoting growth and has contributed to regressive funding, with spending lowest in the poorest provinces and regions.<sup>36</sup> According to Chen and Li (2011), for example, regional economic competition has been responsible for under-investment in health by local governments.

This model of development in China reached what we may call a Polanyian moment in the second half of the 1990s, where unbridled market forces started to call for reinforced public and especially social policies. Concerns about equity had never been entirely absent since 1978 and, for example, informed the political differences leading up to the events of 1989. As has been widely reported, there has been large social unrest in China, which is possibly growing, and the growing inequalities have been one of the reasons behind this.<sup>37</sup> For health policies, the SARS crisis in 2003 was an important moment, leading to the realisation that an effective public health system was necessary.<sup>38</sup> In March 2007, Premier Wen publicly admitted that China’s economy was “unstable, unbalanced, uncoordinated and [had] unsustainable problems”.<sup>39</sup>

The global financial crisis was followed by some emphasis on inward-oriented development, as the export-led growth model was perceived to be faltering. But this did not lead to massive injections in social services, and the policies may actually have reinforced the orientation in physical investment, and challenges for ‘rebalancing’ remain.

However, there is a clear government direction that envisages the expansion of public policies as China moves to high-income status (De Haan and Shi, 2012; World Bank and DRC, 2012). China expects to build up an integrated social security system, and expansion of the health system is under way. At the same time, government spending will likely remain tightly controlled, and there is a strong aversion to avoiding the welfare dependency or trap that is thought to exist in Europe (Lu and Feng, 2008).<sup>40</sup> Moreover, in the view of policymakers, public policies are subject to a range of interlinked structural reform, including regarding in the fiscal relations between states and local governments that has incentivised economic growth and left little financial space for investment in social services, particular in the poorest areas (World Bank and DRC, 2012).

The way links between economic and social policies are integrated into China's public policy shows signs of the 'productivist' orientation of social policy (Holliday, 2000). The state has maintained a strong steer of social policy alongside economic policy, and has strengthened this in response to macro-level transitions and crises. Public spending, including in sectoral allocations to social sectors (to some extent seen as 'non-productive'), are tightly controlled—illustrated, for example, in the slow roll-out of NCMS. Public policies concerning, for example, capacity-building and emphasis on adjustment to enhance returns from policy emphasise the productivity of public investment rather than seeing it as merely residual spending. For instance, in the integrated rural development and poverty alleviation programmes there is a strong emphasis on infrastructure, driven by a belief in its key role in development.<sup>41</sup> Moreover, field observations suggest,<sup>42</sup> in local officials' interpretation of 'participation', economic returns tend to play an important role (this biases programming towards the more entrepreneurial), and spending in the social sector tends to be seen as non-productive (not providing direct economic returns).<sup>43</sup>

The recent move towards universal social protection is based on strong notions of equity (or at least an idea of state responsibility for the welfare of the entire population) but also fiscal prudence and an ideology of economic contribution rather than welfarism.

The productivist focus of China's public policies under one-party control contrast with India's 'welfarist' approach. As in China, and while couched in universalistic aspirations, it has applied a dual approach. Education policies had a strong focus on higher education, which contributed to the success of the country's IT industry in India and abroad but was accompanied by slow progress in basic education. Traditional social security and protection are provided in the unorganised sector; outside that it limits social protection to a small part of the population, the 'deserving poor'. But this social spending is considered primarily a cost, and not investment (for example, in human capital), as a 'safety net' (Dev, 2008: Chapter 6). This received new impetus under the inclusive growth model of the Congress government since 2004, with emphasis on 'flagship' social schemes.

A key characteristic of the Indian 'welfarist' orientation is the strong focus on targeting.<sup>44</sup> In international practices, targeting has gained greater currency in the period of neo-liberalism since the 1980s, including with the rise of social funds and cash transfers (Mkandawire, 2005; Adesina, 2011), and in India with the targeting of the Public Food Distribution System (PDS), but it has been deeply ingrained in the Indian public policy practices and arguably has intensified since liberalisation, and most recently planning to use modern technology for personal identification. Efforts to target are underpinned by detailed poverty analysis, including the Below the Poverty Line (BPL) Census, which has recently seen increased attention and refinement. Social categories are also intensively used, driven by India's commitment towards affirmative action: administrative categories of 'SC/ST' (Scheduled Castes, or Dalits, and Scheduled Tribes, or Adivasis, and extended to 'Other Backward Castes' in the 1980s) are intensively used to target delivery of services.<sup>45</sup>

The welfarist emphasis is combined with universalism, as enshrined in India's Constitution (both targeting and affirmative action are motivated by universal aspirations) and promoted in particular by the Congress Party.<sup>46</sup> Most recently this universalism has been intensified by an explicit focus on rights-based policy, such as the employment guarantee scheme. The focus on entitlements rather than providing economic opportunity (Shah, 2012; Hasan, 2009) remains constitutive of the nature of India's social policies, and how these impinge on India's economic policies, quite distinctive from Chinese approaches.

India's spending on social policies is low, from an international perspective (though not compared to China's or, indeed, in Asia more generally). Given the strong civil society advocacy, this may be surprising, although in the last two decades spending has been going up as a result of that advocacy, particularly in education. Social security is typically perceived as residual, as dealing with the negative impact of market processes, rather than shaping these. The emphasis on the public employment guarantee scheme demonstrates this, where the main emphasis of assessment has been the number of days of work provided and much less the productive assets these create. Employment programmes also often include an objective to reduce migration, to keep people in rural areas rather than having them migrate to cities (whereas China's policies often actively encourage resettlement from marginal areas).

International influences have been evident in the way social (and other public) policies are evolving in both countries, including in India's recent plans to introduce targeted cash transfers. While in most low-income countries, notably in Africa, international organisations—and with structural adjustment, particularly the International Financial Institutions—have been perceived to dominate policy setting, large countries such as China and India have developed more autonomous paths, but their interaction with international experience is distinct.

During Mao's leadership, of course, China was closed to the Western world. But this was exceptional rather than the rule. Historically, Chinese leaders had promoted exchange with international science and knowledge, and after 1949 exchange with the Soviet Union was important. However, exchange with international experience and collaboration with international institutions became one of the hallmarks of the (pragmatic) reform strategy under Deng Xiaoping.<sup>47</sup> For instance, in 1978 he met World Bank President Robert McNamara and said: "We are poor. We have lost touch with the world. But China is a big country. If we want to do something we can. But with the help of the World Bank, we can do it quicker and better."<sup>48</sup>

The opening up of the Chinese economy, including in accession to the World Trade Organization (WTO), have contributed to more proactive social policies. For example, China's signing of International Labour Organization (ILO) Conventions has gone hand in hand with addressing the rights of migrant, child and bonded labour. International collaboration is proactively sought in all economic and public spheres; the recent openness with which China sought international collaboration after the Wenchuan earthquake—as compared to its response after the 1976 Tangshan earthquake—consolidated this trend of openness. Donor projects (for example, in education, poverty and migration) are seen as being important in experimenting with new approaches. In the build-up of China's welfare state, there is a keen sense to avoid the pitfalls of others.

International influences have also been important for India's social policy development. This is not a new phenomenon either. British ideological influences, of course, shaped approaches, and India's membership of the ILO similarly had a big impact on the shape of its social and labour policies. Gradual entry into global markets means that international practices increasingly influence national public policy. It remains a question as to how much international organisations have influenced policy changes such as the targeting of PDS or the approaches to the education of the poorest populations (but international expertise and funding did facilitate experimentation with new approaches). Given India's close integration into international research and policy circles (and language), there has never been a need for the 'going out' strategy that China adopted. While strongly nationally determined, there is close international exchange through individuals but not the same keenness to draw explicitly on international lessons as demonstrated in China.<sup>49</sup>

The differences between the countries' approaches illustrate how their social policies are embedded in very different ideologies and historical patterns of political mobilisation and social control, translating into different ways of welfare provision (Esping-Andersen, 1990; Gough and Wood, 2004; de Haan 2007; 2010b), and how international influences are 'absorbed' in very different ways. Approaches to minorities, as part of these distinctive policy frameworks, are discussed next.

## 5 SOCIAL POLICY AS NATION BUILDING: MINORITY POLICIES

While creating conditions for markets to function, social policy also shapes other aspects of societal transformation, as described, for instance, in the comparison of China and India by Saith (2008). Social policy also, while informed by notions of gender equity, directly shapes interaction between spheres of market production and of reproduction—for instance, by the creation of child-care systems, maternity leave, and the promotion of notions of family and motherhood. Social policy is a critical instrument for nation building—for instance, through the way education creates a national language (or promotes diversity).

Minorities are not a given, but 'constructed', categorised and defined as different. National approaches to these constructions differ significantly. China, which is sometimes considered as a relatively homogenous society, with more than 90 per cent 'Han Chinese', in fact is a "multicultural and ethnically diverse nation-state, with tremendous cultural, geographic, and linguistic heterogeneity among its dispersed population ... [with] important cultural differences among China's majority population, identified as the Han people" (Gladney, 2004: 6).<sup>50</sup> Fifty-five groups were identified as official nationalities (*minzu*)<sup>51</sup> after the founding of the People's Republic, while 350 other groups applied but were not recognised.

India is celebrated as among the world's most diverse countries in religious, linguistic, regional, ethnic and caste terms; these categories are not given but constructed under processes of state formation and continuously contested. The caste system was introduced in public policy and bureaucratic language following the 1871/2 Census and became the language of the affirmative action in the late- and post-colonial period, alongside the use of 'tribal people' as a category denoting culturally distinct communities, usually in 'remote' areas. Caste divisions have become central to India's definitions of disadvantage, tending to neglect others (Hassan, 2009a), and constituted India's caste politics and the public policies of affirmative action but also the delivery of targeted development programmes.

China's nation-state formation implied an emphasis on integration, with a revival of minority concerns after 1978, while international observers have continued to emphasise exclusion and rising tensions, particularly in Tibet, Xinjiang and Inner Mongolia. Mao's policies included a radical revolution among minorities, intending to destroy the feudal elements of the socio-economic system. This was followed by identification of ethnic groups and assigning a status of autonomy to some of the regions, and subsequently the religious persecution and cultural destruction during the Cultural Revolution. Current official policy emphasises equality, regional autonomy, 'common development', preservation of cultures, and representation (proportionally over-representation) in the National People's Congress, with special efforts being made to train ethnic minority cadres. Policy includes the freedom to use own languages (and decisions to set language of education, though it is not clear that this is practised), and more lenient childbirth policies for ethnic minorities.



The growing gaps in its social policies since 1978 and growing disparities in health and education have probably had a disproportionate effect on minorities, as they have been concentrated in regions that have fallen behind, but these are now being addressed. Plans for rural development, infrastructure, industrialisation, agriculture and poverty alleviation include provisions for large transfers to ethnic minority areas.<sup>52</sup> The Western Development Plan is an example of a response to concerns of growing regional inequalities, and one that is 'deeply entwined' with minority policy, as it included justification to address protest movements and included provinces and prefectures not geographically located in the west (Naughton, 2004: 265; Barabantseva, 2009). The promotion of migration, despite the continuation of the *hukou* registration system, has also had a profound impact on the way China's rural transformation has taken place: groups in very remote areas and with linguistic differences have over the last few years also found access to migration opportunities.

Group identities have played a critical role for India's independence and formulation of the Constitution.<sup>53</sup> Support for deprived groups is enshrined in the Constitution and is delivered through elaborate administrative and financial mechanisms. While assessments of the impact of India's affirmative policies predictably differ—opponents point at the creation of a creamy layer, while supporters argue that continued discrimination continues to make affirmative policies necessary—the drive for public policies and politics to be structured along India's manifold social divisions continues. Policies focus on legal safeguards against discrimination, education and empowerment of deprived groups, and affirmative action, the controversial area of 'reservation' in government services, admission in public educational institutions and seats in central, state and local legislature and bodies. Since the late 1980s there has been a significant rise in identity politics, particularly alongside caste and religion. Affirmative action—and the notion of reservation, for example—has become highly controversial, with claims against 'reverse discrimination', arguments that reservation has led to a 'creamy layer' and not benefited the large majorities, but also clear evidence of cases of upward mobility which would have been unlikely in the absence of reservation.

India's 'vote bank' politics have given a particular shape to the implementation and extension of benefits to deprived groups. The "democratic incarnation of caste" (Shah, 2002: 28) has given political agency—often with a strong regional character—to many lower castes, while entry of Adivasi communities into the political field has remained more limited (Alam, 1999). Minority groups have mobilised around targeted schemes for group advancement, and others have tried to extend these, thus reinforcing their identity as group. The public advocacy around social welfare has also contributed to an increasing number of schemes, often overlapping in objectives, thus strongly reinforcing the uncoordinated and residual approach described above.

The inclusive growth model promoted since 2004, which contained renewed commitment to poverty reduction, includes a range of new or revised policies for social groups, such as a high-level committee to examine the socio-economic status of Muslims followed by new policies, and a '15 Point Programme' with a range of programmes for deprived groups, including for entrepreneurship, scholarships, services and a (flagship) multi-sectoral development programme for minority districts.<sup>54</sup>

The policies vis-à-vis social groups are thus an integral and often constitutive part of countries' politics and histories—and thus social policy approaches, including the question of the place of affirmative action in the universalism. China's centralised political control has directly shaped the way policies vis-à-vis minorities have evolved, with a strong emphasis on

national integration alongside an official emphasis on autonomy and respect for culture, while since 1978 its forceful market-led development and poverty programmes reaching out to remote areas have rapidly transformed socio-economic structures. India's federal political democracy leaves a deep imprint on the ways in which policies vis-à-vis deprived minority groups evolve, and in turn the 'caste politics' continue to leave a deep imprint on the way social policies are formulated and implemented.

## 6 CONCLUSION

Central to the argument in this article is that social policy is not merely about the redistribution of income or wealth generated by economic growth. Instead, social policy is integral to the way economic processes are structured, a role that changes but obtains heightened significance as economies open up. Like economic governance institutions, these social policies show a great deal of path dependence and are closely intertwined with national histories, ideologies and models of citizenship and inclusion.

While globalisation plays a critical role in setting the parameters of social policies, history and path dependence continue to shape characteristic features of social policy. China's revolutionary history and continued Communist Party control, combined with its geography and proactive learning from developing experience elsewhere, has moulded social policies in a distinctive 'productivist' direction, as illustrated in its anti-poverty programmes and the new medical insurance. India's social policies, by contrast, while couched in universalistic aspirations, have retained very strong residual and dualistic characteristics, with strong emphasis on targeting, illustrated recently in the MGNREGA. In both countries, social policies were not radically transformed after the financial crisis, in ways in which the 1930s crisis affected US public policies or the 1997–98 crisis affected South Korea, for example.

Social policies in China and India are clearly shaped in very different ways, because of the different political systems, of course, but equally importantly because of the different ways in which the bureaucratic structures are shaped, including the fragmentation of social policy implementation within the Indian system, reinforced by both an internal political economy and political interests and civil society from the 'outside'. Both systems urgently need reform to achieve better outcomes, but the strategies are, of course, radically different.

It may be tempting to compare the outcomes of the two systems, but such comparisons can be made only with great care. China's political system has led to both human development disasters and great successes (indeed, one of the major successes of Deng Xiaoping's reform may have been to introduce a minimum of accountability), while India's political democracy and free press have avoided the worst nationwide excesses but have not done well in terms of relieving widespread deprivation. The evidence does suggest that implementation of social policies will be radically different because of institutional context.

In the context of emerging (and developing) economies, the analysis of social policy is under-developed, and this article has tried to make a small contribution to the development of this field of knowledge. This implies a large research agenda, conceptually and empirically. There is a clear need for improved comparable (public spending) data, to allow understanding of the state's role in redistribution and addressing inequalities. The broad social policy framework applied in this paper also implies that policy assessment needs to go beyond more common methodologies that assess the success of particular schemes, for at least two reasons.

First, institutional features of schemes and underlying administrative and political conditions appear as critical as the design of schemes. Second, to understand public policy's impact on well-being and growth, it is critical—and, of course, more challenging—to look beyond individual schemes.

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## NOTES

1. This paper is based on a lecture at the University of York, International Development Studies (March 2012) and subsequent presentation at the North-South Institute in Ottawa (April 2012). Comments from participants have been very valuable and encouraged me to develop this analysis much further. I also thank two anonymous referees for detailed comments which helped me to revise this working paper, and Fabio Veras for support and insightful suggestions.
2. The Human Development Report 2013 (UNDP 2013) describes the human development advances in a range of emerging economies, attributing these to a proactive developmental state, tapping of global markets, and determined social policy and innovation.
3. See also Adesina (2007) and the African Union (2006: 12).
4. See UNRISD (2006), Mkandawire (2004) and Ghosh (2002). These writings have not entered mainstream debates. For example, Kanbur (2007) highlights that economic policies can have better (or worse) outcomes in terms of well-being, and questions whether there is a separate field of social policies. An important strand of the development studies literature has questioned the relevance of a social policy notion for poorest countries (Kabeer and Cook, 2000).
5. See, for instance, <[www.ipc-undp.org/pages/newsite/menu/socialprotection/whysocialprotection.jsp?active=3](http://www.ipc-undp.org/pages/newsite/menu/socialprotection/whysocialprotection.jsp?active=3)>; Adesina (2011) formulates a critique of the social protection paradigm, from a broad social policy framework.
6. The literature on the lags in development indicators is large and convincing, even though numbers on people in absolute poverty remain disputed; recent publications include Baru (2011) with respect to access to health care; Kannan (2012) discusses how inclusive India's 'inclusive growth' is, along regional, rural-urban, social and employment dimensions; Banerjee and Piketty (2003) describe the evolution of India's top incomes; Piketty and Qian (2009) compare this with China.
7. China's challenges are described in the DRC and World Bank (2012) *China 2030* report; the financial crisis showed the vulnerability in employment in the export sector, although many of the 20 million people who lost their job seemed to have found jobs fairly soon after (de Haan and Sen, 2011).
8. There are hypotheses regarding links between forms of service provision and effectiveness, including the positive impact of universal systems in taxes and entitlements (Lindert, 2004); while critical, these are not discussed here.
9. See also Arts and Gelissen (2002) and Schroeder (2008). In a recent article, Rice (2012) emphasises the need to distinguish within welfare regime analysis between welfare culture, welfare institutions and socio-structural effects.
10. See Holliday (2000; 2005), Hort and Kuhnle (2000), Ramesh (2004), Chen (undated) and Kim (2008). Haggard (2005) focuses on the interaction of politics and economic circumstances in the way East Asian social policy has evolved.
11. See Cook and Kwon (2007), Kim (2008), Kwon (2005) and Kwon and Kim (2011).
12. In the context of 19th century England, Smith (2008) describes the Poor Law that was in operation in England before 1834 as a 'developmental institution', facilitating economic growth and, for example, reducing destitute migration (also Szepter, 2007).
13. Piketty and Qian (2009) describe income taxes in China (where these have expanded) and India (where they have stagnated, and prospects for expansion appear poor).
14. In China social spending has traditionally benefited better-off urban inhabitants (Lin, quoted in Kwon and Kim (2011: 17): during the 1990s social security for urban residents amounted to 15 per cent of GDP, while it was only 0.2 per cent for peasants. For a number of Latin American countries, Lustig et al (2013) describes the overall impact of various forms of taxes and social spending, showing progress overall government spending in Argentina, Brazil and Uruguay.
15. But in China too, advocacy for increasing social spending exists—for instance, in response to the stimulus package after the financial crisis (de Haan, 2010c), and CDRF (2012: 262) argues for an increase in welfare expenditure from 6 to 9 per cent over the coming decade.
16. See the discussion in *The Economist*, 21 January 2012, with reference to emerging economies' multinational companies, and the special issue of *Development Policy Review*, Vol. 25, No. 5, August 2007 (Fritz and Menocal, 2007).
17. Evidence of different trends can be found in Rodrik (1998), Taylor (2001), Rudra (2002), De Grauwe and Polan (2003), Haggard and Kaufman (2004) and Gough (2008). Baldacci et al. (2008) look at the relationship between growth and social spending in developing countries.
18. See *The Economist* (11 August 2012) and Zhang et al. (2007).
19. See Kannan (2012) for most recent data, including on the recent expansion of formal-sector employment; also Lobo and Shah (2012). Kundu (2009) analyses urban growth rates, urban-rural growth differences, and percentages of rural migrants in urban areas. Kumar (2010) highlights the low rates of migration to cities among low-income groups (discussed further below).
20. Employment grew by 2 per cent per year between 1993/94 and 2004/05, but formal employment declined by 1 per cent per year (Ghosh, 2010). Chandrasekhar (2010) also highlights a lack of employment growth in productive sectors and in decent jobs. See de Haan (2011) for a discussion, including on the relatively low level of urbanisation in India.

21. NREGA's objective is to enhance livelihood security in rural areas by providing at least 100 days of guaranteed wage employment, and additionally to generate productive assets, protect the environment, empower rural women and reduce rural–urban migration; see Ministry of Rural Development (2012: Chapter 5).
22. See <[http://www.sewa.org/About\\_Us\\_History.asp](http://www.sewa.org/About_Us_History.asp)>; Chen et al. (2007).
23. For example, Wang et al. (2012).
24. The Asian Development Bank (2012) describes growing inequalities in Asia, driven by favourisation of capital over labour, skilled over unskilled, and cities over inland areas.
25. There is a large and growing literature on *di bao*; for instance, Gustafsson and Deng Quheng (2011) describe how *di bao* payments are effectively targeted to poor people, but receipts are typically low and differ greatly across cities.
26. Policymaking is strongly evidence-based, and development 'de-politicised'. There are strong incentives for learning, though arguably practices for assessing success remain weak (Dollar, 2007; Ravallion, 2007; Zhang et al., 2007).
27. See also Shen and Zou (2006) and Tao et al. (2009).
28. Ahuja and De (2004), quoted in Rathi, Mukherji and Sen 2012; WHO (2006) data put this ratio for India at 75 per cent and that for China at 60 per cent.
29. A 2005 survey by the Institute for Human Development Survey (IHDS) showed that 51 per cent of children in urban areas and 21 per cent in rural areas were enrolled in private, unaided schools (quoted in Nambissan, 2012: 52).
30. See Ministry of Rural Development (2012) and *The Hindu* (2012).
31. Sarva Shiksha Abhiyan (SSA) has special schemes (EGS and AIE) for out-of-school children, and encourages the states to accept the support of NGOs (which piloted many of those schemes) in reaching difficult categories of children (CREATE, 2008: Chapter 5).
32. See <<http://www.rsby.gov.in/index.aspx>>, Narayana (2010), Krishnaswamy and Ruchismita (2011) and Rathi et al. (2012).
33. A recent discussion proposes to change this; see <<http://economictimes.indiatimes.com/news/economy/policy/government-plans-changes-in-policy-of-social-schemes-funding-to-states/articleshow/16776432.cms>>.
34. Following earlier work on China and India by Drèze and Sen (1989: 204 ff), Saith (2008a) highlights the differences in rural development and the role of China's mass mobilisation, with the Communist revolution breaking the feudal mould, thus creating the conditions for capitalist development, compared to much stronger and continued institutional rigidities in India.
35. "China's policy makers have successfully taken a neutral stance when it comes to the divisions among different social and political groups" (Yang, 2012).
36. Yukon Huang, at a DFAIT meeting in Ottawa, 21 March 2013, argued that investments through banks substitute for on-budget social policy.
37. However, Whyte (2010) on the basis of a unique nationwide survey criticises a common idea that the rising inequalities would be propelling China toward a social volcano.
38. "The SARS crisis pushed the Chinese government to realize that it is necessary and urgent to solve the unbalance between economic and social development" (Wen Jiabao, 2010; quoted in Chen and Li, 2011).
39. See <[http://news.xinhuanet.com/english/2007-03/16/content\\_5856569.htm](http://news.xinhuanet.com/english/2007-03/16/content_5856569.htm)>.
40. Also fear of 'middle-income trap' (low wages, easy technology adoption).
41. "To end poverty, build a road" (Bräutigam, 2009; quoted in Warmerdam, 2011).
42. During monitoring visits of the joint DFID-World Bank project PRCDP.
43. While guaranteeing the basic livelihood of unemployed people, the state actively looks for effective ways to steer unemployment insurance in the direction of promoting re-employment <[http://english.gov.cn/official/2005-07/28/content\\_18024.htm](http://english.gov.cn/official/2005-07/28/content_18024.htm)>.
44. Targeting also is important in China's poverty alleviation schemes; however, my own observations in the rural development schemes in China showed that local officials emphasised targeting of farmers most likely to make good use of small loans.
45. This is described in more detail in de Haan (2007a).
46. An anonymous reviewer of this paper rightly pointed out that most other political parties promote particularistic objectives, related to, for example, region or social group.
47. The official policy towards international collaboration is described in *Guidelines of the 11th Five-Year Plan for National Economic and Social Development* as to "actively conduct international economic cooperation", promote cross-border flow and "actively develop economic and technological cooperation with ... other countries and realize mutual benefit and win-win, consisting of implementation of the 'Go-Out' strategy ... and international regional economic cooperation."
48. Thirty years later, this was mirrored in the World Bank publication *China and the World Bank: A Partnership for Innovation* (2007), and similar strong cooperation is clear from the *China 2030* report quoted above.
49. A very recent and interesting example is the drive towards cash transfers, away from subsidies, which is clearly in line with international experience but appears to adopt a methodology that is—it seems—untested.

50. Gladney also notes (p.38, 6) that the Han are often represented as being at the top of the social evolution of a Marxist historical trajectory. Zhang Jijiao (2009) describes how the growing migration of minorities ("hundreds", p.186) is changing economic and cultural landscapes of cities and even rural areas.

51. Han is also recognised as a *minzu* or nationality. Gladney (2004: 14) emphasises that the term became current only with the shift from empire (when Han *ren*—or person—was a common term) to modern nation-state.

52. According to NBS 2008 data, government spending as a proportion of regional economic product, while under 20 per cent in richer provinces, was 80 per cent in Tibet (but a much lower 23 per cent in Xinjiang).

53. Differences between Gandhi and Ambedkar, the dalit leader, and the secular ideals of Nehru, pervaded and have continued to influence the political sphere.

54. The United Progressive Alliance proposed a "national dialogue with all political parties, industry and other organizations to see how best the private sector can fulfill the aspirations of scheduled caste and scheduled tribe youth" <<http://www.pmindia.nic.in/cmp.pdf>>.



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