

Ringen, Stein; Ngok, Kinglun

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What kind of welfare state is emerging in China?

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Working Paper 2013–2

What Kind of Welfare State is Emerging in China?

Stein Ringen and Kinglun Ngok

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UNRISD, Palais des Nations
1211 Geneva 10, Switzerland

Tel: +41 (0)22 9173020
Fax: +41 (0)22 9170650
info@unrisd.org
www.unrisd.org

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Contents

Note 1

Similar to or Different from What? 2

A Short History..... 6

The Current System 9

What Kind of Welfare State?..... 12

Model Summary 15

References 19

Note

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Stein Ringen is Professor of Sociology and Social Policy at the University of Oxford, United Kingdom. Kinglun Ngok is Professor of Social Policy at the Sun Yat-Sen University in Guangzhou, China.

China is joining the family of countries that have reasonably comprehensive systems of social protection in place. In 2010, the National People's Congress adopted the first national Social Insurance Law, representing the culmination of a process of radical social reform. Our question here is: what kind of welfare regime is being built in the People's Republic of China?

China has been politically unique. It is one of only five remaining communist states, the others being Cuba, Laos, the Democratic People's Republic of Korea and Vietnam, and the only one (with some qualification for Vietnam) that has been economically successful. The characteristics of a communist state include centralized power in the hands of a party élite and that this élite is presumably motivated, to varying degrees, by some kind of socialist ideology of statism and social justice.

While maintaining its political uniqueness, China has shed its economic uniqueness. With the reform and opening up that started in 1978, it turned its back on planned economy isolationism and has adopted an open socialist market economy.

In the comparative welfare state literature, there are two main theories to explain welfare state developments. One, originating with Wilensky (1975), sees the welfare state primarily as a reaction to economic forces, notably the level of development. Let us call this “the economic hypothesis”. The second theory, challenging the first and originating with Korpi (1983), sees the welfare state primarily as a product of politically-driven action by power relations. We could refer to this as “the political hypothesis”.

The economic hypothesis would lead us to expect a reactive welfare state in China, similar to that of other market economies at roughly the same level of development—a welfare state of necessity. There is support for this hypothesis in the existing literature. Cook describes Chinese social security reforms as “designed to absorb the shock of entitlement collapse (loss of employment); to deliver relief rather than development; support short-term consumption rather than reduce long-term poverty or vulnerability and to deal with symptoms rather than causes” (Cook et al. 2003:71). The Asian Development Bank has classified the Chinese system as conforming most closely to a conservative welfare regime (ADB 2002).

The political hypothesis would lead us to expect a pro-active welfare state in China that is different from that in economically similar countries—a welfare state of normative purpose. There is also support for this hypothesis in the existing literature. Zheng sees current reforms as a stage in a politically directed development towards a genuine welfare society, an ambition to be realized gradually over the next decades and possibly consolidated by the centenary of the revolution in 2049 (Zheng 2008).

Our question then divides into two: is China producing a welfare state of its own kind, possibly a “socialist” welfare state? Or, if it is reproducing a conventional welfare state, what kind of previous experience elsewhere is it replicating?

Similar to or Different from What?

The literature on welfare state regimes has produced a raft of classifications based on policy design. The effort originates in Titmuss's intuitive division of welfare states into three models by social policy design: the residual model, the industrial achievement-performance model and the institutional redistributive model (Titmuss 1974). This

typology was later given empirical grounding by Esping-Andersen (1990), with the categories renamed liberal (or residual), conservative (or corporatist) and social democratic (or universal), with some revision in subsequent work (Esping-Andersen 1996, 1999).

This is the baseline typology in the literature; however, it is contested and the attractively simple three-model scheme has not survived. There are four main objections: that it is static, theoretically biased, and based on too narrow an observation of social policy arrangements (mainly social security) and too narrow an observation of countries—mainly of countries of the Organisation of Economic Co-operation and Development (OECD) countries with little attention paid to the Southern European and Antipodean ones.

The first objection is that welfare capitalism changed substantially from the 1990s and that the regime differences, identified in data from the 1980s have been modified in a trend of convergence (Gilbert 2002). However, although welfare states may in some ways be converging, there is no agreement in the literature that the distinction between models is obsolete.

The second objection, coming mainly from feminist theorists, is that typologies based on decommodification through social security arrangements disregard family structures, gender roles and relationships between work and care.¹ This objection has been absorbed in the typology literature through increasing attention to family policies. Family policy in this context is means arrangements to alleviate the cost to parents of childrearing and to mitigate and equalize the burden of child and family care between genders. For example, in the Nordic model, which has generous parental leave provisions with parental leave allowance on average up to about a year. This can be shared between the mother and the father and some of it is available only to be taken by the father.

The third objection is that other classifications have been suggested based on alternative social policy observations, including health care systems (OECD 1987), social assistance (Gough et al. 1997) and family policies (Guo and Gilbert 2007). These approaches tend to cluster countries differently than in the Titmuss–Esping-Andersen typology. The United Kingdom, for example, is in the least progressive model in their typology yet in more progressive categories in the health care and social assistance classifications.

The final objection has led to various proposals towards more comprehensive or nuanced typologies, including adding Antipodean, Southern European and East Asian models. There are also suggestions to include Eastern European (Deacon 2007) and Latin American models (Huber and Bogliaccini 2010), but these have left less of a mark in the comparative literature.

The Antipodean model was proposed as an alternative to the classification of Australia and New Zealand as liberal welfare states (Castles and Mitchell 1993). The objection was that that classification overlooked the emphasis in these countries on incomes policies that modify inequalities in the primary income distribution as an alternative to after-the fact policies that correct primary income inequalities through redistributive measures. The incomes policies model has not survived in Australia or New Zealand,

¹ Orloff 1993; O'Connor 1993; Sainsbury 1994, 2001; Daly and Lewis 1998; Lewis 1992.

but what was suggested nevertheless represented a unique model that might be described as the “predistribution state”.

The Southern European model has been characterized by a high degree of polarization in income protection systems, which has gone hand in hand with deeply segmented labour markets, fragmented and marginal social assistance, and low priority to family support (Leibfried 1993; Ferrera 1996). Esping-Andersen (1999) conceded the addition of a Southern European model to his original typology, primarily on the argument of marginal family policies.

The East Asian model has been labelled Confucian, productivist and more recently developmental.² East Asian developmental welfare states differ in many respects, but in the ideal model—the closest example is in the Republic of Korea (South Korea)—social policy is part of the repertoire of a developmental state. The characteristics of such a state are:

- a strong state with a state-led economy;
- economic development as the supreme goal of public policy and defined in terms of economic growth;
- that supremacy justified in a promise to alleviate poverty;
- social policy used as an instrument to advance economic development and subordinate to economic policy;
- social security (or the promise of social security) introduced early and proactively in the development process as a mechanism of regime legitimacy and population mobilization into the development project;
- regulation as the main instrument of government policy with provision in the main outsourced to businesses in the form of occupational welfare, to employers and employees in the form of social insurance, and to voluntary agencies in the form of social services;
- a low level of social spending and of state provision; and
- a strong continued reliance on families for welfare and security.

This model represents a distinct approach to welfare, but it has gradually become apparent that developmental welfare is less of a permanent model and more of a transitory state belonging to the early and take-off period of economic development (Ringen et al. 2011). As economic and political development progresses, the welfare state emerges from its developmental confines and becomes established in its own right, rather than as a subordinate instrument of economic policy. In South Korea, for example, the breakthrough to developmental welfare came in the 1960s with the emergence of a strong state after the first military coup in 1961 with an early articulated promise of social security by General Chung-Hee Park, the autocratic leader. Then, gradually, social security moved from being a promise to a reality and became entrenched in public policy. With re-democratization, beginning in 1987, the developmental state was rolled back and social policy taken forward to a second breakthrough following democratic consolidation and economic crisis in 1997. The state moved out of its confined role as a regulator and made itself a more comprehensive provider, particularly in terms of social assistance, and unemployment and re-employment support. As a result, the welfare state in South Korea is normalized and no longer needs or merits the qualifying label of developmental.

² Goodman et al. 1998; Holliday 2000; Jones Finer 2003; Holliday and Wilding 2004; Kwon 2005; Ringen et al. 2011.

A recurrent finding in research, following on from the three-regime typology is that countries that are similar in some policies differ in other equally relevant policies. It has been suggested that one way to accommodate a broader range of policy observations is to move to a multidimensional approach (Bonoli 1997). The increasing attention paid to family policy builds on this approach.

In order to adopt a multidimensional approach, we suggest the introduction of a new dimension in welfare state classification called “order versus fragmentation”. We suggest that welfare states should be described first by their policy design, as is conventional, and then by the degree of order or fragmentation within any design. The underlying rationale is that what determines how well social policies work—for example, in protection against poverty—is not only the kind and scope of social policy in a country but also how well the components of the policy work together within any system. This has come sharply into focus in the analysis of the Southern European experience. These welfare states are distinctive less by a separate design than by being fragmented and comparatively ineffective. The Nordic countries, in contrast, have in common order and similarity of design. However, their social policies are more dissimilar than is often recognized (Erikson et al. 1987). Sweden and Norway’s “people’s pensions” are similar, while Denmark manages basic and earnings-related pensions separately, the latter under the corporatist management of labour market partners. They are equally different in family policy, with Finland and Norway on one side, and Denmark and Sweden on another, as they pursue radically different combinations of homecare and outside-of-family services (Gilbert 2008). What they have in common is rather that their arrangements are “ordered”: their safety nets are tight, there are no loose ends, different components are coordinated and reasonably coherent, and protection against poverty is effective.

Order by this definition would primarily reflect the degree to which the welfare state has provisions in place for all the core elements of social protection. These are: (i) a last resort safety net of social assistance; (ii) the main components of social security, such as income security in old age, illness, injury and unemployment; (iii) access to basic health care and welfare services; and (iv) family policy, such as family support arrangements. Second, it would reflect the effectiveness of provisions in respect to their purpose and how well the various provisions are coordinated and work together. In this respect, the question does not concern the design of provisions—for example, whether social security is provided by state or insurance—but rather their functionality. Order versus fragmentation is a spectrum. The question for any specific country is which part of the spectrum its provisions lean towards.

Combining design and order, then, we would find that the Nordic countries are universalistic and ordered, Germany conservative and ordered, and the Southern European, and probably Eastern European countries, conservative and fragmented. The United States is liberal and fragmented (along possibly with the Latin American countries), while Canada is liberal and ordered (along with possibly Australia and New Zealand). South Korea is the typical ordered developmental welfare state, which has graduated into a more typical ordered conservative welfare state.

This all makes for a rather complicated typological map, so identifying where a new member of the welfare state family fits in is not simply resolved by just slotting it into a model pigeon hole, but rather by going through a check-list to establish its characteristics.

In the case of China, the check-list would be as follows:

1. Is China inventing an original welfare state of its own making? If the answer were yes, the task would be to describe the workings of this new model and the rest of the check-list would be academic. But in the more likely event that China is doing more or less what others have done previously, and the answer is no, there would be further check-list of questions to answer.
2. Is China producing a socialist welfare state? There are two main references in previous experience, the predistribution state and the universalistic redistributive welfare state, similar to the Nordic model.
3. Is the welfare state in China developmental? This question is particular reference to the East Asian ‘tigers’, particularly South Korea.
4. Does the Chinese welfare state contain a family policy component? This question concerns existing provisions designed to modify family and gender inequalities, in addition to those that might modify income and class inequalities.
5. Is China producing a hybrid welfare state that combines progressive provisions in some policy areas with conservative or liberal designs in others, as seen most typically in the British case?
6. Is China producing a mainstream liberal or conservative welfare state in comparison to American and German models?
7. Is the welfare state in China— however it is being designed— becoming ordered or fragmented? Are the main components of a welfare state in place and are they coordinated for effectiveness?

A Short History³

Following the formation of the People’s Republic in 1949, the new rulers began establishing a socialist economy. A universal lifelong employment policy was adopted in cities. All able-bodied adult citizens were organized into different *danweis* (work units) through job assignment by the government. Comprehensive welfare packages were provided for workers through *danweis*, which refers to state-owned enterprises, state agencies, government departments, and other organizations in the public sector. Functioning as a self-sufficient “mini welfare state”, the *danwei* system was composed of three basic elements: job tenure (iron rice bowl), an egalitarian wage (big rice pot) and a welfare package (Lu 1989). Prior to the economic reform of 1978, more than 80 percent of the urban labor force was covered by the *danwei* system (Wong 1999). In rural areas, farmers were organized into the communes based on collective ownership of land. Farmers worked for the communes through which daily necessities were distributed. For those urban residents who did not belong to a *danwei*, some social relief programmes were set up to take care of their basic needs. For the poorest rural households, a “five guarantees” system funded by rural collectives was developed to cater for their basic needs (Chan et al. 2008). This welfare regime, though characterized by a sharp urban-rural divide and a low level of welfare provision, provided basic social protection for both workers and farmers (Leung and Nann1995).

Whatever the merit of that vision, it broke down during the Cultural Revolution (1966-1976). China, as of 1978, has embarked on major reforms towards a socialist market economy. The provision of security by way of guaranteed access to jobs or land was

³ This section draws on Lieberthal 2004; Wong 1999; Joseph 2010; Saich 2008, 2011; Chan et al. 2008; and Zheng 2008.

discontinued. Gradually, it was accepted by the leadership that a market economy cannot function without the support of some kind of social protection and that “something” that could function in conjunction with a market economy had to be put in place instead of the old provisions. This understanding, however, took time to mature. What can be described as systematic social reform towards a welfare state did not take off until the late 1990s, initially in the form of local experimentation. Consolidation towards a more inclusive system started towards the end of the decade and progressed into the new century, under the ideological guidance of Hu Jintao, the Chinese Communist Party (CCP) General Secretary from 2002 to 2013, and Wen Jiabao, Premier from 2003 to 2013, and their slogans of “building a harmonious society” and “putting people first”.

The outsourcing of social responsibility from work and production units was pursued in a painful process of trial and error. The old support system was dismantled early on while a new system emerged gradually, tentatively and much later. The interim was a period of policy neglect, social chaos and misery.

In the initial reform period, the leaders faced confusion concerning how to deal with “the social question” they had landed themselves with. On one hand, they believed that social problems would be resolved as a result of economic growth, but on the other hand, they believed that social protection, to the degree that the notion was recognized, was contrary to economic growth. In the initial years after 1978, futile measures were taken to restore the structures of protection that had been destroyed during the Cultural Revolution. These measures were counterproductive and up against market reforms and China, in the subsequent years, found itself in a social limbo with little effective provision for those who were not lifted out of poverty by economic growth. Although it lifted several people out of poverty, however, many were left behind in destitution. In rural areas, the dismantling of collective structures meant that social protection evaporated for most farmers. That included the old cooperative health care system. Rural clinics became private practices, and the farming population was left without access to basic medical care. In urban areas, the policy of full employment was dismantled and replaced—as of 1986—with a system of individual contracts, and enterprises were freed from employment and welfare responsibilities. Workers were laid off en masse and many employers reneged on, or were unable to honour, wage and social obligations, resulting in increasing poverty in the working population. Migrants gravitated towards cities on subsistence wages and without access to any social support. Education, health care and housing became widely unaffordable. Patients without money were rejected by hospitals and students in economic hardship by schools and colleges. The resulting misery gave rise to widespread and serious social unrest, including strike actions, throughout the country during the late 1980s and 1990s, on a regime-threatening scale beyond what has generally been recognized outside of China.

The first phase of serious social reform was to resurrect comprehensive measures for the traditionally privileged groups: public sector and urban formal sector workers. For these groups, urban social assistance, health insurance and pensions were operational by the end of the 1990s. In 2002 and 2003, experimentation with rural pension insurance and rural medical insurance was intensified. In 2006, agricultural taxes were abolished. In 2007, free compulsory education was introduced for rural children and, in 2008, it was extended to the whole country (although not consistently to migrants’ children). In 2007, the leadership pledged to extend the Minimum Subsistence Guarantee to rural China. Migrant workers were, in principle, given access to pension insurance in 1999 and to work injury insurance in 2002. In 2002–2003, migrant workers were accorded

the status of being part of the working class and the right to equal treatment alongside urban residents when applying for work. Urban education departments were obliged to recognize schools for migrant children and to offer these children equal access to education.

These reforms have radically changed the structure of the support system. At the beginning of the reform period, urban households had upwards of 40 percent of their income from social benefits, the bulk made up of food and housing support. By 2007, the share of social benefits in urban household income was down to 20 percent, the bulk now made up of social insurance, with housing and food benefits almost eliminated, as estimated from survey data collected by Gao (2012).

The reforms were backed by legislative, administrative and other policy indicators. The concept of social security was first used in a high-level policy document in 1986, namely the Seventh Five-Year Plan. In 1993, the Party issued a general decision on “the establishment of a socialist market economy system” in which social security was identified as “a normal sustaining mechanism” and the main components of a social insurance system were outlined. (The more general concept of social policy did not appear in a high-level policy document until 2006, in a Central Committee resolution on “building a socialist harmonious society”, although the government had issued a white paper in 2004 under the heading China’s Social Security and its Policy.) In 1994, the State Council issued a “Seven-Year Priority Poverty Alleviation Programme (1994–2000)”. Chinese Women’s Development Programmes have been in operation since 1995. In his political report to the National Congress of the Chinese Communist Party in 2007, General Secretary Hu articulated the theme of social development (the literal translation of the Chinese term is “social construction”) and the right of all citizens to education, employment, medical care, pensions, care in their old-age and housing. In his political report to the 18th National Party Congress in 2012, Hu again stressed the importance of social development, the key objective being to guarantee and improve people’s livelihoods and to satisfy their increasing material and cultural needs. Xi Jinping, the newly elected General Secretary of the CCP in 2012, articulated providing a good life for the people as the Party’s overall goal.

The new Constitution of 1982, with subsequent amendments and additions, introduced various social rights, including the right to assistance from the state, the right to education, women’s rights and the rights of the elderly, of children and of the disabled. Various workers’ rights are included in the Labour Law of 1994. The Law on the Protection of Senior Citizens’ Rights came into force in 1996 and was amended in 2012. A Law on Adoption was enacted in 1999. In 1989, under the Administrative Procedure Law, Chinese citizens gained the right to sue government agencies, a right that has subsequently been used extensively. In 2007, the People’s Congress passed a Law on the Protection of Disabled Persons and a resolution on The Rights of Disabled Persons. Law, however, does not have the same meaning in China as in a rule-of-law system, but these formal pronouncements are nevertheless significant.

In 1998, the Ministry of Labour became the Ministry of Labour and Social Security and in 2008 it was restructured into the Ministry of Human Resources and Social Security (responsibility for social assistance and social service coordination remained with the Ministry of Civil Affairs). In 1999, the Central Committee of the CCP and the State Council set up the National Committee on Ageing to promote and coordinate ageing related policies across the government. In 2006, the State Council set up a Joint Committee on Rural Migration to coordinate rural migration affairs across ministries

and public agencies. The early 2000s saw the establishment of a social work profession and of social work education in China.

The Current System⁴

Two decades of reform has produced a welfare system that stands on three pillars (Zheng 2008):

- social assistance (the basic provision of social assistance),
- social insurance (the main body of social insurance), and
- welfare services.

Social assistance, in the form of poverty relief, is a centuries-old tradition in China, and statutory poverty relief hails back to at least the 1943 Law on Social Relief and Assistance. Today, the main provision is the Minimum Subsistence Guarantee. This gives access to a locally determined minimum subsistence level of cash support, conditional on family income. The relief is locally managed and funded, with some central or provincial government subsidy. Urban residents with urban resident permits have, in principle, been covered since 1999 and rural residents since 2008 (supplementing the existing rural “five guarantees” provision of assistance to “extremely needy” households). Migrant workers are excluded from entitlements in the scheme, but can be partially covered, depending on local practices. Some other forms of discretionary assistance may be available, such as emergency relief, assistance for homeless people and the destitute, and education, medical and housing aid, again depending on local practices. The level of minimum subsistence is low and basic and with large local variations notably between (but also within) urban and rural areas. Both the right to support and the duty of provision are ambiguous.

Public social assistance may be supplemented by various forms of encouraged quasi-governmental and quasi-voluntary charities, mainly in the form of assistance in kind, yet again depending on local practices.

There are five categories of social insurance: pensions, medical, work injury, unemployment and maternity. The basic social insurance is, and will remain, state run and owned. Citizens can purchase additional private insurance, but they cannot opt out of the state system. The general structure proposes that funding be done through social pooling whereby employers, employees, the self-employed and the state—in various combinations—contribute to funds, while entitlements are gained by contributions and, in the case of pensions and medical care, regulated by personal accounts. This model is adapted from previous experiences in countries like Singapore and Chile.

There are three categories of pension insurance: for urban enterprise employees, for other urban residents, and for rural people. The majority of employees in government and party organizations have pension entitlements through separate schemes which are not insurance organized. In some localities, civil servants are covered by the pension insurance for urban enterprise employees. The retirement age is normally 60 for men and 50 to 55 for women.

⁴ The description that follows in this and the subsequent section builds on Saich (2008, 2011), Zheng (2008), the State Council’s 2004 white paper on social security and the text of the 2010 Social Insurance Law.

Enterprise employees, mainly urban, have access to a basic pension insurance, which is obligatory, and may have access to a supplementary enterprise pension insurance. The basic pension is state run on the principle of social pooling and personal accounts. The supplementary pension is additional to the basic pension and is run by the enterprise, or run jointly by pools of enterprises, for their own employees. An additional personal (commercial) pension insurance is encouraged. The aim is that basic, supplementary and personal pensions for enterprise workers should add up to a replacement rate at about 60 percent of the wage at retirement, but that is unlikely to be achieved in any uniform manner in the foreseeable future.

The basic pension insurance is in principle obligatory for employing enterprises and employees. Contributions are paid by both employers and employees, with the employer collecting the employee contributions. Employee contributions go into a personal account, the content of which is personal property. It cannot be withdrawn until retirement or used for other purposes, but any balance in the account on the death of the person is inheritable wealth.

The pension is estimated from employer and employee contributions, the local wage level, demographic (life-expectancy) factors, and overtime indexing rules. Pensions are payable after a minimum of 15 years of contributions, at a level such that members who have contributed for the minimum of 15 years should receive a pension at approximately 15 percent of the average local salary, and with an additional 1 percentage point for every additional year of contribution.

The basic pension insurance is available, but not obligatory, to groups other than enterprise employees, such as the self-employed, migrant workers, workers in part-time or irregular employment, and select urban residents without work—all of whom have to carry all contributions themselves.

Government and the CCP employee pensions, including military pensions, are non-funded, fully covered by government budgets and arranged as defined final salary benefit schemes. These employees have privileged pension entitlements compared to enterprise employees. For example, replacement levels after 35 years of service are up to 90 percent of the salary at retirement.

Except for a small group with prior employment in state-owned or collective enterprises, pensions for rural residents lag behind provisions for urban residents. However, pension insurance for rural residents has been gradually rolled out since 2003 to cover 326 million people by the end of 2011, which is up from 240 million since 2009. It is set up on a similar structure to the basic enterprise pension insurance, including personal payments into personal accounts, but with a collective and government subsidy in the place of the employer contribution. Pensions from the rural system are at a lower level than those from the enterprise system.

The public medical insurance is comprised of three components: basic medical insurance for urban enterprise employees, basic medical insurance for other urban residents and rural co-operative medical insurance for the farming population. The enterprise medical insurance is obligatory for the employing enterprises and employees, with contributions paid by both parties; this medical insurance is available to others, such as the self-employed, who then pay all contributions. The level of contributions in the enterprise scheme is about 6 percent of salary costs for employers and 2 percent of the salary for employees. Enterprises may set up supplementary medical insurance for their

employees. In the non-enterprise medical insurances, contributions are paid by individuals and the state. Contributions to be paid by the unemployed or those on social assistance are subsidized by the state.

The basic insurance is set up to cover a part of the participants' medical expenses – both working and retired (provided they have sufficient accumulated contributions) – but not all expenses or treatments. The portion of medical expenses covered by the basic insurance is settled directly between the social insurance agency and the providing institution. The government provides additional medical allowances and services for government and Party employees, military personnel, and veterans. Social assistance recipients may have access to additional medical assistance. Service provision is through institutions and pharmacies, which are designated service providers of medical insurance and may be private. Community health service centres or hospitals are in operation in both urban and rural areas to provide basic care, and preventive health education and guidance. Health-related social control, such as family planning, is provided mainly by separate family planning service stations or centres.

The new rural cooperative medical insurance scheme was started in 2003 and is now implemented nationwide. By the end of 2011, 97 percent of the farming population was covered. It is a voluntary scheme for rural residents, aimed to cover medical cost for the treatment of serious diseases. Contributions are from central and local governments, rural collectives, and premiums are paid by participating persons. In 2012, the standard financial subsidy for every insured farmer was 240 yuan per year, and the personal contribution 60 yuan per year. Reimbursements from the scheme are very low compared with the basic medical insurance for urban enterprise employees.

Workers who are covered by the enterprise medical insurance scheme are entitled to a fixed period of paid sick leave, based on their years of service. For others, medical insurance does not cover the loss of wages during illness.

The work injury insurance is obligatory for employing enterprises and funded fully by employer contributions (no employee contributions). The contributions are set at a adequate level to cover running expenses and vary across regions, sectors and enterprises according to work injury incidence. There are three main compensations: medical and nursing allowances, disability allowances and allowances for work related deaths, including funeral allowances and conditional allowances for family members. Wages during the treatment period (normally, for up to 12 months) are to be carried by the employer. Employers who evade payment of insurance premiums are liable to cover the insurance benefit. The insurance does not cover the consequences of permanent loss of working capacity nor of self-inflicted injuries, such as those resulting from drunkenness.

The unemployment insurance is obligatory for employing enterprises and is funded by employer and employee contributions. It provides sustenance—living and, conditionally, medical expenses—for unemployed workers for a duration of up to 24 months. There are provisions to support employment or re-employment. It covers urban enterprise employees, employees of select social organizations and privately owned non-enterprise institutions, and, conditionally, urban self-employed with or without employees. Unemployment insurance for migrant workers, who have labour contracts with urban institutions is under consideration. Non-employee residents are not included, such as farmers who have lost farmland due to, for example, local government expropriation.

Re-employment policies include the issuing of re-employment support certificates, support of vocational training, other forms of re-employment and job-seeking training and assistance, and the encouragement of self-employment. Absent in the Chinese system, including in social assistance, are work-fare provisions (conditional support for those actively seeking work), something that has in other countries become a standard component of the welfare regime.

In the maternity insurance, female employees have a right to compensation for the loss of salary and for medical expenses during childbirth (or undergoing abortion). The insurance is funded fully by employers at a regionally differentiated rate of no more than 1 percent of the employer's salary costs. The birth allowance entitlement is at a local average salary level and for no less than 90 days.

Welfare services are, traditionally, a local responsibility and have been provided for the most disadvantaged groups, such as the poorest elderly, orphans and disabled persons. Provisions continue to be selective. Social services for the elderly are targeted to needy or extremely needy groups and integrated into the urban and rural social assistance systems. Services are mainly distributed through institutions (senior citizens' homes), which provide accommodation, in-house services, emergency aid, daytime care, health and rehabilitation services, and recreational services. Most townships and urban communities have established institutions of this kind.

Social services for children are targeted to orphaned, abandoned or disabled children and are provided mainly through institutions (children's welfare houses, boarding schools and the like). Adoption and foster care is encouraged.

Social services for disabled persons are targeted to persons with disability certificates and are provided in the form of basic subsistence guarantee (social assistance), special disability allowances, special education, rehabilitation and employment services.

Military personnel, veterans and family members have access to a special care and placement system with preferential access to social care and pensions, medical care, housing and other services for retired personnel.

Public housing was a central component of social support in the pre-reform period, however, it has now been discontinued. Public housing property has been mostly privatized through subsidized purchasing. What remains of housing policy is limited to the injection of affordable housing into the housing market and subsidized mortgages. This represents an unloading of state social responsibility onto private wealth accumulation through home ownership. Although this has been quite successful in most urban centres in the creation of a new property-owning class, it has come at the price of undermining the poor's access to affordable housing and new inequalities and class divisions.

Absent in the Chinese model is any articulated component of family policy.

What Kind of Welfare State?

This description of the Chinese welfare model as it stands today, must be accompanied by significant disclaimers. All the components listed above exist and are in operation. However, there are significant divisions, differences and shortcomings across the system in implementation on the ground. The description, therefore, should be read as

reflecting, on one hand, operating policies and, on the other hand, policy aspirations. Actuality and aspiration cannot be stated in any precise manner.

The system of funded social insurance is in the making, with huge unresolved problems of implementation pending. The main aspirations involve moving the management of social security from enterprises to state and societal agencies, in order to create more uniformity across sectors, more equitable provisions for workers in state owned and private enterprises, and start the building up of funds to help finance future needs.

The collection of social insurance contributions and the distribution of benefits are in the hands of county social insurance bureaus, operating through local sub-offices. (The county is the second level of local government, below the provincial and above the town and township levels.) Both contributions and benefits are to some degree at the discretion of local authorities and are not uniform across the country.

The plan is to collect more in contributions than is paid out in claims, thereby to accumulate enough social insurance capital to underwrite future claims. This is to manage the growth in claims that are coming down the line with the ageing of the population. The capital is to sit in funds, the management of which, according to the 2010 Social Insurance Law, is to be gradually centralized to provincial governments, and in the case of pension funds, to the central government. This centralization is ongoing, against much local resistance, on an unspecified timetable.

There are built-in impediments to establishing the structure with local collection of contributions, payment of claims and central control over the capital. Although outlays are supposed to be covered by contributions, local authorities also have the power to define provisions based on local circumstances and that the central government is the last resort financier to cover any deficit. This gives all authorities below the central government an incentive to keep contributions low. Furthermore, since any surplus is shifted up the chain, county governments have an additional incentive to keep contributions low, or if they run a surplus to siphon it off for their own use. These incentives are strengthened by a regulation whereby surplus social insurance capital is to be invested mainly in central government bonds, which yield notably low returns. Both provincial and county governments may therefore have an interest in putting their capital to better use locally rather than to pass it up the chain, into the hands of central authorities.

The experience so far, as confirmed in official audits,⁵ suggests that the system, in all components of social insurance, is rife with irregularities, such as non-participation by enterprises, shortfalls in contributions, mispayment of benefits to non-eligible persons, excessive overhead costs, and considerable local misappropriation of social insurance funds, including by corrupt means. Although the system as a whole, according to official statistics, is running at a surplus, there is, as yet, very little accumulation of capital. What, in theory, is becoming a system of funded social insurance, de facto continues to be run on a pay-as-you-go basis so that by and large today's contributions pay for today's benefits (*Economist* 11.08.2012).

In 2000, the central government established a National Social Security Fund which is managed centrally under the National Council for Social Security. This fund operates partially as an international sovereign investment fund and absorbs other capital that the

⁵ See www.audit.gov.cn/n1992130/n1992150/n1992500/3071265.html, (website in Chinese).

central government may allocate for social security. It is to be used to meet central government obligations throughout the system, such as to smooth out local variations, and to underwrite future demands.

With the provisions that are now in place, China is approaching near universal access to basic components of social protection. However, this statement needs to be qualified in five ways.

First, access is moving towards near but not fully universal. The 2010 Social Insurance Law carefully envisages wide coverage. The main remaining and unresolved exclusion is of migrant workers, perhaps up to 250 million people. There are two reasons for this. One is the household registration system, the *hukou*, whereby most migrant workers have social rights where they are registered but not where they work. There is ongoing consideration and local experimentation on replacing the old *hukou* with a nationwide resident permit system, which would give migrants social rights where they work. However, there are many impediments, including local resistance, and no firm decision on this has been taken. The second reason is that migrant workers are widely considered second-class citizens and massively discriminated against even in the rights that they have.

Second, while access is approaching near universality, provision is not. For various groups— namely, the self-employed and irregular workers— participation in social insurance is voluntary and expensive, since they have to pay all contributions themselves. Even where participation is legally compulsory, as it is for most enterprise workers, there is widespread non-compliance and many enterprises fail to sign up. Social insurance entitlements are intended to be made portable so that workers retain them when changing jobs or relocating, but exactly what entitlements are portable is not clear and the practicalities of portability are not in place.

Third, what there is access to is inadequate and not uniform. Social assistance has low efficiency in that the level of support is generally inadequate for protection against poverty, provisions are often poorly managed, and there are built in rigid work disincentives, poverty traps and dependency distortions (Zheng 2008). The Minimum Subsistence Guarantee is plagued by targeting errors, with very limited anti-poverty results being achieved (Gao et al. 2009; Gustafsson and Deng 2011). Welfare services are minimal. There are missing components, notably the dimension of family policy and income security during illness. In social insurance, there are regional and occupational variations in provisions, including between government and enterprise employees and urban and rural residents. These tend to work to the disadvantage of migrant workers. Civil servants, Party and military personnel, and some other state employees form a privileged group in terms of pension and health care provisions. Other privileged groups are honorary pensioners and holders of certificates, such as re-employment support certificates and disability certificates.

Fourth, the central government's intentions may be locally mismanaged, ignored or sabotaged. Local authorities have a great deal of autonomous power in the system. They have the power to interpret implementation duties and to regulate programme coverage and benefit levels. They can decide on the degree of inclusion or exclusion of migrant workers. They hold power over social insurance capital and have the power to divert these funds to uses of their own. They have vast spending responsibilities but also revenues of their own, such as land rent, and have the power to raise debt, which they may or may not be able to honour. Local authorities can spend money at their discretion

and according to available funds. For example, affluent local authorities can be generous, including through social provisions of their own. Local authorities also have the power to disregard national social security provisions. One example is in schooling. Although compulsory education is in principle free, schools and local authorities widely impose implicit fees on parents, which they may be coerced into declaring as voluntary contributions, and extract other forms of payments in “a state run education system overrun by bribery and cronyism” (*New York Times*, 22.11.2012). The result is a system with limited and unequal implementation and vast and complex inequalities of provision across localities.

Fifth, in such a large and complex country as China, provision – the bringing of benefits and services to claimants and clients – is extremely difficult. Social assistance and social service benefits are provided by local government agencies and social workers, often with low capacity and not always with good will. Social insurance cash benefits are provided through local social insurance bureaus, which may be inefficient or corrupt. In both social assistance and social insurance, the payment of benefits and entitlements is poorly targeted and widely misallocated. Social insurance benefits in kind, such as health care, are provided by service institutions and practitioners, all of which—private or public—operate on a fee-for-service basis. This complexity, along with that of government levels, contributes to the pattern of vastly differentiated provisions across the country.

To facilitate provision, the government is encouraging the participation of quasi-voluntary agencies. These may be genuinely voluntary, such as the YMCA, or quasi-NGOs set up by government agencies. Their operations are, for the most part, fully or partially funded by local governments. They are strictly registered, regulated and monitored. These agencies operate under government auspices and supervision and do not collectively form what might elsewhere be considered a network of civil society institutions.

All considered, today China operates an extensive system of public welfare. This is primarily a social insurance system, biased in favour of the urban population, and with minimal and disjointed supplementary provisions, including last resort poverty protection. It is without universality of coverage or provision and with deep inequality of treatment between population groups. There is not one welfare state, but many and radically different ones. The great divide is between the urban and rural populations. Gao describes the urban welfare state as “similar to those in western industrial countries” and the rural welfare state as “similar to those in the least developed countries” (Gao 2012). While urban households receive about 20 percent of their income from social benefits, that share for rural households is a mere 2 percent. Between these two groups is the large population of migrant and other irregular workers, who have notably inferior social rights compared to regular urban residents.

Model Summary

We can now return to the check-list from the beginning of the paper and summarize the characteristics of the welfare model that is coming into place.

First, is the Chinese welfare model original? The answer is no. What has emerged in the reform period is in all respects tested and conventional. While the future goal is to improve the implementation on the ground of the provisions that are now formally in place, there are no plans for any new directions of reform. The 2010 Social Insurance

Law codifies existing practices with no new principles of social protection proposed. The structures of social assistance, social insurance and social services that are seen to be necessary and appropriate are now thought to be in place and what remains is to make them work. There are no plans for systemic improvements in social assistance or in basic protection against poverty.

Second, is the Chinese model socialist? The answer is no. The initial thinking in communist China demonstrated a scepticism of welfarism and was in favour of perfecting a predistributive state on Soviet principles. That bold idea collapsed and when the leaders began to recognize the need in their market economy for social protection, what they initially sought were practices typical of capitalist, rather than socialist economies, grounded on a principle of basic protection (2010 Social Insurance Law, Article 3). There is no ambition or intention, even among the most eager social reformers, of aiming for any kind of social democratic universalism. There is a degree of statism in the keeping of the capital from basic social insurance, but not supplementary social insurance, under state control, but that hardly makes for a uniquely socialist welfare state and is, for example, a lower level of state control than in the Norwegian and Swedish “people’s pensions”.

Third, is the Chinese welfare state developmental? The answer is no. Superficially, there are many common features with the developmental experience in other East Asian economies – the supremacy of economic development, cautionary social provisions and a low level of public social spending. However, what makes a welfare state developmental is a proactive use of social protection as an instrument of economic development. That does not fit the Chinese case. Here, the official line, as a formally issued government guideline, has been “efficiency first, equity second” (CCP 1993). The 2010 Social Insurance Law, in its preamble, sees social protection as following from economic development, only as it becomes affordable. Social reform was not introduced early in the developmental phase but followed later when the necessity of welfare lubrication was understood, the adverse social consequences of “GDP-growthism” could no longer be swept under the carpet, the country was mired in social unrest, and some investment in welfare was seen to be affordable. Early reform was helpless and ineffective, as seen in the experiment with microcredit arrangements for poor households (Saich 2011). This is in contrast to a similar policy in the Republic of Korea, known there as the *Saemaul* (New Community) Movement, in which developmental seed-money was distributed from the state in rural areas in ways that stimulated vast local resources to be invested into development projects and succeeded in giving the rural population a feeling of being part of and integrated in the overall economic progress and modernization (Ringgen et al. 2011). Other contrasts are in occupational welfare and the role of voluntary agencies (NGOs). In Korea, the earliest effective method of social provision involved the government coercing employers into providing occupational welfare and into being at least somewhat better employers than they were inclined to be. In China, employers were freed from employment and social responsibilities. In Korea, the government mobilized voluntary agencies on a grand scale for the delivery of social services, something that enabled the regime to be social beyond its economic and administrative resources. In China, the government has been hesitant to allow NGOs any autonomous role and has kept NGO involvement on a low scale and under tight control.

Fourth, does the Chinese welfare state include provisions for family policy? The answer is no. Although maternity leave is quite generous, there is no articulation of any policy regarding economic and service support for child care and gender equity. Official

pronouncements in favour of women's interests and rights are mainly ceremonial. Village committees are obliged to earmark one post for women's affairs, but these posts are generally ineffective. China remains a rigidly gendered society with practices far removed from any notion of gender equity, both within and outside of family life (Lieberthal 2004). Domestic violence is widespread and family tensions frequent, including from abusive in-law relations. The one-child policy has placed heavy practical and psychological burdens on young women in the form of contraception responsibility, sterilization, abortion and pressure to produce sons. There are unusually high suicide rates among women, in particular rural women.

Fifth, is there a hybrid welfare state in the making in China with some notably progressive components? The answer is no. There is consistency in what is being built: a low-level social insurance supplemented by the state in marginal social assistance and welfare services. Nowhere in this design does any component stand out as more progressive than it should be—for example, no national health service is envisaged, nor a rights-based system of social assistance.

Sixth, does the Chinese system that is coming into place fit the remaining main models of an either liberal or conservative regime? Here, paradoxically in a communist state, we are getting nearer to a yes answer. If anything, the Chinese welfare state is a hybrid of the least progressive models in previous experience. With the strength of statism within the system, demonstrated in the control over social insurance capital, it is hardly liberal. Nevertheless, there is ample space for private insurance, mainly in the supplementary pension and medical insurances. What seems to offer the best fit is the conservative model. The design is cautious, aimed to provide security but on no more than a basic or minimal level, with the core mechanism of insurance divided along corporate lines and wrapped into a package of more or less traditional Chinese state paternalism.

Finally, is an ordered welfare state in the making in China? The answer is no. Social assistance is inadequate and those in need are not protected against the potential consequences of ill will or the incompetence of local authorities. There are missing components, notably the dimension of family policy and income security during illness. In social insurance, the scaffolding is up but the actual building work is being undertaken amid much hesitation. There are huge shortfalls in the implementation of even obligatory provisions. Social management is poor in quality and arbitrary in implementation. Migrant and irregular workers, and the children of migrant workers, are without the rights that are otherwise mandated by the system. The aspiration of securing long-term sustainability by transforming a pay-as-you-go system into one of funded social insurance is moving forward hesitantly and is far from being under firm central government control. Coordination between central and local authorities is poor and often conflictual. Regional and occupational differentiation is rampant. Welfare services are minimal and inequitable. Components are poorly coordinated and the system rife with inequality, non-implementation and arbitrary practices. Improvements in the direction of order are likely to come in time, but the system of social protection as currently defined, even if made to work reasonably well and as intended, is not one that will afford the Chinese population almost complete protection against poverty.

In terms of the economic and political hypotheses on the relative strength of economic versus political forces in welfare state development, the Chinese story, so far, supports the economic end of the hypothesis. In China's communist party-state, we should have expected a welfare state of purpose, which is to say, in some meaning, a socialist

welfare state. What we have found, however, is a reactive welfare state of mere economic necessity. The People's Republic is producing no new or original welfare regime, not in theory or in practice. The idea of wrapping a welfare state around a society as big and complex as the Chinese one is audacious. For a developing country, there is no question that what has been achieved in a short time is substantial and impressive. However, what is being achieved is coming late in the development process and achieved with much hesitation. The welfare state that is emerging in China is one without novelty and is not guided by an idea of purpose, rather serves as a support system for the market economy. It is not, and is not seen to be, an instrument in the transformation of a brute market economy into a qualitatively different "socialist" market economy. In the universe of welfare state experiences, including that of East Asian developmental welfarism, the welfare state in China is limited and defensive in both ambition and practice.

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