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## **The Territorial Politics of Social Protection in China: Local Governments as an Emerging Locomotive of Policy Learning and Diffusion**

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### **Introduction**

The restructuring of welfare institutions in China has attracted growing academic interest in recent decades, mainly in response to the emerging phenomenon of active state involvement in the issues of social protection. Current analyses address several pertinent dimensions. The first and most common approach focuses on the function of social policy related to the provision of policies for the well-being of disadvantaged citizens, as well as the means to mitigate the widening social cleavage (Duckett, 1997; Hu, 1997; Saunders and Shang, 2001; Leung, 2003; Guan, 2005). Several international organizations such as the World Bank or the International Labour Organization have also actively engaged with this aspect and proffered policy advices (World Bank, 1996, 1997a, 1997b, 1997c, 2001; Gruat and Thompson, 1997; Rohregger, 2001; Drouin and Thompson, 2006). The second group of studies explores the development dimension with regard to the scope and extent of welfare reforms in the wake of economic reforms since 1978. With concepts such as “marginalization” or “privatization”, scholars seek to portray the trend of shifting welfare responsibilities among the state, society and individuals, which has significantly altered the Chinese welfare systems from socialist to (welfare) pluralist logic (Leung, 1994; Leung and Nann, 1995; Wong and Macpherson, 1995; Wong, 1998; Lee, 2000; Wong and Flynn, 2001). Still another group of scholars pays attention to the culture dimension underlying the ongoing welfare reforms. In their view, the emphasis of traditional Chinese culture on the value of family and community offers a rationale for the state to eschew public welfare responsibility. It is thus little wonder that the state places economic development central stage, while assigning social policy a subsidiary role on this cultural ground (Chan and Chow, 1992; Chang, 1993; Chen, 1996; Wong, 1998).

In general, these various viewpoints that concentrated on the state intervention in or retreat from the social provision have contributed to our understanding of current welfare reforms in China. Yet, they also demonstrated their inability to provide a comprehensive illustration of the Chinese experience, essentially for three reasons. The first group of studies almost exclusively centred on the policy analysis, thereby

falling short of any appropriate account of the institutional settings and political processes that have ultimately led to these outcomes. In addition, current research on Chinese welfare has explicitly taken the nation-state for granted, leaving the territorial politics in China out of the analytical horizon. While the central government indeed remains a key policymaker in the realm of social protection, the active involvement of local governments in social provision has emerged as a conspicuous phenomenon. Finally, although the cultural account did touch on the issue of normative foundation underpinning the Chinese welfare reforms, the way in which these ideas came into play in the policymaking process remains opaque. Obviously, two crucial explanatory factors are still missing in the academic landscape of Chinese welfare studies: territoriality and welfare ideas, which require an adequate conceptualization to link both together.

The idea to take both territoriality and welfare ideas into consideration is an attempt to integrate two strands of research in China studies which have thus far led separated lives. The first strand encompasses a large body of literature dealing with the decentralization trend and its impact on the Chinese politics (for an overview, see Saich, 2004: 121-179; Zheng, 2007: 1-30). Scholars interested in central-local relations have long wondered how governance was possible for a big country like China which exhibited a high degree of regional disparity. Especially when China began its reform in the late 1970s, the question regarding the adaptability of political institutions to the drastic socio-political changes has become even more acute, as the traditional totalitarian model in terms of a unitary state (i.e. central government) seemed increasingly obsolete. Instead, local governments have gained more and more autonomy in fiscal and administrative jurisdictions, as well as more capacity to tackle local problems. In order to figure out the complex state structure during the political decentralization, researchers have suggested several concepts to describe the interaction between different layers of governments, ranging from the pluralist, structural to the cultural models. Zheng (2007) goes even further to label the Chinese political system as 'de-facto federalism', claiming that central-local relations have become highly interdependent. Decentralization has been institutionalized in terms of explicit or implicit bargaining or reciprocal exchange between the centre and the provinces. While this is clearly not the place to discuss these approaches in detail, it suffices to note that a consensus has emerged among the scholarship that the territorial dimension in terms of local policy activism stands out as a crucial factor in the Chinese politics (Oi, 1999; Yang, 2004; Zheng, 2004). Given the rising importance of local governments, however, their role in the social policymaking has regrettably caught scant attention from the scholarship of Chinese welfare studies.

Equally little noticed is the second strand of literature which deals with the

ideational dimension in terms of how normative orientations of the political actors bear on the development of Chinese social policy. Only a few works have already made preliminary attempts employing the ideational approach in this respect, highlighting the salience of ideas in the development of Chinese social policy (White, 1998; Lin, 2001; Béland and Yu, 2004; Shi, 2006). This is surprising given the increasing academic interest in local policy innovation, at least in other policy domains such as the economic development (e.g. Qian and Stiglitz, 1996; Chien, 2007, 2008a, 2008b). Scholars of regional studies have engaged with the phenomenon of local experimentation with new policies and institutions to promote economic growth, and explored the incentives and mechanisms behind these local initiatives. Here policy innovation within and diffusion among the regions come to the fore: Local governments preoccupied with the promotion of local economic development either explore new approaches or look to the neighbouring regions for policy inspirations. In the realm of social policy, similar trends are also on the rise. As noted above, although there have been several works addressing the cultural substances underlying the welfare reform paths, exactly how these ideas came into play in the policymaking process still lacks a clear explanation.

The above discussion of the literature on territoriality and ideas has indicated the need to integrate both strands in the study of Chinese social policy. Whereas the former mainly focused attention on the economic development policies, the latter tended to place the analytical locus merely on the national state (i.e. activities of the central government), thus leaving the sub-national efforts in this regard largely unattended. This result is far from satisfactory in view of the increasing social activism on the part of the central and local governments in recent years. This article starts from this observation and seeks to fill the lacuna by employing the institutional perspective which has recently emerged in the literature on 'new regionalism' and 'territorial politics' (McEwen and Moreno, 2005; Obinger et al, 2005; Keating, 2008). Despite their various academic interests, a common theme among these works has converged at the observation that the political-institutional configurations of federalism have a crucial bearing on the (trans-)formation of national welfare developments, and that the territorial dimension of welfare needs closer examination.

In the Chinese case, the essential question arises with regard to why and how certain social policy ideas become widespread or fail to gain prominence within this specific Chinese institutional context. A further question that needs to be clarified is related to the impact of ideational diffusion on nationwide implementation, namely what are the consequences of the local policy learning for the overall development of Chinese social policy? In order to answer these questions, I suggest combining the

theoretical perspectives of the territorial politics literature (McEwen and Moreno, 2005; Obinger et al, 2005; Keating, 2008), and the discussion of central-local relationship in China to analyze the active role of local governments in Chinese social policy. Although these works deal with different countries with diverse political institutions, they invariably point to the close relationship between federalism and social policy. Inspired by these works, the following analysis will unfold a theoretical framework in the next section discussing the institutional configuration of central-local relationship in the Chinese political institutions, as well as the role of local governments in policy learning and dissemination. The penultimate section follows the theoretical discussion and analyzes empirically the pension reform and the introduction of a new social assistance scheme. The final section concludes the findings and reflects on their implications for Chinese social policy.

## **Territoriality and Policy Diffusion in Chinese Social Policy**

### *Local Governments in Chinese Political Institutions*

Although the Constitution of the Communist China formally declares that it is a unitary state, it does not specify the relationship between centre and locality. This ambiguity has given the local government ample room to bring about their own developmental strategies often deviant from that set by the Centre. Indeed, many studies have confirmed that the local innovations aimed at promoting economic development have greatly contributed to the overall success of China's reform since the late 1970s (Walder, 1995; Oi, 1999; Chien, 2007). In numerous cases, local experiments have led to later path-breaking nationwide reforms even in the absence of the central government's command (consent), ranging from the agricultural decollectivization to the establishment of Special Economic Zones in the late 1970s and 1980s. Shirk (1990) even noted that Deng Xiaoping's reform strategy was dependent on the support of reform-willing provincial governments in the face of recalcitrance from Deng's opponents in Beijing. Local governments have since then emerged as a critical counterweight to the Centre. Especially since the 1990s, the provinces have proven crucial to the Centre in terms of providing incubators for fine-tuning reform policies and allowing flexibility with implementation. The Centre also provides the power of discretion to the provinces to flesh out the details for eventual national legislation.

The relationship between the centre and the locality has undergone significant changes during the reform. One of the defining features of the Chinese decentralization path is its asymmetric character: Whereas in political sphere the central government retains its tight control over the cadre nomination and

appointment, it intentionally leaves ample leeway to the localities to grope for their own developmental paths. Economic decentralization has been accompanied by a strengthening of the Communist party's political control (Huang, 1996; Cheung et al., 1998; Chien, 2007). A major component of party elite evaluation in the appointment, management, and promotion of local cadres within the *nomenclature* system lies in their merits with this regard. With the 'target responsibility system', guidelines are set by the upper authorities to standardize and systematize evaluation of cadre performance on a wide range of functions at the local level (Whiting 2001; Edin 2003; Tsui and Wang 2004). With various targets set by the upper-level governments, ranging from economic growth to birth control quota, local cadres are in effect obliged to achieve them, as their performances will be evaluated upon a set of indicators based on the targets. In other words, political accountability in Chinese political system is directed upwards at the upper tier of government rather than downwards at the public as it is normally the case in democratic societies (Chien, 2008b).

Equally vital to the autonomy of local governments is the structure of the fiscal contracting system institutionalized in 1988, which experienced a further overhaul in 1994, thereby transforming a province-collection, centre-spending fiscal regime to an essentially self-financing regime for both the centre and the provinces (Zhang, 1999; Lee, 2000; Yang, 2004). The reforms introduced the tax-sharing system, and formalized it in the Budgetary Law that came into effect in 1995. In addition to the value-added tax, resource tax, and securities' trading stamp tax, which the provinces are to share with the Centre, local governments have now the discretion to collect local taxes (business taxes, urban land-use tax, etc.). The fiscal reform has tremendously improved the provincial fiscal conditions, and consequently their administrative abilities to boost local developments. However, given the inegalitarian development strategy China has adopted since the reform era began, the consequence of regional variation and inequality is reflected in the difference of fiscal strengths among the provinces, with well-off coastal provinces generally enjoying more powers compared to their poorer interior counterparts.

As the provinces have gained more and more powers in fiscal and administrative dimensions, the Centre has sought to integrate provincial leaders into the national decision-making framework (Tanner, 1999; Saich, 2004). The Central Committee of the party has been enlarged to include provincial personnel, and this percentage has risen over time. Even among the Politburo members, the provincial leaders, either incumbent or former, consist of a significant proportion. Yet, one thing we need to bear in mind is that, although provincial actors are included in the national policy-making process, ultimately the central government wields the power over

appointments of crucial local leadership, which makes it difficult for any provincial leader to defy the Centre at any cost. Against this backdrop, it is precisely Beijing's intent that each province or region should carve out its own model to development, i.e. take advantage of regional comparative advantage to stimulate economic growth. Outstanding performance in local governance is an essential prerequisite for the further promotion in personal career. Given the vast differences among the regions in terms of socio-economic and societal homogeneity, this asymmetric decentralization has created a strong incentive for local cadres to bring about effective strategies to promote economic and social developments.

This institutional framework of central-local relationship has at least three important implications for the interaction among the regions:

- i. Since economic development and revenue generation lie in the interest of local governments, regional competition has often intensified as each locality seeks to gain the edge in attracting capital investments from outside (Walder, 1995; Oi, 1999; Chien, 2007, 2008b).
- ii. As local governments compete to spur economic growth, enormous variation has arisen among the regions in the last decades, not only in economic sphere but also in the provision of public goods and services. Scholars have identified various types of local development depending on natural endowments and leadership style of respective regions, such as entrepreneurial, developmental, clientelist or even predatory ones (Baum and Shevchenko 1999; Wank, 1999; Duckett 2001).
- iii. The most pertinent implication for our analysis is the aspect of policy learning among the regions. Laggard inland regions tend to emulate the success models of the coastal areas (leading regions) in order to catch up (Chien, 2008a). Cross-regional policy diffusion has thus emerged as a vivid phenomenon as a result of the decentralization trend.

Following the above analysis, it is clear that both central-local and cross-regional relationships essentially shape the contour of Chinese social welfare, especially when it comes to policy learning and diffusion. The crucial issue that needs further clarification is how and under what circumstances these processes take place in the making of social policy. Here the role of local governments in policy learning and diffusion merits particular attention.

### *Policy Learning and Diffusion by Local Governments*

Many researchers have attributed China's rapid economic development to the active efforts of local governments (Walder, 1995; Oi, 1999; Shirk, 1990; Whiting,

2001). In the context of 'reform and open' policies, local cadres have been encouraged to engage in programmes conducive to regional developments, with their personal careers rewarded or punished by this criterion. This achievement-oriented and merit-based personnel policy of the Communist party has, together with the administrative and fiscal decentralization, effectively monitored local cadres' behaviour and brought forward regional competition in favour of economic growth. As a result, regional variation in terms of developmental strategy and growth path has persisted throughout the reform era, which has led to wide social disparity among the regions. Given this regional variety as a consequence of the devolution of powers to local levels, social policy development in China has in its nature a strong territorial character. As is the case of economic development, local governments are ultimately the main agency for social policy implementation within Chinese political institutions. Since local territorial governments usually fund operations of central government ministries, policy implementation is within the scope of local governments' responsibilities to render budget and staff supports. Figure 1 shows the proportion of local governments' funding in the overall social spending, which has risen continuously in recent years, whereas that of the central government remained largely unchanged.

[Figure 1 in here]

Although the extent of local governments' autonomy in their discretion regarding the implementation of central government's policies remains controversial, few scholars would disagree that central policy can be discounted or even undermined at local levels. Edin (2003), for example, points to the Centre's limited capacity of surveillance, rendering it 'selectively effective' in implementing 'priority policies'. In other words, non-compliance in the transposition of the central policy has become an institutionally ingrained problem which the Centre can barely resolve but take into consideration in the policymaking. On the other hand, social policy implementation is equally tricky from local officials' perspective. Since many social policies in China are not regulated by welfare laws but by directives, decisions, circulars and proposals issued by the State Council and its ministries, local officials may find it difficult to interpret correctly the Centre's message and implement new policies (Chan et al., 2008: 9). In short, a cognitive gap can appear between the central and local levels as both sides have to assess the possibility of anomaly in the bureaucratic routine. Incongruence within political institutions makes mutual bargaining and cooperation necessary. It is against this background that policy learning and diffusion are an important part of the story in Chinese social policy because each tier of government has to acquaint itself with the limit of policy interpretation and implementation.

Given this institutional configuration of the Chinese political system, it is clear

that the outcomes of social policy learning depend largely on the institutional preconditions, political processes and policy priorities. Each sub-domain has its own policy dynamics, and this has been particularly the case since the 1990s, as the central government launched far-reaching reforms in both the urban and rural sectors. During the welfare reforms, both the Centre and localities have embarked on a series of pilot schemes in an effort to explore models tailored to national and local circumstances. Similar to the global diffusion of public policies, several types of idea diffusion have taken place in these processes in China, namely coercion, competition, and policy learning (Dobbin et al., 2007; Chien, 2008a). In the first place, regions would adopt isomorphic policies upon the formal regulations of the central government, as the latter retains certain degree of powers to control the behaviour of local leaders. This happens mostly in reforms of existing welfare institutions such as the insurance programmes of the state-owned enterprises, in which a lot of political and social risks are at stake. Secondly, the Centre can ‘reward’ the obedience of the localities through the distribution of subsidies or make room for them to compete for grants, thereby exerting pressures to move toward policy innovation (race to the top). A good place to set this mechanism into operation is the poverty alleviation programme or similar social security schemes especially for the poor inland regions. Thirdly, there are also situations in which both the goals and means of policy tools seem ambiguous to the Centre and localities, making it necessary for them to seek domestic or even foreign examples to emulate; or in case of none available, the localities are encouraged to establish pilot schemes in search of applicable models. New policies in response to new social risks can witness such ‘peripatetic’ learning, as is often the case in rural social policies (migration, poverty reduction, etc.).

It is important to note that these mechanisms of policy diffusion tend to take interwoven effects in different social policy domains (Chien, 2008a). As local governments follow the coercive regulations of the Centre, the latter may merely outline policy guidelines sketching the common policy goals, leaving the former certain leeway to compete for best practice or learn from other well-tried models. I refer to this specific way of idea diffusion in China as ‘policy learning from within’, as opposed to the common perception that the learning process is mainly geared toward emulating foreign experiences. Although these did attract the interest of the Chinese policymakers, they often tend to examine foreign examples through the lens of ‘practicability’, as manifested by the slogan ‘practice is the only criterion to test the truth’. Prime examples of this kind are the pension reforms and the new social assistance programme ‘Minimum Living Standard Scheme’ (MLSS). Both policy domains manifest interesting traits of local policy learning *à la chinoise*, albeit in a different fashion. Pension reforms represent the ‘retrenchment politics’, which took



courses from the very start under the steering of the central government which sought to find adequate new ideas that could transform the lethargic socialist pension system. Yet, the process of policy diffusion was characterized by outright conflicts of ideas and interests between the Centre and localities within a given fragmentary and decentralized institutional framework. By contrast, the introduction of the MLSS earmarks the ‘expansion politics’, which took place at first in well-off big cities which were confronted with the problems of urban unemployment and poverty at a much earlier time. As an emerging new policy field, the MLSS took shape initially in the pre-emptive policy formation of the local governments, only to witness further nationwide expansion even to rural areas when the central government required other laggard regions to follow suit.

## **Policy Diffusion in Pension Reform and New Social Assistance Scheme**

### *Pension Reform: Coercive Learning within Decentralized Institutions*

China’s urban pension reform has been closely coupled with the restructuring of the socialist welfare arrangements within the state-owned enterprises (SOE), which provided employees with benefits covering housing, pensions, medical care, workplace injury, and maternity during the period of the planned economy. In the reform course to move toward market economy since the 1980s, it became clear that the SOEs could no longer finance these benefits alone. Although the central government was aware of the necessity to shift from ‘enterprise protection’ to ‘social protection’, it also realized that the fragmented enterprise pension systems with regional variations would impede any substantial reform progress (Smyth, 2000; West, 1999; Chow and Xu, 2001; Whiteford, 2003). China started experiments of alternative pension options in the mid-1980s. Under the new contract workers’ scheme in 1986, both enterprises and contract employees were obliged to pay contributions to a funding pool.<sup>1</sup> The new policy marked a farewell to the traditional socialist system of occupational welfare by a further stride towards multi-pillar insurance. Yet, the reform of 1986 only dealt with the contract employees and left out other types of workers. The effect of financial pooling soon proved insufficient in coping with the mounting burden of coming pension expenditures.

Against this backdrop, the State Council’s decided in 1991 to introduce a

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<sup>1</sup> Based on the State Council Document 77 of 1986, Enterprises contribute 15 percent of contract employees’ total wages and contract employees make an individual contribution of no more than 3 percent of their standard wages. Pension pooling covers the following items of benefits: pensions, medical fees, death compensation and funeral expenses, survivors’ payments and relief.

nationwide new system of old-age pensions for state-sector employees. Envisaged was the introduction of a multi-tiered pension scheme for employees of state-owned and collectively-owned enterprises. According to the plan, all SOEs were due to set up contributory pension funds for their employees, and other types of enterprises such as collectively-owned enterprises, joint ventures, and urban private enterprises should follow suit. The state, SOE and individual employees were to share contributions to the pension insurance altogether (the state contributed by preferential tax treatment while the other two parties paid contributions on a monthly basis). In addition, bigger enterprises in sound financial conditions could establish their own supplementary pension schemes. An optional benefit based on individual savings was also encouraged. Employees could participate in programmes according to their own financial capabilities.

Noteworthy is that the reform of urban pension insurance proceeded within given constraints, such as the existing pay-as-you-go (PAYG) financing arrangements and the fragmented regulatory structures. Given the political priority afforded to the reform of urban pensions as a crucial factor to the success of SOE restructuring in the 1990s, accommodating these institutional factors has become a governance challenge for the central government in its efforts to seek out adequate policy ideas while simultaneously coordinating all of the contradictory interests (Shi, 2008a). In addition, the issue of how to incorporate individual accounts into a PAYG pension system with socialist legacy remained unclear to the policymakers. This ambiguity left room for a subsequent clash of policy ideas among ministries with overlapping authority, notably between the Ministry of Labour (MOL) and the State Commission for Restructuring Economic Systems (SCRES). Thus, under the latter two's instruction, several localities including Nanchang and Shenzhen city, Fujian and Hainan province launched various pilot schemes in order to explore various models pertinent to the reform idea.

At this stage, controversy persisted among the different ministries and local governments with regard to the precise contents of the individual accounts, and how the combination might work within the existing state pension system.<sup>2</sup> In the central government, the MOL and the SCRES failed to reach agreement over this issue, thus motivating them to garner the support of local governments which had gone on to implement divergent schemes. Nonetheless, local variety has created a dilemma for the central government. When the State Council decided in 1995 to expand the new three-tier pension scheme to employees in non-state sectors, it introduced a pension system with a combination for basic old age insurance and personal accounts for individual workers (*shehui tongchou yu geren zhanghu*). Due to uncertainty about

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<sup>2</sup> The following information was provided by a researcher of a central government research institute in Beijing, July 2008.

how the combination principle might work, the State Council allowed the local governments at this stage to choose between the two proposed plans.<sup>3</sup> This decision, however, inevitably countervailed the overall attempt to unify the already fragmented system (World Bank 1997b, 17; Huang 2008, 176ff.). As a result, local practice of pilot pension schemes further diverged after the 1995 reform, as table 1 demonstrates.

[Table 1 in here]

In view of this situation, the reform endeavour in the late 1990s focused on the unification of the already fragmented pension institutions which had been further aggravated by diverse local pilot schemes. Considerable effort had been put on raising administrative units and integrating pooled accounts with the funding of individual accounts. This had proven to be an extremely difficult task since it ultimately involved even more actors across different pension schemes and administrative units (provinces, prefectures). In this implementation phase, blunt conflicts of interest among central ministries and local government agencies were to dominate the dynamics of the reform politics. In July 1997, the State Council issued another document seeking to unify pension systems to a state pension programme. The 1997 reform also planned to establish a unified nationwide basic pension insurance to replace all pilot programs in each province by the end of the century, an endeavour which would inevitably touch upon the problem of administration (Frazier 2004, 50). Given the enormous disparity within and between the regions, the SC purported to spread the risks and costs among SOEs and non-state firms across regions with different financial strengths. It was envisaged that at provincial level, the development of pooled accounts would integrate the fragmented pooling administration which, until then, had been located at either county or respective ministerial level.

The effort to unify pension schemes and their local administration at the provincial level went further in 1998, but only 13 provincial localities had established unified social pooling by the end of 1997. To lubricate the transition process in the local systems, the State Council allowed local governments to establish a provincially unified adjustment mechanism at first, and then a provincially unified pension system by the end of 1998. In this way, social pooling provided all retired workers within that pooled social pensions. Yet overall, even after the 1997 reform, enormous regional variations persisted. Although nine measures had been specified by the SC and the MoLSS to guarantee the delivery of pension benefits (summarized in Table 2), only two

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<sup>3</sup> Both plans encompassed individual accounts and social pooling, albeit with different combinations. Plan I, based on the ideas of the SCRES, emphasized individual accounts, whereas Plan II, based on the ideas of the MoL, added more of the social pooling component than Plan I. The two plans also suggested a set of provisional arrangements for current employees not covered by the new scheme. In addition, both plans suggested the introduction of an automatic adjustment mechanism for pensions-in-payment in accordance with the rise in the local average wage rate; see: World Bank (1997b, 17f.).

of these actually came into force on schedule, with local transposition lagging far behind the central government target.

[Table 2 in here]

The complicated nature of institutional incongruence and the contradictions in interests among different regions alerted the central government to redress its overhasty reform. The SC therefore geared down its pace, deciding to conduct experimental projects aimed at more directly tackling regional implementation problems. The most notable of these was the pilot scheme launched in the Liaoning province in December 2000 (Zheng 2002, 91; also Wang 2006; Yu 2007). As a 'rustbelt' industrial area with a high concentration of former SOEs, this province in northeast China had borne the brunt of the reforms, and therefore had a disproportionately high number of laid-off SOE workers and retirees. In order to assist in the long-term financial sustainability of urban pensions, in 2000, the SC established a National Social Security Fund to finance future social security expenditure, with a special council comprising of cross-ministerial staff assuming responsibility for its management.

Although the Centre demonstrated stern resolution in enforcing the urban pension reforms, conflicts of both interests and ideas between central and local governments, continued to play important roles in influencing, if not hindering, the policy process. In the meantime, with pilot schemes under way in Liaoning and other provinces, the reform momentum was further constrained by the decentralized political structure; indeed, much of the success of the policy has proven to be heavily dependent on the local implementation (Frazier 2004). In particular, the provinces and municipalities have gained responsibility for many policy issues, including social protection, over the past decade. This complexity is evident in the government's failure to stipulate penalties for non-compliance (Chow and Xu 2001; Béland and Yu 2004; Cai 2004; Frazier 2004). Local labour bureaus often found it difficult to oblige enterprises to make contributions, especially those already struggling for survival. Furthermore, in many places, most of the contributions paid into the individual pension accounts remained susceptible to administrative mismanagement, with the contributions collected having been directed to current pension payments as opposed to being accumulated in separate investment funds (Wang 2006, 108; also Zhao and Xu 2002). Finding a way to tackle these problems within an institutional framework characterized by diverse groups of actors remains a considerable challenge to governance in the ongoing urban pension reform. Hence, despite the progress of pension reforms in urban China since the 1980s, their overall results are still far from successful.

### *Minimum Living Standard Scheme: Local Pre-emptive Learning with Ripple Effects*

With the SOE reform accelerating during the 1990s, the massive dismissal of redundant workers by the SOEs has given rise to the problem of rising unemployment, and consequently poverty in urban China. The traditional means-tested social assistance scheme, 'Five Guarantees' (*wubao*), could no longer absorb the urban poor, even the establishment of the unemployment insurance was not sufficient to cope with this problem (Liu and Wu, 2006). To establish a social safety net in the cities, the government restructured the traditional social assistance programme in 1993, aiming to extend its coverage, raise the benefit level, and secure financial commitments from local governments. This has led to the Regulations on the Minimum Living Standard Scheme (MLSS) in 1999, which required all city governments to include the social assistance expenditures in city budgets (Leung and Wong, 1999; Hussain, 2002; Zheng, 2002; Shang and Wu, 2004; Leung, 2006). A major difference of the MLSS to the earlier form of urban poverty relief lies in its opening to those able to work with a household income below the local poverty line. In this respect, the scheme marks an important progress because it decouples the tight link between work and welfare dominant during the era of the planned economy. The MLSS includes more poverty-stricken families and offered more in-cash benefits than traditional relief programmes.

Since its inception, the MLSS has covered only the urban population, which was later expanded to the rural residents. The assistance line is calculated according to the minimum living standard based on the expenditure surveys of low-income households and the financial capacity of the local authority. The rates were adjusted according to the inflation rates, with the minimum standard varying from locality to locality, depending on the financial strength of local governments. The assistance level is based on the minimum cost of basic necessities in the city. The overall administration of the MLSS rests with the jurisdiction of the local government level. This decentralized administration has left much room for the localities to implement the scheme according to their own circumstances, thereby leading to a variety of benefit calculation and entitlement regulation among the regions.

The harbinger of the MLSS was actually cities in coastal regions, among them not least the Shanghai city, which introduced the first social assistance scheme of this kind in 1993 (Duoji, 2001: 97ff.; Tang et al., 2003: 56ff.). As a forerunner of the national reform policies, Shanghai has taken lead in promoting economic growth since the 1980s – but also faced unprecedented social problems earlier than other parts of the nation. Massive lay-offs of the SOE workers have given rise to a

vulnerable unemployed group in need of social assistance. With its strong economic growth and sound fiscal condition, Shanghai is able to explore relatively advanced and large-scale programmes tailored to tackle local challenges of rapid urbanisation and industrialisation. Its unique status has advanced Shanghai to become a leading figure in the field of Chinese social policy as well.<sup>4</sup> Local social policy of Shanghai has often attracted wide attention from other regions. In the case of the MLSS, Shanghai's move has soon drawn the interest of the Ministry of Civil Affairs (MOCA), which sent research groups to understand the city's policy design. Recognizing the merit of the Shanghai experiences in the tenth National Congress of Civil Affairs, the MOCA set the MLSS on top of the agenda and encouraged other cities in 1994 to adopt the programme. But, as usual, the MOCA took a cautious stance, deciding to adopt the gradualist approach in the policy expansion.

By the end of May 1995, six cities, including Shanghai, Xiamen, Qingdao, Dalian, Fuzhou and Guangzhou, followed suit and set up the MLSS. Although the scheme was coordinated by the MOCA, the regional and city authorities had considerable scope for adjusting the main parameters. Thus, it has become a common phenomenon that variegated local models emerged with the same policy ideas but different institutional designs. In 1995, MOCA decided to spread the MLSS gradually to other cities. Endorsement by the Chinese State Council facilitated a rapid expansion of the scheme, which has reached 581 cities and 1121 counties by the end of 1998 (Chen and Barrientos, 2006: 6; Leung, 2006: 191). Several localities conducted pilot scheme experiments of different kinds, which offered experiences and lessons for the final institutionalization across the country. The 1997 plenary meeting of the National People's Congress lent strong support to the proposal of an MLSS. In 1999, the State Council formally acknowledged the merit of the MLSS and issued a regulation for its national implementation. With its formal recognition the central government also decided to absorb a proportion of the expenditures of the MLSS, though the localities remain the main bearer of the financial responsibility. Thereafter, the financial commitment from the central government rose substantially from only 0.4 billion yuan in 1999 (26 per cent of the total expenditures) to 15.8 billion yuan (57 per cent of the total expenditures), as shown in Table 3. The MOCA laid down a broad regulatory framework for the MLSS which left much of the detailed implementation parameters of the scheme (the setting of the minimum living standard and the exact method of financing) to be determined by the local, mostly city governments. In 2000, the MOCA specified the basic requirements of an information

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<sup>4</sup> For instance, the Shanghai government decided to introduce a rural pension pilot scheme in 1986, well ahead of other regions. In addition, the new Township Insurance Programme (TIP; *zhenbao*) was introduced in 2004 as a response to the blurring boundary between rural and urban areas in the whole Shanghai region. See: Shi (2008b).

system for the MLSS for local governments to set up within three years. Local governments have issued supplementary regulations to implement the scheme in line with their circumstances. As a result, the financing and operations of the scheme vary from city to city.

[Table 3 in here]

Whereas the establishment of the urban MLSS went on progressively during the 1990s, similar attempts were under way in rural areas.<sup>5</sup> Even the term ‘minimum living standard guarantee’ (*zuidi shenghuo baozhang*) found its original usage in early rural pilot schemes (Shi et al., 2006: 242ff.). In 1994 when the MOCA held the tenth National Congress of Civil Affairs, it also envisaged the establishment of the MLSS in rural China. Quite different from the urban MLSS in which big cities took the initiative, the MOCA’s ideas have dominated the preparation course of the rural MLSS because local governments of the rural areas lacked the essential financial strength to make pre-emptive plans. Beginning at first with the pilot scheme launched in Yangquan, Shangxi province in 1994, the MOCA selected rural areas of different development levels (localities in Shandong, Hebei, Sichuan and Gansu provinces) to conduct similar schemes successively (Duoji, 2001: 225ff.; Yang, 2008: 219ff.). Based on these local experiments, the MOCA decided in its internal workshops to further promote the expansion of the scheme. Thereafter, various pilot schemes have taken shape under the MOCA’s instruction in more rural areas. In 1999, when the urban MLSS gained its formal recognition from the State Council, the introduction of the rural MLSS has equally accelerated its pace nationwide. As the same with the urban MLSS, the central government emphasized the importance of the rural MLSS in 2004, leading to the State Council’s Circular in 2007 formally confirming the central policy direction to encourage rural areas with sufficient financial strength to establish the MLSS. This formal declaration has an essential political significance for the rural MLSS because it demonstrated the central government’s concern in this regard – and its joint financial responsibility with the localities. Since 2007, the central government began granting subsidies to rural localities for their MLSS schemes (see Table 3).

The establishment of the MLSS in urban and rural China provides a good example of how active local policy learning has contributed to nationwide policy diffusion. However, the process of policy implementation also clearly poses a challenge to governance within a decentralized political system. One crucial factor lies in the regional disparity which has plagued the financial situations of many inland

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<sup>5</sup> The traditional ‘five guarantees’ (*wubao*) also underwent significant overhaul, as the State Council issued a document in 2006 strengthening the financial responsibilities of the upper tiers of government. For more detailed analysis, see: Shi et al. (2006: 216ff.).

regions – especially for the rural areas. After the abolition of the agricultural tax and other administrative fees in recent years, many local governments in poor regions have fallen short of sufficient cash resources to bear the financial burden of the new rural social assistance scheme (Shi et al. 2006: 243). Subsidies from the upper tiers of government, particularly from the central government, have therefore become an essential recipe for the local schemes' sustainability. Yet, particular in this respect the gap between rich and poor regions is clearly reflected in their different benefit levels despite the Centre's (limited) subvention. The effectiveness of the MLSS becomes vulnerable to the discretion of local officials in charge of the civil affairs, who often respond to the shortage of funds by narrowing the entitlements for assistance and thus reducing the numbers of potential beneficiaries. As a consequence, the coverage of the MLSS is actually very low. Among identified poor households, less than 30 percent of them have received assistance from the programme, not to mention the fact that even more potential applicants remain unidentified (Hussain, 2002: 61). Apparently, the financial decentralization has consolidated the inter-regional inequality – particularly in the case of the MLSS for urban and rural areas alike.

Beside the financial problem, a frequently discussed problem lies in the operation of the programme which has relied heavily on the community (urban) or village (rural) administrative structure to deliver the benefits and services (Tang et al. 2003: 155ff.; Leung, 2006: 195). The decentralized administrative and delivery system with loose operational guidelines in the urban and rural MLSS has relieved the central government of the burden to organise standardized procedures which could hardly accommodate regional variation. Yet, under these circumstances, regional disparity in terms of administrative efficiency has decisively impinged on the quality of service delivery, as local cadres dispose of considerable discretion to interpret and apply the guidelines.<sup>6</sup> Furthermore, the effectiveness of the social assistance scheme has been hampered not only by the regional variation in the institutional design of the MLSS, but also by the equally various programmatic arrangements of other pertinent social security schemes such as the unemployment insurance. The coordination and combination of different benefits depend largely on local regulations, thus leading to enormous regional diversity when it comes to the overall effectiveness in tackling the social risks and poverty trap. How to monitor coherent implementation of the new social assistance scheme nationwide within the decentralized political system would critically impact on the policy outcomes.

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<sup>6</sup> Tang et al. (2003: 100ff.) cited the words of the community cadres the authors have interviewed in several cities to illustrate how the interpretation and application of the operational guidelines have varied from city to city.



## Conclusions

This article has demonstrated that, by taking the institutional factor of the political devolution into account, we can have a more nuanced understanding of how policy learning works in Chinese social policy. Theoretically, the paper has drawn attention to the discussions on the impact of (de-facto) federalism on, as well as the corresponding phenomenon of the increasingly active learning role of local governments in, the social policymaking. Empirically, the analysis has focused on two policy domains, the pension reform and the introduction of the new social assistance scheme, MLSS, to comprehend how policy learning and diffusion took place in the Chinese territorial politics. I argue that local activism in policy learning and innovation can be understood as the consequence of the decentralization endeavours of the central government in recent decades. Local governments, particularly in coastal regions, have energetically engaged in a series of policy experiments in search of approaches best fit with local circumstances or with national contexts. While the central government remains an important actor in the social policymaking, it increasingly relies on the local governments as a convenient conduit to launch preliminary policy experiments in order to collect valuable experiences for potential diffusion in the future. This phenomenon of policy learning from within is bound to have important impacts on the Chinese social policy.

Using both selected policy fields, I have offered an analysis of the policymaking processes to illustrate how policy learning and diffusion have taken place in two different contexts: In the pension reform, policy learning has been bounded within a complex decentralized institutional framework, mainly because urban pension reforms constituted the cornerstone of urban SOE reform, which has inevitably involved a plethora of organizational (veto) players and vested interests. This actor constellation has been further complicated by the given institutional constraint, namely the fragmentary administration structures as well as the obsolete socialist welfare framework of SOE-based PAYG system which was badly in need of overhaul. The central government strategically activated policy learning by delegating localities to explore alternative policy frameworks for integrating individual accounts with the ongoing PAYG system. Yet, this has proven to be an extremely tough task when the central government later attempted to unify the various local practices of policy models.

By contrast, policy learning has played a very innovative role in the establishment of the MLSS for urban and rural areas alike. Facing rising unemployment and poverty prior to the central government, city governments have taken pre-emptive initiatives which evolved later into a new nationwide social assistance scheme endorsed by the central government. At the same time, some rural

areas have made concurrent endeavours conducting pilot schemes aimed at alleviating local poverty. And, following the experiences of urban MLSS, these local experiments have received positive recognition from the central government which formally made rural MLSS a national policy. Despite these learning achievements, however, the policy implementation is equally entrenched in the decentralized institutional logic which relies predominantly on the local governments in terms of financial and administrative responsibilities. An obvious result is the sheer regional disparity reflected in the unequal benefit levels as well as the discrepant implementation procedures.

From the preceding analysis, it is clear that the learning effects vary from policy to policy, depending crucially on the institutional preconditions and political processes of the respective domains. Given China's territorial size and regional diversity, either bottom-up or top-down policy learning and diffusion have certainly their rationales and advantages. Nonetheless, the same condition is true for the downside of policy learning and innovation: in view of the disparity of regional development in China, social policy activism of the local governments has become an eclectic tool for policy change. China's system of political decentralization would inevitably result in negative consequences of policy learning and diffusion: While the system encourages the diffusion of successful experiences, it equally sets regional competition in motion which induces the localities to vie with one another in garnering subsidies from the Centre. For instance, in pension reform of 1995, local governments followed the instructions of different ministries in the central government and established diverse pilot schemes, which proved to have hampered the later centralization attempts by the central government. In other examples, such as the rural social policy, local governments tended to formulate distinctive policy models in order to attract national attention. Although such policy learning could sometimes bring about valuable lessons for eventual national policy formulation, pre-emption by local governments where national policy jurisdiction is lacking may equally impede later endeavours of nationwide unification, leading to the lowest common denominator policies. Thus, not surprisingly, directives by the central government in recent years regarding the rural social policies (pensions, health care, MLSS, etc.) repeatedly referred to the principle of 'wide coverage, low benefit level' (*guang fugai, di shuiping*); this precisely points to its intent of encouraging the establishment of basic social protection systems in rural areas, while making allowance for regional diversity in policy design and implementation.

Finally, the analysis has raised one crucial social policy implication of the Chinese-style federalism. The political system is notable for its multi-level bureaucratic organization designed for vertical and horizontal policy coordination.

The political process is mainly influenced by the interaction of various (central/local) bureaucratic organs and the command of party leaders. Upward-directed political accountability in China has generated a gap between policy formulation and implementation because, in contrast to democratic societies where policies are devised through participatory and deliberative procedures, the policymaking remains confined to bureaucratic purview without the civil society's cooperation. This specific institutional feature has led to a process of policy learning skewed toward political elites' interests and ideas without duly considering those of the benefit recipients (as is the case in the MLSS). Furthermore, the lack of deliberative participation could stymie the effects of policy diffusion when the opinions of local governments and agents in laggard regions are excluded. The latter would be inclined to resist or delay the policy implementation (as is the case in the pension reform). Much would depend on the ability of the central government to monitor and coordinate the interests and ideas of the actors involved. Given the complexity entrenched in the federalism-like political institutions, the effects of policy learning and diffusion in China are bound to be ambivalent.

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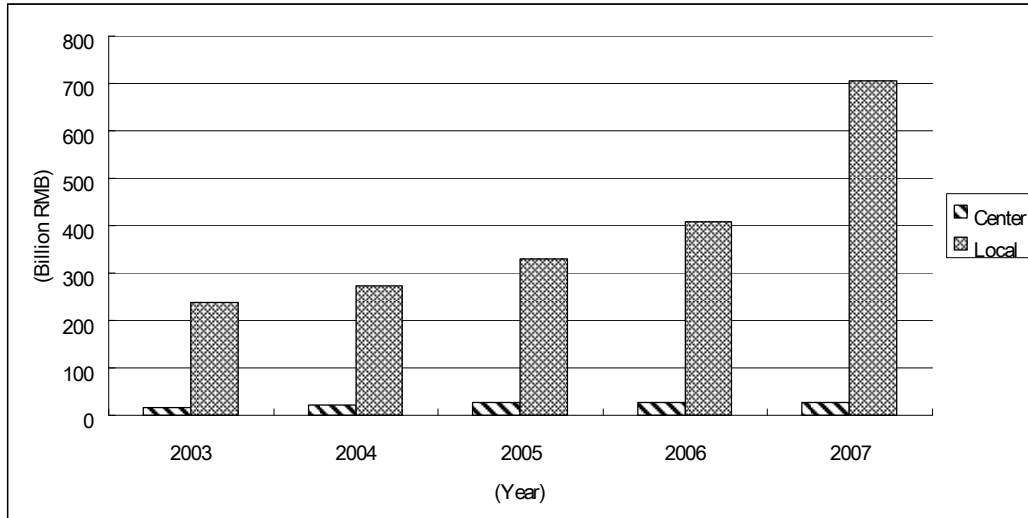
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*Figure 1: Social Expenditures by the Central and Local Governments 2003-2007*

Sources: China Statistical Yearbook, various years.

*Table 1: Local Implementation of Different Pension Schemes after the Reform 1995*

	Plan I	Plan IIA	Plan IIB	No Decision
Province	Jilin, Heilongjiang, Shanghai, Henan, Yunan, Gansu, Xinjiang	Beijing, Tianjin, Shanxi, Zhejiang (except Ninbo), Guangdong (except Shenzhen), Hunan, Ningxia	Hebei (except 3 cities), Inner Mongolia, Jiangsu, Anhui, Fujian, Shandong (except Qindao), Guangxi (except 4 cities), Hubei (except Wuhan), Guizhou (except Guiyang and Liupansui), Shaanxi (except Xian), Qinghai	Liaoning, Jiangxi, Sichuan, Tibet, Hainan
Major city	3 in Hebei, Ninbo in Zhejiang, Wuhan in Hubei, 5 in Sichuan, Liupansui in Guizhou, 4 in Guangxi, Xian in Shaanxi, Qindao in Shandong	Guiyang in Guizhou	Nanchang, Shenzhen	

Sources: Gong (2003, 176); Huang (2008, 179).

Table 2: The integration of sector-based enterprise schemes and implementation of other relevant measures at the end of the 1990s

Schemes/Measures	SC Timetable	MoLSS Timetable	Policy Outcomes		
			1998	1999	2000
Stated Objective					
Guaranteed pension payments	From June 1998	From June 1998	95.20%	97.60%	99.30%
Specific Measures					
Legislation on participation	As early as possible	End of 1998	Not promulgated until 22 January 1999		
Expansion of coverage	End of 2000	As early as possible	61.60%	65.20%	67.20%
Enforcement of compliance with contributions	As early as possible	As early as possible	90.24%	88.00%	90.54%
Abolition of sector-based schemes	Immediately	Immediately	Completed in August 1998, but certain sector-based schemes in financial difficulty temporarily maintained under self-administration		
Provincial pooling (redistribution fund)	End of 1998	End of 1998	Established in less than 27 provinces	Established in 29 provinces	Established in all provinces
Full Transactions	As early as possible	September 1998	Only partial transactions in 396 of the total 2,849 counties on 31 May 2000		
Socialized delivery of benefits	No deadline set	As early as possible	35%	47%	92%
Enforcement of budgetary governance	Beginning of 1998	As early as possible	Completed at the end of 1998		
Containment of early retirement	Immediately	Immediately	Up to 1/3 of applicants for early retirement in some localities in 2000		
Last Resort					
Central grants and loans	If necessary	If necessary	2 Billion Yuan	17 Billion Yuan	33.8 Billion Yuan

Sources: Leisering and Gong (2002, 29f.); Gong (2003, 205).

*Table 3: Central/local Government Expenditures on the MLSS, 1999-2007 (Billion RMB Yuan)*

Year	Urban			Rural		
	Central	Local	Total	Central	Local	Total
1999	0.40	1.60	2.00	/	0.37	0.37
2000	0.80	1.90	2.70	/	0.36	0.36
2001	2.30	1.90	4.20	/	0.47	0.47
2002	4.60	6.30	10.90	/	0.71	0.71
2003	9.20	5.90	15.10	/	0.93	0.93
2004	10.50	6.80	17.30	/	1.62	1.62
2005	11.10	8.10	19.20	/	2.53	2.53
2006	13.40	9.00	22.40	/	4.35	4.35
2007	15.80	11.70	27.50	3.00	7.40	10.40

*Sources:* China Civil Affairs Statistical Yearbook, various years.