

HOW TO CLASSIFY THE CHINESE WELFARE STATE

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Author

Hande Gencer

First examiner: Prof. Dr. Herbert Obinger, University of Bremen

Second examiner: Prof. Dr. Tao Liu, University of Duisburg-Essen

UNIVERSITY OF BREMEN

SOCIUM Research Center on Inequality and Social Policy

Master Social Policy

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Hande Gencer

Kastningweg 8

28217 Bremen

Matriculation no.: 253836-5

hande.gencer@posteo.de

Meinen Eltern

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ABBREVIATIONS

ACFTU	All-China Federation of Trade Unions
GDP	gross domestic product
GIS	Government Insurance Scheme
LIS	Labor Insurance Scheme
MCA	Ministry of Civil Affairs
MLSS	Minimum Living Standard Scheme
MoHRSS	Ministry of Human Resources and Social Security
MoF	Ministry of Finance
NBSC	National Bureau of Statistics of China
NCMS	New Cooperative Medical Scheme
NGO	non-governmental organization
NHFPC	National Health and Family Planning Center of China
NRPS	New Rural Social Pension Scheme
RCMS	Rural Cooperative Medical System
RPS	Residents' Social Insurance Pension Scheme
SOE	state-owned enterprise
SARS	severe acute respiratory syndrome
SSA	Social Security Administration
UEBMI	Urban Employee Basic Medical Insurance
UEPS	Urban Employees' Basic Pension Scheme
URBMI	Urban Resident Basic Medical Insurance
URPS	Urban Residents' Social Pension Insurance Scheme
USD	US Dollar

1. INTRODUCTION

Since the publication of Esping-Andersen's *The Three Worlds of Welfare Capitalism* (hereafter: Three Worlds) in 1990, scholars largely agree that the modern welfare state comes in (at least) three variants: a social-democratic regime in Scandinavia, a conservative-corporatist regime in Continental Europe, and a liberal welfare-state regime in Anglo-Saxon countries. While Esping-Andersen's work has established itself as the baseline typology in comparative welfare-state literature, it has also benefited from considerable debate since it was first published. One type of criticism centers on the range of the threefold typology, notably with regards to welfare states in the Antipodes (Castles 1996; Castles/Mitchell 1993), Southern Europe (Leibfried 1992; Castles 1995; Ferrera 1996; Bonoli 1997), Eastern Europe (Deacon 1993), and East Asia.

With respect to East Asia¹ we find the debate on whether this group of countries forms a variant of the Three Worlds (Esping-Andersen 1996; Esping-Andersen 1997), or whether their development can be understood as the emergence of a distinct regional welfare-state regime (Kwon 1997).² Esping-Andersen (1996: 20) refuses the idea of a distinct welfare regime for the region which “deviate[s] markedly from existing welfare states”. According to him (1996; 1997), East Asian welfare states – mainly referring to Japan – are both globally unique and hybrids of existing welfare-regime characteristics, sharing common features with the Continental European (emphasis on familialism, aversion to public social services, and occupational segmentation of social insurance) and Anglo-Saxon (modest public welfare and dominance of private welfare plans) models. Japan has ever since remained the only East Asian country to be included in Esping-Andersen's (1990; 1999) typology, and was neither adequately analyzed nor clearly allocated to a single regime type.

¹ In this thesis, the conceptualization of ‘East Asia’ is based on the Western interest on the economic achievement in the region since the 1980s. The interest started with the extraordinary economic success of post-war Japan and then spread to other Asian countries which were known as ‘newly industrialized countries’ (NIC) or the ‘Tiger States’ (Hong Kong, South Korea, Singapore and Taiwan). During the 1990s, the interest spread to the second generation of Asian economies known as the ‘Little Tigers’ (Southeast Asian countries, including Malaysia and Thailand), the third generation of Tigers (Indonesia and the Philippines, and to a broader extend also Vietnam), and Mainland China (White/Goodman 1998, Hort/Kuhnle 2000, Choi 2007).

² See Abrahamson (1999) for an analysis of the ‘welfare modeling business’, as well as Arts and Gelissen (2002; 2010) for a summary of the debate regarding Esping-Andersen's Three Worlds typology.

In contrast to Esping-Andersen, studies on East Asian welfare states assert that common features in the initial phase of welfare-state development in the region set them apart from their Western counterparts (Jones 1990; Jones 1993; Kwon 1997; Holliday 2000). They agree that welfare states of the region belong to a distinct East Asian welfare model, although they do not agree on the precise nature of it (Jones 1990; Jones 1993; Goodman/Peng 1996; Kwon 1997; Goodman et al. 1998; Holliday 2000; Aspalter 2001; Kwon 2005; Aspalter 2006; Lee/Ku 2007). Most of these studies have mainly been focusing on capitalist nations such as Japan, South Korea and Hong Kong which experienced enormous economic progress during the 1970s. Recently, some authors also added the next generation of East Asian countries where rapid economic growth is a recent phenomenon such as countries of Southeast Asia and Mainland China (White 1998; Hort/Kuhnle 2000; Aspalter 2001; Kwon 2005; Aspalter 2006; Park/Jung 2007). Even within this extended view, China is not very often included in the literature and has largely been disregarded in the conceptualization of East Asian welfare states.

Broadening the perspective to include the People's Republic of China (hereafter: China) makes comparative studies even more difficult for as China represents a particular case in East Asia. The Chinese welfare state certainly offers an interesting case study. Politically, China is unique in the sense that it constitutes one of the only five remaining communist countries beside Cuba, Laos, the Democratic People's Republic of Korea, and Vietnam, while at the same time being the only one that has achieved remarkable economic growth (Ringen/Ngok 2013). What is more, since the launching of the economic reform and opening-up policy in 1978, China transformed its economic system from a centrally-planned to an open-market economy. In contrast to the post-communist countries of Eastern and Central Europe, China has maintained its socialist corpus (White 1998; Kwon 2009). In spite of this political continuity, China has experienced fundamental transformations in its socio-economic structure which had major consequences for its social security system. Under the centrally-planned economy, social welfare was provided via work units and collectives. With market transition, China's previous socialist welfare system began to erode, leaving huge parts of the population unprotected. With rising social problems, the communist government began to reform its old social security system in the late 1990s. The consolidation towards a more inclusive system started towards the end of the century and ever since has been a continuous pro-

cess. In recent years, the Chinese government has made remarkable efforts towards universal social insurance coverage, especially in terms of pension and health insurance.

Despite these socio-economic transformations, very little has been done to classify China from a welfare-typological perspective. The authors Goodman and Peng (1996: 216) excluded China from their discussion on East Asia “because of the very different economic course it has followed over the previous forty years”. To the extent that China is included, it is mostly seen in light of East Asian welfare-regime traits (White 1998; Aspalter 2001; Guan 2005; Choi 2012), whereas to others its classification remains open (Hort/Kuhnle 2000). Discussions on the Chinese welfare regime have been based more on conceptual classification, rather than following an empirical analytic framework (White 1998; Ringen/Ngok 2013). Analyzing China’s welfare system raises interesting questions about how the Chinese welfare state evolves in the transition from a socialist to an open-market economy and, what is more, about what kind of welfare regime is emerging in China.

OBJECTIVE AND RESEARCH QUESTION

This thesis endeavors to extend the analytical focus of welfare typologies by integrating China into the larger welfare regime debate. To this end, it aims to classify the Chinese welfare state according to Esping-Andersen’s (1990) theoretical framework of his Three Worlds typology. Since the 1980s and even more after the 1990s, a formal social security system has been establishing in transitory China, whose basic structures can be compared with those of western societies. Thus, in principle it appears feasible to apply western concepts of welfare-state research onto China. The objective is not to incorporate China into the Three Worlds typology, which would require a comparative analysis of China and Esping-Andersen’s original 18 cases by replicating his complex calculations. Rather, this scholarly project is a case study of China in which the Chinese welfare state is analyzed by means of key welfare-regime indicators and analytical criteria in accordance with Esping-Andersen’s theoretical framework (1990). The research question is: *How can the Chinese welfare state be classified with Esping-Andersen’s theoretical framework for his Three Worlds typology?*

In his work, Esping-Andersen (1990: 58) focuses on income maintenance as a welfare state’s traditional and still dominant activity, exemplified by income maintenance arrangements towards the social risks of old-age, sickness and unemployment. For the purpose of the welfare-regime characterization of China, the primary focus of this thesis

rests on China's pension, health and unemployment insurance systems. These programs along with other relevant indicators based on Esping-Andersen's (1990) original framework are analyzed in the form of a status-quo-analysis (for the latest years available ranging from 2011 to 2015) along three analytic dimensions described below. If China shows a high similarity with regard to core welfare-regime components, we may conclude that China may belong to an existing welfare model. If it turns out to be divergent from any existing welfare model, then China may more likely display the characteristics of a new welfare regime.

ANALYTIC STRATEGY

Esping-Andersen's typology of welfare-state regimes is based on the operationalization of two principles: decommodification and social stratification. He then looks at how the provision of social welfare is allocated between the state, market and family.³ Esping-Andersen applies these principles by creating statistical indices for decommodification and stratification to classify welfare states into three welfare-regime types: liberal (Anglo-Saxon countries), conservative-corporatist (continental Europe) and social democratic (Scandinavia). As this thesis presents a case study on China, no indices for decommodification or social stratification are calculated. Rather, China's classification is done on the basis of an analytic construct based on (both empirical and theoretical) welfare-regime indicators according to Esping-Andersen's (1990) theoretical framework. To this end, the Chinese welfare state is analyzed along the three analytic dimensions – decommodification, social stratification, the state-market-family relationship. In order to explore decommodification in the Chinese welfare state (Dimension I), available forms of income maintenance towards old-age, sickness and unemployment are analyzed in terms of their accessibility and degree. In order to characterize the effects of these social policies on social stratification, the Chinese welfare state is examined for key welfare-regime attributes (conservatism, liberalism, socialism) that follow regime-specific stratification logics (Esping-Andersen 1990: 69) (Dimension II). Finally, the allocation of roles between the state, market and family regarding the administration and financing of social benefits in the three areas of income maintenance are examined (Dimension III). The analysis along these three dimensions provides information re-

³ See appendix for Esping-Andersen's original calculation of decommodification (**Appendix I**) and stratification indices (**Appendix II**).

garding the welfare-regime traits of China and allows for a classification of the Chinese welfare state according to the Three Worlds typology.

Primary data resources include electronically accessible statistics from national (National Bureau of Statistics) and statistics from international organizations and databases (ADB, OECD, WHO, World Bank, SSA), as well as national government website reports and regulations (MoC, MoF, MoHRSS, NHFPC). Secondary data resources include scientific literature, journal articles and news articles.

OUTLINE OF THE THESIS

The thesis is structured into six chapters. It begins with a theoretical introduction into welfare regimes and typologies (Three Worlds) and the broader welfare regime debate exemplified by East Asian models of welfare, before turning the attention to the state of the art regarding the classification of the Chinese welfare state (*Chapter 2*). *Chapter 3* depicts the evolution of China's social security system in the context of market transition. It reviews key economic, labor and social policy reforms at different historico-political stages with an emphasis on the reform of the pension, health and unemployment insurance systems. *Chapter 4* aims to create a welfare-regime profile of China so as to allow for a welfare-typological classification of the Chinese welfare state. Here, three analytic dimensions based on the Three Worlds framework are created, by means of which the contemporary Chinese welfare state is analyzed towards key welfare-regime indicators. Each section of this chapter introduces one analytic dimension and presents an operationalization of relevant welfare-regime indices in accordance with Esping-Andersen's framework, before constructing a profile of the Chinese welfare regime. For each dimension, an interim conclusion is formulated so as to summarize the findings. In *Chapter 5*, I return to focal question underlying this research project by analyzing the Chinese welfare state in a welfare-typological context. Here, I compare China's welfare-regime profile with Esping-Andersen's Three Worlds and discuss similarities and differences. I further look at the peculiarities underlying the welfare mix of the Chinese welfare regime. The aim is to explore towards which of Esping-Andersen's three welfare models China is developing to, and to identify possible unique features of the Chinese welfare state which makes it stand out from the Three Worlds. *Chapter 6* draws an overall conclusion, addresses limitations of this research as well as challenges and future prospects of the Chinese welfare state.

2. INTRODUCTION TO WELFARE REGIMES

The following chapter presents an introduction into the theoretical foundations of welfare regimes. It outlines the welfare-typological classification of welfare states according to Esping-Andersen, whose typology constitutes the basic framework of this thesis. It then touches upon the broader welfare-regime discussion in East Asia, before turning the attention on the current state of research regarding the classification of the Chinese welfare state.

2.1. Three Worlds of Welfare Capitalism

In the literature on welfare regimes we find a number of classifications based on policy design. These efforts originate in the classification of welfare states into three models of social policy as introduced by Richard Titmuss in 1974. Titmuss (1974: 30-32) distinguishes between a residual (marginal role of social policy, liberal), an industrial achievement-performance (functional role of social policy, conservative) and institutional-redistributive (identity-creator role of social policy, universalistic) model of social welfare. Later, this typology was given empirical grounding by Esping-Andersen (1990), with some revision in subsequent publications (Esping-Andersen 1996; Esping-Andersen 1999). Esping-Andersen introduced the notion of ‘ideal types’ into comparative welfare-state research, supporting the idea that welfare states cluster around three distinct geographical ‘welfare-state regimes’ defined as follows:

(...) the concept of welfare-state regimes denotes the institutional arrangements, rules and understandings that guide and shape concurrent social policy decisions, expenditure developments, problem definitions, and even respond-and-demand structure of citizens and welfare consumers. (Esping-Andersen 1990: 80)⁴

Esping-Andersen’s (1990: 2) concept is a critical response to existing theoretical models of the welfare state which, according to him, rely too heavily on the misleading comparison of social spending and disregard redistributive characters. He (1990: 19-20) asserts that the history of political-class coalitions can be seen as the most decisive cause of variations between welfare states. In the first chapter of his book he explains how these

⁴ Here, the term ‘regime’ “refers to the ways in which welfare production is allocated between state, market, and households” (Esping-Andersen 1999: 73). In contrast, the term ‘welfare state’ is much more implicit and contestable for as it merely involves state responsibility in securing a basic safety net for its citizens (Esping-Andersen 1990: 19).

political-class coalitions came about, referring to three ideologies – liberalism, conservatism and socialism – that serve as a starting point for his Three Worlds typology. These political ideologies are found again in political parties. This explains their relevance for the design of welfare states. To explain how political-class coalitions led to variations among welfare regimes, Esping-Andersen (1990: 29) refers to three basic factors including the power resources of the labor movement, the capability of left-wing parties to form coalitions, and the historical legacy of early regime institutionalization.

By means of “qualitative different welfare-state logics” (Esping-Andersen 1990: 4) he identifies three types of distinct welfare-state regimes: a liberal regime in an Anglo-Saxon country cluster, a conservative regime in Continental Europe, and a social democratic regime in Scandinavia. His threefold typology is based on the operationalization of three principles: decommodification (the extent to which an individual’s welfare is dependent on the labor market), social stratification (the role of welfare states in (re-)producing societal equality or inequalities) and the relative role of the state, market and family in welfare provision⁵. Moreover, welfare regimes follow different patterns of state social policies and programs for distributing benefits, usually differentiating social assistance, social insurance, and universal citizenship modes. Each welfare regime has a welfare mix in which one welfare provider (and one allocation principle) is dominant, either the state (redistribution), the family (reciprocity), or the market (market distribution). Esping-Andersen’s typology is a classification based upon ideal-types with some real types, such as Sweden (social-democratic model), Germany (conservative-corporatist model), and the United States (liberal model), closely resembling them. The key aspects of the three welfare regimes are outlined and described in **Table 1**.

⁵ In response to feminist criticism regarding the conceptual neglect of the family (or household) as an essential welfare producer in the welfare mix (Orloff 1993), Esping-Andersen introduces the ideas of ‘defamilialization’ and ‘familialism’ in his 1999 book *Social Foundations of Postindustrial Economies*. By including these concepts into his Three Worlds typology, Esping-Andersen (1999: 51) incorporates women’s perspective into his welfare-state regimes and revisits these in terms of “the degree to which social policy (or perhaps markets) render women autonomous to become ‘commodified’, or set up independent households, in the first place”. This may be determined through the (non-) provision of public or private care services and family policies. As including this extended conceptualization into the theoretical framework would go beyond the scope of this master’s thesis, it is not considered further in the following.

LIBERAL MODEL

Within the liberal model (Anglo-Saxon countries) social rights are weak as they are extended on the basis of market participation. Public welfare provision and regulation is kept at a minimum, as individuals are expected to care for themselves. Liberal welfare regimes are dualistic and selective in the sense that they provide highly targeted, means-tested social assistance programs for the very poor attached with social stigma, whereas the better-off rely on private market solutions (such as company welfare and purchased insurance and social services). Hence, these residual welfare states are characterized by low levels of decommodification, high levels of stratification, as well as low benefit levels and weak social rights, which encourage market-dependency.

Table 1: Three worlds of welfare capitalism according to Esping-Andersen (1990)

Welfare regime	Degree of decommodification	Degree of stratification	Dominant welfare provider	Institutional design
Liberal	Low	High	Market	Means-tested social assistance, limited social insurance, and company-based welfare
Conservative-corporatist	Medium	Medium	Family	Bismarckian social insurance programs and NGO-based welfare services
Social democratic	High	Low	State	Universal social security and welfare programs

Source: Compiled by author based on Esping-Andersen (1990) and Aspalter (2011, table 2).

CONSERVATIVE-CORPORATIST MODEL

In the conservative-corporatist model (Continental Europe) social rights are performative as benefits depend on employment records and past contributions. The social insurance principle emphasizes equity (i.e. contractual fairness) over equality (i.e. redistribution). Institutionally, these welfare regimes are characterized by occupationally divided social insurance schemes complemented with corporate systems of social service provision (NGOs and church organizations). The adherence to the idea of preserving status differentials makes for a narrow and corporatist sphere of solidarity. As coverage under insurance assumes long and continuous employment careers, households depend more on the male breadwinner, and thus women's social rights are typically derived and indirect (Esping-Andersen 1997: 182). This familialistic feature springs from the historical legacy of Catholic teachings – especially the principle of subsidiarity – and recent

Christian democratic governments in continental Europe. These welfare states are unique in that they combine very generous income transfers (to the male breadwinner) and very few social (care) services (Esping-Andersen 1997, 1999).

SOCIAL-DEMOCRATIC MODEL

The social-democratic model (Scandinavia) is committed to universal social rights based on social citizenship. Within these service-intensive and highly redistributive welfare states, full employment for both men and women is pursued. The state displaces family self-servicing (in terms of care work for children, elderly and sick family members) and the market as welfare providers, which results in a highly decommodifying welfare state built on the universalistic principle of solidarity.

2.2. Broadening the perspective: East Asian welfare models

In the course of the 1990s, there emerged a stimulating, yet open discussion on East Asian welfare models which go beyond the ‘traditional’ welfare states of the West. Stimulated by Esping-Andersen’s study of welfare regimes, scholars were interested in what type of welfare regime is emerging in East Asia. East Asia, along with other regions of the world, has for a long time been largely neglected in welfare state research. The fast economic growth in these countries drew new attention towards the emerging welfare states in the region, especially towards Japan and the four Tiger States. Western scholars were interested in the ‘East Asian miracle’ (World Bank 1993), which allowed East Asian economies to attain economic growth and stable social conditions (i.e. low poverty and inequality rates), while keeping welfare spending low. This section provides an overview on the classification of East Asian welfare states in the existing literature, along with their common features and intra-regional differences.

2.2.1. Classification of East Asian welfare states

James Midgley (1986) was one of the first scholars to identify a common trait of welfare systems in East Asia, which Aspalter (2011: 290) summarizes as ‘reluctant welfarism’. Midgley (1986) argued that on the onset of industrialization, East Asian states

adopted a developmental ideology in which governments took a reluctant stance against social welfare expansions. His work initiated a series of studies on the political economy of East Asian nations. In the existing literature we find two broad streams of arguments, namely ‘Confucianism’ and ‘developmentalism’ or ‘productivism’, which have ever since been referred to when explaining welfare-state development in East Asia.

CONFUCIANISM

Catherine Jones (1990; 1993) was one of the first scholars to observe an East Asian welfare model which she refers to as ‘Confucian welfare states’.⁶ According to Jones (1993), the Tiger economies of Southeast Asia cannot be accounted for conservative-corporatist, although that would be the closest of Esping-Andersen’s regimes. Instead, she argues that common Confucian values (e.g. the centrality of family, strong kinship ties, paternalism and filial piety) constrained the development of more Western conceptions of welfare in East Asia. Jones (1993: 214) describes the Confucian welfare regime as follows:

Conservative corporatism without (Western-style) worker participation; subsidiarity without the church; solidarity without equality; laissez-faire without libertarianism; an alternative expression for all this might be ‘household economy’ welfare states run in the style of a would-be traditional, Confucian, extended family.

In these family-oriented welfare states, the state largely transfers its welfare responsibilities onto the family, community, and company level, as evident in high levels of three-generational households, low levels of female labor market participation and company welfare in East Asia (Peng/Wong 2010). Her approach is supported with slight differences by subsequent studies (Gould 1993; Goodman/Peng 1996). Critics of this cultural approach argue that a reference to ‘Confucian values’ can be used too arbitrarily since a clear conceptualization of the term is missing. For example, before East Asia’s economic growth, Confucianism was seen as a hindering factor for economic development, whereas afterwards it has been praised as the driving force of East Asian development (White/Goodman 1998: 7-8). Esping-Andersen (1997: 185) notes that filial piety can be regarded as a form of forced dependency due to the lack of alternatives, instead of being a pure reflection of cultural solidarity independent of economic needs. Furthermore,

⁶ Jones (1990) first ascribed the term ‘oikonomic welfare states’ to Hong Kong, Singapore, South Korea and Taiwan, referring to the Greek term ‘oikos’ which means household economy. She later included Japan into analysis and revised her terminology labelling it ‘Confucian welfare states’ (Jones 1993), referring to Confucianism as distinct developmental and welfare ideology in East Asia.

scholars argue that the Confucian approach does not allow for appropriate comparison when extending the focus from Northeast Asian to Southeast Asian countries, for as these countries differ in terms of their culture and religion. Thus, this approach is argued to have limited explanatory power in recent dynamic changes and remains static (Gough 2004; Choi 2007).

DEVELOPMENTALISM

In contrast to the Confucian approach, the developmental approach assumes that fundamental differences between East Asian and Western welfare states result from political rather than cultural conditions. Based on the idea of the ‘developmental state’ (Johnson 1982; Tang 2000), this approach argues that common features of social welfare in East Asia stem from a shared developmental ideology of governing elites (Aspalter 2006). Developmental welfare states are characterized by authoritative governments which use social policies to enhance their legitimacy, pacify the labor movement, and to enforce social investments into a productive workforce (Tang 2000). Social policies are subordinated to developmental objectives and designed to complement economic growth (Holliday 2000). The family has a central role in welfare provision, whereas the state’s role is more regulative with low direct redistribution, but a focus on investments into social development especially in education, healthcare and public housing (Aspalter 2006).

PRODUCTIVISM

Holliday (2000) convincingly proposed the existence of an East Asian welfare model, which he refers to as ‘productivist welfare regime’. He claims that Esping-Andersen’s three criteria (decommodification, social stratification, state-market-family relationship) need to be complemented by a fourth criterion – the subordination of social policy to other policy goals – so as to distinguish a fourth welfare regime in East Asia. In contrast to the developmental approach, Holliday additionally emphasizes exogenous challenges in the course of economic globalization. Productivist welfare regimes are characterized by a growth-oriented state which deliberately subordinates social policy to the overarching goal of economic growth. This means, that social policy is either sacrificed to productivist objectives or that it can directly contribute to them. This comes along with a weak notion of social rights linked to productive activity, social benefits reinforcing

productive elements in society, a state-market-family relationship premised on economic growth and a welfare mix established on overarching economic growth objectives (Holliday 2000: 709; see **Table 2**). Gough (2004) supports this approach and summarizes the key features of productivist welfare states as including high health and education spending with underdeveloped income maintenance programs. Despite significant welfare developments in East Asia, scholars maintain that the productivist feature still persists and that East Asian welfare states are unlikely to move out of the productivist welfare regime in near future (Holliday 2005; Kwon 2005; Aspalter 2006; Aspalter 2011). Against this assumption, Ringen and Ngok (2013: 4) argue that developmental or productivist welfare is a static model in that it refers to the early period of economic development of East Asian transitory welfare states, which become established in their own rights rather than being subordinate to economic policy as economic development progresses.

Table 2: Four worlds of welfare capitalism according to Holliday (2000)

Welfare regime	Social policy	Social rights	Stratification effects	State-market-family relationship
Liberal	Neither privileged nor subordinated	Minimal	Equality of poverty for minority; market-differentiated welfare for majority	Market provision encouraged
Conservative-corporatist	Neither privileged nor subordinated	Quite extensive	Existing status differentials preserved	Family protected
Social-democratic	Privileged	Extensive	Universal benefits graduated according to accustomed earnings	Market crowded out; family socialized
Productivist	Subordinate to economic policy	Minimal; extensions linked to productive activity	Reinforcement of productive elements	Premised on overriding growth objectives

Source: Holliday (2000, table 1).

2.2.2. Common features of East Asian welfare states

From these different perspectives of East Asian welfare states, common characteristics in the initial phase of welfare-state development in East Asian can be derived:

- Social policy expansion of East Asian nations lags behind their economic performances (Esping-Andersen 1996).
- In post-war East Asia, authoritarian governments extended social policies as part of nation-building aspirations and regime legitimization, rather than pursuing the egalitarian goal of socio-economic redistribution (Wood/Gough 2006).
- As economic development is supreme in public policy, social policy plays a complementary role to achieving economic growth (Holliday 2000). Redistribution takes a rather indirect form in that public expenditures are directed towards social investment into human capital, especially into education and healthcare (Park/Jung 2007).
- Institutionally, East Asia welfare regimes are characterized by the dominance of occupational social security systems in the form of Bismarckian social insurance, provident funds, or a combination of both (Aspalter 2011).
- The preferential treatment of special interest groups is another feature of East Asian welfare regimes, as welfare has primarily been targeted to governmental employees (civil servants, teachers, and the military personnel) and only slowly extended to other groups (Lee/Ku 2007; Park/Jung 2007).
- The welfare *state* in East Asia assumes a welfare regulator role which shows in the preference of social insurance programs over more universal programs and low levels of welfare expenditure (Wilding 2008). By doing so, the state tries to minimize its administrative and financial welfare responsibilities, thereby maximizing the roles of the family and the market in welfare provision (Aspalter 2006; Holliday 2000; Lee/Ku 2007; Park/Jung 2007).
- As welfare programs are firstly aimed at male employees in the primary sector, the male breadwinner model is preserved (Lee/Ku 2007).
- East Asian governments explicitly adopted “the strategy of ‘commodification plus state regulation’ in welfare provision” (Aspalter 2011: 741). As social rights are linked to productive activity, the degree of decommodification is low (Ringen/Ngok 2013).

Despite these common features of East Asian welfare states in the initial phase of welfare-state development, there are increasing differences in terms of their developmental pathways which are outlined in the following section.

2.2.3. Differences between East Asian welfare states

Despite common characteristics in their initial development, some scholars found intra-regional differences between East Asian welfare states. Within the productivist world of welfare capitalism, Holliday (2000) identifies three clusters which differ in terms of the institutionalization of social rights, their redistributive outcomes and the public share in welfare provision. In the facilitative regime (Hong Kong), social rights are minimal, stratification effects are limited and the market is prioritized in welfare provision. These features resemble Esping-Andersen's liberal model. In the developmental-universalist regime (Japan, South Korea, Taiwan), social rights are limited to productive activity, the position of productive elements is reinforced and the state is of some significance in welfare provision alongside the family and market, for as it provides some universal programs. Lastly, the developmental-particularistic regime (Singapore) shows minimal social rights which enforce individual welfare provision linked to productive activity. The state plays a rather directive role in welfare provision alongside the family and market (Holliday 2000: 710).

Hort and Kuhnle (2000), too, find different developmental trajectories of East Asian welfare states. Regarding path dependency as a crucial factor, they argue that the colonial past of East Asian countries had a profound influence on the initial characteristics of welfare programs by institutionalizing their organizational principles (social insurance vs. provident funds). South Korea and Japan developed German-style social insurance programs, whereas a second group of countries, including Hong Kong (with Malaysia and Singapore), developed a system of provident funds under British authority.

Park and Jung (2007) find divergences in terms of main program types (social insurance vs. provident funds), contents of welfare programs (e.g. coverage, benefits, and financing) and the relative composition of public spending across different social policy programs. They argue that these divergences are due to the institutional legacy of their first generation welfare programs, as well as the different timing and degree of democratization experienced in the region. On the basis of this, Park and Jung (2007) identify three different country groups in Asia that follow different developmental pathways: Japan, South Korea, Taiwan, and the Philippines; Hong Kong and Singapore; Malaysia and Indonesia. In Esping-Andersen's terms, the first group of countries is moving towards a more universal welfare regime with more attention on welfare services albeit

the state's reluctance towards direct financing and provision of welfare benefits. In contrast, the second group of countries is moving towards a liberal regime with welfare retrenchment, but their reliance on provident funds distinguishes them from the liberal model. The third group of countries continues its focus on health and education (Park/Jung 2007: 23).

Kwon (2005) observed that developmental welfare states are diverging between 'selective' and 'inclusive' welfare states, which differ in terms of the scope of coverage and the state's control over welfare programs. Key principles of the 'selective' strand include productivism, selective orientation, and an authoritarian political background, while the 'inclusive' strand features productivism, universal social investment, and democratic governance. While Hong Kong and Singapore maintain basic selective features, South Korea, Taiwan, and to a lesser extent Thailand, are moving towards the inclusive type (Kwon 2009). The latter countries followed a productivity-based economic development strategy and experienced a wave of democratization in the late 1980s.

While studies on East Asian welfare models enhance our understanding of the (cultural, economic and historical) conditions that caused common features of East Asian welfare states as well as differences between them, their range remains limited to mostly capitalist nations such as Japan, South Korea and Hong Kong which experienced enormous economic progress during the 1970s. Even if the next generations of developing countries (such as Malaysia, Thailand, Indonesia and the Philippines) are added, China is not always included into the welfare-typological debate. The following section gives an overview of the current state of research regarding the welfare-typological classification of the Chinese welfare state.

2.3. China in the welfare-typological discourse

Gordon White (1998) was one of first scholars to apply a comprehensive political-economy approach to analyze China. In his study on the evolution of the Chinese welfare system under the impact of post-Mao economic reform, White (1998) concludes that China is developing towards its capitalist neighbors in terms of an East Asian developmental welfare model, while it also shows common features with Esping-

Andersen's liberal and conservative-corporatist models. He predicts the prospective Chinese welfare state

(...) is likely to be heavily residualist in the sphere of social assistance and Bismarckian in terms of social insurance, with relatively privileged sectors (the civil service, professional groups, bigger firms in the cities and the urban population generally) and relatively excluded sectors (the informal sector, migrants and the rural population). (White 1998: 193)

Nevertheless, taking into account China's distinct cultural, historical, structural and political characteristics and its complex and rapidly changing economy and society, White (1998: 194) predicts the emergence of a welfare system "with Chinese characteristics".

Although Hort and Kuhnle (2000) include China into their analysis, this remains for comparative purposes only. To them (2000: 179), the ultimate developmental trajectory of China's welfare system remains uncertain, and thus the classification of the Chinese welfare state remains open.

Aspalter (2001; 2006) introduced the idea that the nature of political systems and the dominance of conservative political parties were the driving forces of the particular developmental path of East Asian welfare states. In his extended view of the Three World typology, China is regarded as a member of a fourth, 'pro-welfare conservative' welfare regime (Aspalter 2006). Pro-welfare conservative welfare states are purely conservative in nature as conservative political parties and/or conservative social policies shaped their development. They are characterized by relatively low levels of public welfare expenditure, heavy reliance on the market and family in welfare provision, a welfare-regulating state with aversion towards welfare dependency and redistribution, a preference for occupationally fragmented social insurance systems, the preferential treatment of special interest groups, as well as a reluctant stance of the state towards welfare-state extension (Aspalter 2001). China seems to constitute an exception among pro-welfare conservative welfare states in that the leading political party is not conservative and as communist ideologies formed the welfare system of the past. However, as Aspalter (2006) maintains, the Communist Party has taken a conservative stance in preferring market-welfare provision and being reluctant to extend state-welfare programs, especially in the 1990s. Aspalter (2001, table 1) describes conservative social policy in China as "practical conservatism under the umbrella of theoretical communism emphasizing both individual and collective responsibility for welfare provision".

Kwon (2005) refrains from simply considering China's emerging welfare state (along with Thailand) as an example of the developmental welfare model. Instead, he (2005: 20) suggests following further developments in China using the concept of the developmental welfare state. Referring to Kwon's (2005) study, Guan (2005) finds two overarching social policy reform concerns in China, which follow the selective strand of the developmental welfare state as introduced by Kwon (2005). These include the reorganization of the welfare system to facilitate market transition and the preservation of political order. According to Guan (2005), this policy orientation has resulted in a dual social policy system with separate welfare systems in urban and rural areas, which is unable to reduce increasing inequalities, although it does not worsen them. Moreover, emerging welfare programs in China are based on the social insurance principle, which locates them closer to the Northeast Asian economies of Japan, Korea and Taiwan rather than the members of the inclusive or provident fund model of Southeast Asia such as Singapore and Malaysia (Kwon 2005).

Choi (2012) regards China as a member of Holliday's (2000) productivist welfare regime. According to him (2012: 284), before China's market transition in the 1980s the Chinese welfare state was characterized "as a socialist system with workplace-based welfare in state-owned enterprises, residence-based welfare in urban neighbourhood organisations and locality-based welfare in rural areas." The introduction of neo-liberal social policies after the 1980s allowed China to achieve remarkable economic growth. As a result of China's market transition, Choi (2012: 285) argues that

the Chinese welfare regime has changed from a collective socialist regime based on 'low wage and high welfare' to growth-oriented productivist regime based on individual responsibility, i.e., 'Confucian rhetoric'.

With a rise in social problems as a consequence of market transition, the Chinese government introduced reforms towards welfare-state expansion in the 1990s. As the needs for social policy now correspond with economic and political needs, Choi (2012) finds that the productivist feature of the Chinese welfare regime has been significantly weakened. Social policy has started to be regarded as a productive tool in China, although the overarching goals of political stability and economic growth have not changed much since China's market transition. But as the dynamic and transitory welfare regimes of East Asia are still "in the critical stages of formulating their new welfare regimes", Choi (2012: 291) maintains that the developmental trajectories of these regimes will depend on welfare politics based on contingent effects.

According to Ringen and Ngok (2013: 17), the Chinese welfare state is, if anything, “a hybrid of the least progressive models in previous experience”. Although the Chinese welfare state deviates from Esping-Andersen’s liberal model in terms of its welfare statism (regarding the control of social insurance capital), there is sufficient room for private insurance in terms of supplementary pension and health insurances. Yet, they conclude that the conservative model seems to offer the best fit:

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. (Ringen/Ngok 2013: 17)

In sum, these studies come to more or less different conclusions with regards to how the Chinese welfare state can best be classified. According to White (1998: 178), China is following the developmental welfare traits of its East Asian neighbors which are comparable to Esping-Andersen’s conservative-corporatist model, both in terms of their ideological motives (regime legitimization and maintenance of social order) and their institutional design (corporatist social insurance). But White’s (1998) study refers to Chinese welfare developments in the wake of state socialism and – after almost 30 years – is outdated. Aspalter’s (2001) study is based on a conceptual framework and focuses on developments in the 1990s. To Hort and Kuhnle (2000) as well as Kwon (2005), the classification of the Chinese welfare state remains open. Guan (2005) sees China in the light of selective developmental-regime traits, whereas in a more contemporary study Choi (2012) finds that the Chinese welfare state is moving out of its productivist shell. Ringen and Ngok (2013) find, that Esping-Andersen’s conservative-corporatist model comes closest to describing the Chinese welfare state. These studies surely offer a fruitful insight into the dynamism and features social security development in China. Their discussions are, however, based on conceptual classifications instead of empirical frameworks, and what is more, require an update. The literature on the welfare-typological classification of China remains lean, suggesting that China has not been in the center of the research on welfare regimes. This makes the underlying scholarly project even more important. Recent reforms towards a more universal and inclusive system pose a compelling reason to conduct a contemporary analysis of the Chinese welfare state. Analyzing China’s welfare system raises interesting questions about how the Chinese welfare state evolves in the transition from a socialist to an open-market economy and, what is more, about what kind of welfare regime is emerging in China. The following chapter tracks social security development in China under the impact of mar-

ket transition sheds light onto the complex and dynamic development of China's welfare system, before turning the attention towards the welfare-typological classification of the contemporary Chinese welfare state in chapter 4.

3. CHINA'S SOCIAL SECURITY SYSTEM IN TRANSITION

This chapter reviews key economic, labor and social policy reforms at different histori-co-political stages with an emphasis on the reform of the pension, health and unemployment insurance systems. It depicts the evolution of the Chinese welfare state from the origins of the socialist welfare system, over the reform of this system in the context of market transition and the gradual establishment of a new social insurance system, to the present shape of China's social security system. Tracing major social security developments in the years from 1949 to 2015 helps to identify distinctly Chinese features of social policy making, same as constant and changing characteristics of China's welfare system.

3.1. Social security development under a centrally-planned economy

(1949-1976)

With the foundation of the People's Republic of China in October 1949, a centrally-planned economy was established. In urban areas, foreign and national equity owners were expropriated and work units were created. In rural areas, landowners were expropriated and land was collectivized. In the course of the 1950s, two separate welfare systems have emerged in the urban and rural areas of China.

IRON RICE BOWL IN URBAN AREAS

Under the centrally-planned economy, the communist government assigned jobs to all able-bodied citizens by integrating them into different work units (*danwei*) which included state-owned enterprises (SOEs), state agencies, government departments and other public-sector organizations. In 1951, the Labor Insurance Scheme (LIS) was introduced as an employment-based social insurance program that protected SOE employees towards the social risks of old-age, sickness, work injury, disability and maternity. In 1952, the Government Insurance System (GIS) was launched as a public social insurance program for employees of governmental and institutional work units including government officials, their dependents and college students. Public pension and health insurance were organized around work units and catered to SOE and government

employees in urban areas. Initially, employees in state-operated, joint state-private, co-operative and private factories and mines with more than 100 workers and staff were covered under the LIS. In subsequent years, the LIS was significantly extended to further work units. Coverage increased from 3 million in 1951 to 89 million insured in 1978, which constituted 94% of the urban workforce or 22% of the total workforce (Zhang 2005: 61). The scheme was fully funded by enterprises which contributed 3% of their total payroll into the LIS fund that was operated by both enterprises and labor unions. Enterprises were legally obliged to pay 30% of the contributions to the All-China Federation of Trade Unions (ACFTU) which pooled and redistributed the LIS fund at the national level.

Each *danwei* functioned as a self-providing ‘welfare society’ providing job tenure, income guarantee and comprehensive welfare packages to its members. This ‘cradle to the grave’ welfare system in urban China based on full employment, income guarantee and comprehensive welfare packages became known as the ‘iron rice bowl’ (Leung 2005). For urban residents outside the *danwei* system, the state provided limited social relief to cover the basic needs of the ‘Three No’s’ (no work, no family, no independent means of living) which mainly included childless elderly, disabled homeless and orphans. Most of these were received into institutional care such as homes for the aged and orphanages. As the size of this population was small, the problem of urban poverty at that time was limited (Leung 2006).

COLLECTIVE WELFARE IN RURAL AREAS

In rural China, farmers were organized into communes based on collective ownership of land⁷. The majority of the rural population, which accounted for 80% to 90% of the total population, relied on job guarantee by the collective body. Households were granted sufficient amounts of cereal rations by the collectives and a piece of farmland for private cultivation. Collective welfare funds were introduced and managed by the production group as the smallest collective unit. As resources for these funds were deducted from collective net wages, welfare standards depended on the financial and material resources of the collectives with significant variations between regions (Bösch 2012).

⁷ Collective economy in rural China was organized on three levels: first, the people’s communes (ca. 3000 households), second, the production brigade (ca. 250 households), and third, the production groups (ca. 30 households) (Bösch 2012).

There were two important systems of rural collective welfare: the Rural Cooperative Medical System (RCMS) and the ‘Five Guarantees’ system. The RCMS was the major means to provide basic healthcare and to prevent epidemic diseases in rural China, covering 90% of the rural population by 1970 (Li et al. 2015). It began to develop nationwide during the Cultural Revolution (1966-1976) and granted free medical care to rural residents. Each collective member paid a certain amount into the health insurance fund which was partially funded by the collective welfare fund. The Five Guarantees system was funded by rural collectives and catered to the poorest rural residents. Recipients had to undergo means-testing by neighbors and benefits were only granted in extreme cases with stigmatization of its recipients. Benefits included nutrition, fuel, clothing, housing and funeral costs which were granted to collective households and catered to childless elderly, orphans and disabled without families.

3.2. Social security development in the course of economic reform

(1977-1992)

In December 1978, the Communist Party under Deng Xiaoping launched its economic reform and opening-up policy introducing comprehensive reforms towards a socialist market economy. As the previous social security system was regarded as an obstacle to promoting productivity, the government pursued the privatization of SOEs under the slogan of ‘small government and big society’ (Leung 2005). This meant the erosion of the socialist welfare system by way of guaranteed access to job or farmland.

The reforms began in agriculture when collectively-owned land was leased to family farmers and the people’s communes were dissolved. The dismantling of collective structures meant that farmers could no longer rely on a guaranteed workplace and income distribution by the communes, and thus social security for most farmers evaporated. With the introduction of the household responsibility system in 1979, income from agriculture was now returned to individual households instead of the communes, which again weakened collective welfare in rural areas. Welfare services had to be financed via tax revenues and contributions, so that families had to bear the costs for their members’ welfare expenses. The RCMS was left without a base for funding and organization, and consequently collapsed leaving nearly 80% of the rural population without

health coverage (Zhu 2012). Since healthcare was largely privatized, it became unaffordable for the majority of the rural population.

Due to high rural underemployment, the government loosened the *hukou*⁸ system (household registration) since 1984, which gave rise to China's 'floating population'. Millions of rural people migrated to the cities on subsistence wages, without access to social entitlements of urban permanent residents. By the end of 1999, the number of these 'migrant workers' (rural-to-urban migrants working in urban areas) reached 80 million and has more than tripled ever since (Gao et al. 2012: 1195).

At the same time, China's iron rice bowl system posed a heavy financial burden for both work units and the central government. The non-contributory nature of the system resulted in extremely inefficient welfare provision and unlimited growth of welfare demands. For example, older enterprises had older employees and thus a heavier welfare burden to pay out pensions (Huang 2014). With the privatization of SOEs, the full employment policy was dismantled and replaced by a system of individual contracts as of 1986. This reform freed enterprises from their employment and welfare responsibilities and resulted in massive lay-offs of surplus labor. In the same year, the government introduced a 'job-waiting' insurance, providing income support and re-employment assistance to laid-off SOE employees (*xiagang gongren*). Although the LIS included a form of unemployment benefit called 'job waiting relief', an insurance against the risk of unemployment did previously not exist for as it was seen as a capitalist problem (Leung 1994). The aim of this new job-waiting insurance was to help facilitate economic reforms which would increase productivity and competitiveness by privatizing SOEs. It was financed by employer contributions, interest earnings and government subsidies, without any contributions by employees.

Following a series of local pilot projects starting from the mid-1980s onwards, the State Council began to develop a two-pillar statutory pension system with defined contributions for urban employees. In its initial stage, the coverage for this pension system was low with 55.2% of the urban workforce (or 30% of the urban population) being covered (Liu/Sun 2016). Efforts towards pension insurance for rural elderly began in 1986 when the central government introduced a voluntary social pension system in rural

⁸ See chapter 5.2. for a description of the *hukou* system.

areas. This was followed by a pilot reform in three provinces in 1991 which were expanded to further rural areas from 1992 onwards.

The economic restructuring of SOEs ultimately resulted in mass unemployment and poverty in urban areas, with enterprises unable or unwilling to pay-out wages and social benefits. The poor financial situation of SOEs coupled with mass unemployment resulted in a crisis of the *danwei*-based welfare system and evoked heavy protests throughout the 1980s and 1990s. Consequently, a reform of the *danwei*-based welfare systems was launched.

3.3. Social security development under a socialist market economy

(1993-2002)

In 1993, the Communist Party issued a general decision on ‘the establishment of a socialist market economy system’ in which social security was defined as ‘a normal sustaining mechanism’ and in which the main concepts of a social insurance system were outlined (Ringen/Ngok 2013: 8). This included the establishment of a decentralized social insurance administration, moving from risk pooling from individual enterprises to regions (Huang 2015). Employees were for the first time required to pay a share of the contributions to social insurance funds. In the same year, the ‘Provisions for Workers’ Job-Waiting Insurance in State-Owned Enterprises’ was adopted and coverage of the job-waiting insurance was extended to include more categories of SOE workers.

In 1994, a new Labor Law including various workers’ rights including a minimum wage was adopted.

In late 1998, the central government established the mandatory and contributory Urban Employee Basic Medical Insurance (UEBMI) with social and individual accounts. The introduction of the UEBMI marked a shift from a traditional medical welfare system towards social health insurance (Liu/Wong 2016). Although coverage was extended to non-state sectors and enterprises, it remained low at only 36% in 2003. As the UEBMI was employment-based, coverage was restricted to formal sector employees leaving out certain social groups outside this sector (e.g. informally employed, elderly, disabled and farmers).

In the same year, the Minimum Living Standard Scheme (MLSS) was introduced as a means to provide a basic standard of living for urban residents. The MLSS is a means-tested social assistance program in the poor-relief tradition which grants access to a locally determined minimum living standard in the form of cash benefits conditional on family income. It covers the traditional Three No's, (unregistered) unemployed workers, and low income households whose average family income is below the regional minimum living standard (a local poverty line set by local governments according to expenses for basic necessities including nutrition, clothing and housing). The MLSS is administered and funded by local governments with some central or provincial government subsidy, whereas applications are processed by local street offices and residents' committees (Ngok 2010).

In 1999, several projects towards a rural pension insurance system were initiated by the State Council and the Asian Development Bank, which intensified in the early 2000s. This rural pension scheme was a voluntary funded, defined-contribution plan which lacked a social pool for as contributions were made into individual accounts. Rural residents' contribution capacity and pension entitlements differed significantly by region. Rural residents could choose the amount of contributions (2 to 20 yuan) and the sequence of payment (monthly, quarterly or annually). Benefit levels depended on the size of the pension funds and investment returns. Since this old rural social pension lacked adequate funding, it did not succeed in practice (Tao 2016). The number of participants in 1999 was 80 million, or 11% of China's rural population, with a steady decrease in participation as rural residents withdrew the payments made from their individual accounts. In 2004, only 54 million rural residents participated in the rural pension scheme, which marked its failure (Liu/Sun 2016).

In the late 1990s, all SOEs were required to introduce Re-employment Service Centers which provided transition for *xiagang gongren* to move into other employment or the job-waiting insurance program. Under the Centers, SOEs remained responsible of laid-off workers for up to three years. Enterprises, the government and insurance funds each contributed one-third of the funds. Workers received a minimum living allowance, which was set in 1998 to be slightly higher than the local standards for unemployment relief. The Centers also contributed premiums for social security benefit programs including pension and health insurance, and covered expenditures for re-training.

The 1999 'Regulations on Unemployment Insurance' officially introduced the concept of 'unemployment' and 'unemployment insurance' (*shiye baoxian*), replacing 'job waiting' (*daiye*) and *xiagang* with 'unemployed' (*shiye*) (Bösch 2012: 44). Contributions were now required by both employers and employees with shortfalls to be covered by fiscal subsidies. Coverage was extended beyond SOEs to include all urban enterprises and urban-resident workers except for civil servants. Benefit levels, duration and other program aspects were to be determined by local governments according to the local situation, which marks a shift away from a unifying national UI standard to a more decentralized approach (Vodopivec/Tong 2008). In 2000, the *binggui* policy was adopted after which Re-employment Service Centers were gradually merged with the UI program, which shifted the financial burden away from SOEs to employers and employees as laid-off SOE workers would now be covered directly under the UI program. With these changes, the UI program has changed from a transition measure for laid-off workers to a regular UI program for unemployed workers.

3.4. Social security development since 2003

In the early 2000s, experimentations with rural pension insurance (2002) and rural health insurance (2003) intensified. Between 2002 and 2003, migrant workers were accorded the status of being part of the working class, with rights to equal treatment alongside urban residents when applying for jobs. Migrant workers were principally granted access to pension insurance in 1999 and work injury in 2002. However, participation in social insurance programs among migrant workers was very low, with coverage rates of only 2-5% in 2002 (Gao et al. 2012: 1195).

After the outbreak of the severe acute respiratory syndrome (SARS) in the winter of 2002 to 2003, the Chinese government recognized the weakness of its healthcare system and the need for action. As a result, the New Cooperative Medical Scheme (NCMS) was introduced in rural areas (replacing the RCMS) after the epidemic was brought under control. By 2010, the NCMS covered 90% of the rural population in most provinces, which according to Huang (2014: 930) was due to huge government subsidies.

In 2006, the agricultural tax was abolished which previously posed a heavy financial burden on farmers. As the rural Five Guarantees system used to rely on collective re-

sources and was thus essentially a mutual help arrangement, it was unsuited to dealing with the new challenges facing rural communities in the context of market transition (Zhu 2012: 47). As a response, the MLSS was extended to include rural residents in 2007. Since the MLSS is a *hukou*-status based social assistance program, migrant workers are excluded from the scheme as they lack a local *hukou*-status and thus are not entitled to urban MLSS benefits (Ngok 2010).

In 2007, the Urban Resident Basic Medical Insurance (URBMI) was introduced for those not covered by the UEBMI (e.g. children, the elderly, disabled and other unsalaried urban residents). This new type of residence-based social insurance was a novelty in the history of the Chinese welfare state. More than half of the urban residents in 12 provinces were covered by the end of 2010. Since then, the government intensified state funding of social health insurance, with coverage exceeding 80% in 26 out of 30 provinces (Huang 2014: 930).

In 2008, the Labor Contract Law was introduced. According to the Labor Law of 1994, employers could refuse to sign labor contracts or choose to only sign short-term contracts with workers, which made migrant workers very vulnerable regarding their rights and benefits. The Labor Contract Law of 2008 requires enterprises to sign labor contracts with all employees regardless of their *hukou* status, and to include them in basic social insurance programs as part of their labor contracts. Besides, employees may terminate their labor contracts and request financial compensation if employers are unwilling to pay out social benefits.

In 2009, the New Rural Social Pension Scheme (NRPS) with voluntary participation was promulgated.

In 2010, regulations on the enhancement of basic social insurance participation of migrant workers were introduced, which institutionally guaranteed the portability of pension entitlements (both individual and pooling accounts) to new workplaces when migrants work across provincial boundaries (Cai 2011: 41). These regulations resulted in an increased social insurance participation of migrant workers.⁹

In 2011, the Social Insurance Law was introduced as a comprehensive national framework. This law constituted the first basic regulations on social security since the foundation of the Peoples' Republic of China in 1949, including pension, medical, work

⁹ See **Appendix IV**: Developments in social insurance participation of migrant workers.

injury, unemployment and maternity insurance. According to the Social Insurance Law, all employees (including migrant workers) were to be covered by social insurance and the transferability of social insurance benefits were to be ensured when workers move. Moreover, contributions were to be split between employers and employees at different rates to social funds which were to be managed by local governments and pooled at the provincial or municipal level.

In the same year, the State Council introduced the Urban Residents' Social Pension Insurance Scheme (URPS) for un-salaried urban residents, combining a funded pension financed by individual premiums and government subsidies.

In 2014, the State Council decided to merge the NRPS and the URPS into a unified, universal non-contributory pension scheme known as the Residents' Social Insurance Pension Scheme (RPS).

In 2015, the Basic Old-Age Pension for Civil Servants was replaced by the Urban Employees' Basic Pension Insurance Scheme (UEPS).

In less than four decades, China has transformed its economic system from a centrally-planned to open-market economy while maintaining its socialist corpus. The economic restructuring in the 1980s was accompanied by transformations in China's socio-economic structure which had major consequences for its social security system. Under the centrally-planned economy, social welfare was provided via work units and collectives. With market transition, China's previous socialist welfare system began to erode, leaving huge parts of the population unprotected. With rising social problems, the communist government began to reform its old social security system in the late 1990s. The consolidation towards a more inclusive system started towards the end of the century and ever since has been a continuous process. In recent years, the Chinese government has made remarkable efforts by introducing reforms towards universal social insurance coverage, especially in terms of pensions and health insurance. Reforms of the past two decades produced a welfare system that mainly consists of social insurance and social assistance programs with for the most part separate schemes in urban and rural areas (see **Table 3**).

Given these remarkable developments of China's social security system, it is highly interesting to integrate China into the welfare-regime debate. The following chapter analyzes China's contemporary social security system from a welfare-typological per-

spective and aims to classify the Chinese welfare state according to the Three Worlds framework.

Table 3: Outline of relevant social security programs in China as of 2015

	Urban	Rural
Pension insurance	Residents' Social Insurance Pension Scheme (2014) Urban Employees' Basic Pension Insurance Scheme (2015)	Residents' Social Insurance Pension Scheme (2014)
Health insurance	Urban Employee Basic Medical Insurance (1998) Urban Resident Basic Medical Insurance (2007)	New Rural Cooperative Medical Insurance (2003)
Unemployment insurance	Unemployment Insurance (1999)	N/A
Work injury/disability insurance	Work Injury Insurance (1999)	N/A
Maternity insurance	Regulations on Labor Protection for Female Workers (1988, revisions in progress)	N/A
Social assistance	MLSS (1993, pilot) and supplementary support to low-income households (2005)	MLSS (2007, national implementation) and supplementary support to low-income households (2003)

N/A: not available.

Source: Compiled by author based on Bösch (2012) and SSA (2015).

4. CLASSIFICATION OF THE CHINESE WELFARE STATE

In the following, the Chinese welfare state is classified according to Esping-Andersen's theoretical framework for his Three Worlds typology. This is done via a status-quo-analysis along three analytic dimensions – decommodification, social stratification and the state-market-family relationship – based on data for the latest years available. In accordance with Esping-Andersen's (1990) analysis, the primary focus of attention here is on China's pension, health and unemployment insurance systems. Each section of this chapter includes an introduction and operationalization of the analytic project for each analytic dimension, as well as an interim conclusion in which the key findings are summarized and presented in a table.

4.1. Dimension I: Decommodification

Esping-Andersen (1990: 21) states that the concept of social citizenship¹⁰ must involve the granting of social rights which again is accompanied by the decommodification of individuals' status vis-à-vis the market. Decommodification refers to the provision of welfare that does not depend on workers' relations to the cash nexus on the labor market. It indicates the degree to which individuals' social rights are detached from the same (Esping-Andersen 1990: 47). This analytical dimension looks at the quality of social rights in the Chinese welfare state and analyzes the decommodification potential of pension, health and unemployment insurance programs. Determining the decommodification potential of social policies requires the analysis of “the rules and standards that pertain to actual welfare programs” (Esping-Andersen 1990: 47), meaning the accessibility of benefits and benefit generosity as operationalized in **Table 4**.

Table 4: Operationalization of the decommodification potential of social policies

Criteria	Definition	Decommodification potential of social policies
<i>Accessibility</i>		
Coverage	The scope of the circle of people covered under insurance	High, if access is universal
Eligibility rules	Means- or needs-tests; previous employment record or work performance; financial contributions; citizenship or residence	High, if social rights are granted regardless

¹⁰ See Marshall (1950) for his conceptualization of social citizenship.

Table 4 (Continued)		
Criteria	Definition	Decommodification potential of social policies
<i>Benefit generosity</i>		
Range of cash benefits	Level of income replacement ¹ for cash benefits of employment-based schemes	Low, if benefit level falls substantially below normal earnings or standards of living considered adequate and acceptable in society
Restrictions on entitlements	Benefit duration, waiting days for cash benefits, qualifying period for cash benefits of employment-based schemes ²	Low, if limited benefit duration, long waiting days or long qualifying period

¹ The ratio of the net benefit payable to a typical (single worker) – someone earning the average production worker’s wage – to their net income (Scruggs/Allan 2006: 57).

² For sickness and unemployment cash benefits: waiting days before one can receive the benefit; the number of weeks for which the benefit can be received; the number of weeks of work or insurance necessary to receive a benefit of the length specified in benefit duration. For pension benefits: number of required contribution years.

Source: Compiled by author based on Esping-Andersen (1990).

4.1.1. Social rights for the old-aged

ACCESSIBILITY

China’s contemporary pension insurance system consists of two public social insurance schemes. The UEPS is an employment-based social insurance scheme with mandatory individual accounts. It covers urban employees (including legally employed migrant workers), self-employed persons, part-time and irregular workers, as well as public employees and civil servants. Some urban workers may additionally join private savings schemes managed by private-sector insurance companies with little government involvement (Ye 2011). The RPS is a residence-based social insurance scheme combining a non-contributory, non-means-tested social pension with individual savings accounts. It covers rural and unsalaried urban residents.

Eligibility for the UEPS requires financial contributions by employers (20% of total payroll) and employees (8% of total wage), a contribution duration of minimum 15 years and reaching the statutory retirement age (60 for men and white-collar women, 55 for blue-collar women and 50 for other categories of women). The RPS’s social pension is disconnected from individual contributions, premiums or work records and is payable

at a pension age of 60 years for both men and women. Benefits of the RPS's individual account additionally require the payment of individual premiums with a minimum payment duration of 15 years.

BENEFIT GENEROSITY

Persons insured under the UEPS are entitled to receive pension benefits in two parts: basic pension benefits and mandatory individual account funds. The benefit level for the basic pension depends on the average local wage in the previous year plus average individual monthly wage used to calculate contributions (insured's average monthly wage indexed to the average local wage), divided by two. The result is multiplied by 1% for each year of contributions. The average basic pension paid out in 2015 was 2,270 yuan (320 USD) per person per month (MoF 2016). Benefits of the mandatory individual account are based on the insured's contributions divided by the actuarial month (139 in 2014), with the option of a lump-sum payment of the account balance. The minimum pension (basic pension plus pension based on mandatory individual account) is 40% to 60% of the average local monthly wage during the previous year, depending on the region (SSA 2015). In 2014, the net pension replacement rate for the UEPS was 45%, compared to 58% in 2005 and 71% in 1997 (People's Network 2013; Accounting Network 2016).

The minimum contribution duration for UEPS benefits is 15 years (10 years for early pension when being assessed with total disability or 8-10 years of coverage if employed in arduous or unhealthy work). Participants who joined the UEPS before 2011 and who have contributed at least 10 but less than 15 years at the retirement age, may make lump-sum contributions to become eligible for the basic pension.

4.1.2. Social rights for the sick

ACCESSIBILITY

China's contemporary health insurance system consists of three public social insurance schemes. The UEBMI is an employment-based social insurance scheme with mandatory individual accounts. It covers urban employees in urban state-owned and private enterprises (including migrant workers), party and government authorities, social groups and non-profit organizations, with voluntary coverage for urban self-employed persons. The

URBMI is a residence-based social insurance scheme covering unsalaried urban residents (including children, the elderly and long-term unemployed). The NCMS is also a residence-based social insurance scheme covering rural residents, with voluntary coverage for self-employed persons in rural areas. Other types of health insurance include commercial health insurance for individuals and company supplementary health insurance. Moreover, there exists a complementary health insurance system for civil servants financed by central and local governments.

Eligibility for UEBMI benefits requires financial contributions by employers (6-8% of total payroll) and employees (2 % of total wage). The length of sick leave and level of sickness cash benefits depend on the insured's (continuous) work record. There are no further eligibility rules for medical and sickness-cash benefits. Eligibility for residence-based social health insurance schemes requires the payment of individual premiums only.

BENEFIT GENEROSITY

According to the Labor Law, the UEBMI provides sickness cash-benefits to employees who suffer from illness or non-work related injuries. These benefits are usually paid at a reduced rate ranging from 60-100% of an employee's daily wage, depending on his or her work record, working seniority and on local regulations, for up to 24 weeks each year. Thereafter, 40-60% is paid until the employee recovers or is assessed with a permanent disability (SSA 2015).

There is no minimum qualifying period, nor waiting days for sickness benefits. In general, sickness benefits are paid from three to 24 months, depending on an employee's work record (years of employment) and seniority with their current employer. For example, the minimum duration of sickness benefits is three months for employees with less than 10 years of continuous work record and less than five years of seniority with their current employer.

4.1.3. Social rights for the unemployed

ACCESSIBILITY

China's contemporary unemployment insurance (UI) system consists of a public-mandatory social insurance program covering all employees of urban (state-owned and

private) enterprises and institutional organizations and, conditionally, urban self-employed persons with or without employees. It excludes urban employees of pensionable age. Migrant workers are allowed to register as unemployed and hence may participate in the UI. Moreover, there exist re-employment policies including several forms of re-employment and job-seeking training and assistance, as well as the encouragement of self-employment. There is no national unemployment insurance for rural workers.

Eligibility for UI benefits requires that individuals must be involuntarily unemployed, have contributed for at least one year, be regularly reporting to a local employment-service agency and be actively seeking employment. Moreover, insured persons need to be registered as unemployed in urban areas. Claimants have to apply for unemployment benefits within 60 days after their labor contract expires or is terminated. Continuing eligibility requires that UI beneficiaries be actively seeking, capable of, and available for work. Refusing a suitable job offer may cease or suspend benefits. Furthermore, claimants become ineligible for receiving UI benefits upon gaining re-employment, enrollment in schools, recruitment into military service, living abroad and being entitled to pension insurance benefits.

BENEFIT GENEROSITY

The UI program provides benefits in terms of unemployment cash benefits, medical subsidies, allowances for funeral expenses and survivors' benefits to dependent spouses and family members, provisions to support employment or re-employment including vocational training and other benefits. Cash benefits of the UI program are not earnings-related, but flat-rate and defined by local governments. These require that benefit levels must be above the minimum living standard, but below the local minimum wage. According to national statistics, the national average monthly UI benefit was 1051.4 yuan in 2016 (MoHRSS 2017). When compared to other countries, UI benefit levels remain quite low and benefits provide a much lower income replacement rate, with a replacement rate of only 14.7% in 2005 (Vodopivec/Tong 2008). The author Kongshøj (2015: 77) reports an average net replacement rate of 23% in 2011.

Unemployment benefit duration is graded according to contribution or coverage duration. Benefits are paid up to 12 months with less than five years of coverage, for up to 18 months with less than five but more than ten years of coverage, or for up to 24 months with ten or more years of coverage. The minimum qualifying period is one year.

Besides, there is no waiting period before benefits are paid out for as UI benefits are calculated from the date of unemployment registration. Benefits are paid monthly, except for contracted migrant workers who receive a lump-sum living allowance if they had over one year of continuous service and their employers have paid the UI contribution.

4.1.4. Interim conclusion

Esping-Andersen (1990: 48) argues that conditions for entitlements are usually linked to the type of social security arrangement which has its peculiar effect on decommodification. China's social security system is predominately based on the social insurance principle, distinguishing between employment-based schemes targeted to urban employees and residence-based schemes for rural resident and unsalaried urban residents.

The accessibility of social entitlements in China is primarily determined by the employment and *hukou* status of individuals (see **Table 5**). Social rights are mainly targeted to the urban workforce for as China's social insurance system primarily extends the social rights of employed urban residents. Benefits of employment-based schemes are contributory and earnings-related, except for UI benefits which are flat-rate but oriented towards the local minimum wage and minimum living standard. This means that labor market participation is assumed and the decommodification potential of these social policies remains limited. Social insurance participation for other types of employees (self-employed, irregular or part-time employed, migrant workers without labor contracts) is mostly voluntary and limited. Sickness as well as unemployment benefits are only available to urban insured persons, excluding rural workers. However, health insurance also cover unemployed persons and sickness benefits are non-contributory. In contrast to employment-based schemes, residence-based schemes extend social rights to all citizens regardless of their employment status or work records, and in the case of China's means-tested social pension, they are granted regardless of individual contributions. Although the range of residence-based social insurance schemes is limited to pension and health insurance, their decommodification potential in terms of access to social benefits is high. Pension benefits have a rather low replacement rate of 45% of previous incomes, but they are already granted with a contribution duration of 15 years and a retirement age of 55-60 years. Sickness benefits approximate 60-100% of an employee's daily wage (in the first 24 weeks of sickness) and are granted without waiting days

or a minimum qualifying period. The duration of benefit payments, however, depends on the years of employment and working seniority of insured persons with their current employer. Depending on this, sickness benefits are paid from three to 24 months. Unemployment benefits provide a very low income replacement with a replacement rate of only 23%, albeit without waiting days before one can receive benefits. Even though the minimum qualifying period is one year, unemployment benefits are already paid up to 12 months, with the length of benefit payments depending on the insured's contribution duration.

Table 5: Analysis of decommodification in the Chinese welfare regime

Scheme	Target group	Range of entitlements	Range of cash benefits
UEPS	Urban employees	Employment-based, contributory, work record; earnings-related benefits	Low pension replacement rate (45%), but low qualifying period (15 years)
RPS	Rural and unsalaried urban residents	Residence-based Social pension: non-contributory Individual account: individual premium	N/A
UEBMI	Urban employees	Employment-based, contributory, work record; earnings-related benefits	N/A
Sickness	Urban employees	Non-contributory (employer-funded), work record, working seniority, no government subsidy	60-100% of daily wage (in the first 24 weeks) with no waiting days or minimum qualifying period; benefit duration of 3 to 24 months
URBMI	Unsalariated urban residents	Residence-based, individual premium	N/A
NCMS	Rural residents	Residence-based, individual premium	N/A
UI	Urban employees	Employment-based, contributory, work record; flat-rate benefits	Low replacement rate (23%), but no waiting days; minimum qualifying period of 1 year; benefit duration of 12 to 24 months

N/A: not applicable.
Source: Compiled by author.

4.2. Dimension II: Social stratification

The second analytic dimension looks at the stratification effects of social policies in the Chinese welfare state. The concept of social stratification measures how key welfare state policies structure social relations in terms of class and social order. According to Esping-Andersen (1990: 58), welfare states differ in terms of their different effects on

social structure: “One may cultivate hierarchy and status, another dualisms, and a third universalism. Each case will produce its own unique fabric of social solidarity”. The particular stratification effects of social policies are measured using three empirical indices (conservatism, liberalism, socialism) with several macro-features of welfare programs to measure these (Scruggs/Allan 2008: 646). **Table 6** provides a description of these indicators and features, as well as the operationalization of regime-specific stratification effect of social policies in China. The exact stratification potential of these indices is assessed in accordance with Esping-Andersen’s (1990: 77-78) scoring procedure for stratification indices (see **Appendix II**: Calculation of stratification indices).

Table 6: Operationalization of the stratification effect of social policies

Criteria	Definition	Stratification effect of social policies
<i>Conservative stratification</i>		
Corporatism (relative degree of occupational status differentiation)	Number of occupationally distinct pension schemes in operation	Conservative, if high
Etatism (relative privileges accorded to civil servants)	Pension expenditures for civil servants as % of GDP	Conservative, if high
<i>Liberal stratification</i>¹¹		
Relative importance of social assistance	Expenditure on means-tested benefits as % of total public social expenditure	Residual, if high
Relative importance of private health	Private health expenditure as % of total health expenditure	Residual, if high
<i>Social-democratic stratification</i>¹²		
Degree of universalism	Share of relevant population covered under respective program ¹ and thus eligible for social benefits	Universal, if high

¹ Pension, health and unemployment insurance schemes.

GDP: Gross Domestic Product.

Source: Compiled by author based on Esping-Andersen (1990).

¹¹ Esping-Andersen (1990: 73) additionally considers the relative importance of private pensions (measured as private pension expenditure as share of total pension expenditure) when measuring liberal stratification. As there is a lack of available national data on private pension spending in China, this liberal-regime indicator is not considered further in the following.

¹² Esping-Andersen (1990: 70) additionally includes ‘benefit differentiation’ when measuring social-democratic stratification in terms of cash benefits provided to deal with the social risks of old-age, sickness and unemployment, which he defines as the ratio of what a normal standard worker will receive as a standard benefit to the maximum benefit stipulated in the rules of the system. As China’s social security system is highly fragmented, calculating ‘average’ benefit differentials for each scheme of a program would go beyond the scope of this master’s thesis, and thus they are left out.

4.2.1. Conservative stratification

Two factors capture conservative stratification goals (status maintenance and privileged treatment of civil servants), namely corporatism and etatism. Corporatism refers to the segmentation of public pension programs along occupational lines, whereas etatism is the extent of pension expenditure on government employees as share of GDP (Esping-Andersen 1990: 69-70).

CORPORATISM

China's public pension program is not segmented along occupational categories. There exists only one employment-based public pension scheme for all urban employees (including civil servants and public employees), namely the UEPS. Thus, China scores low on corporatism.

ETATISM

With the latest pension reform, according to which the Basic Old-Age Pension for Civil Servants was merged with the UEPS in 2015, the relative privilege of China's civil servants and public employees was nullified. The degree of etatism in China's pension system is low.

4.2.2. Liberal stratification

To capture liberal stratification goals, private spending patterns in terms of social relief (residualism) and health (market solution in welfare provision) are considered. The relative importance of social assistance is measured as government expenditure on means-tested benefits as share of total public social expenditure (social-relief variable), whereas the relative importance of private health is measured as private health spending as share of total health expenditure (private-health variable) (Esping-Andersen 1990: 73).

MEANS-TESTED SOCIAL RELIEF

China's contemporary social security system includes several means-tested social assistance programs, such as the MLSS which operates in urban and rural areas, the medical assistance scheme, the rural Five Guarantees system and others. In 2014, national government expenditure on social assistance was 208.3 billion yuan, which is 0.42% of

total public social expenditure.¹³ Most of the social assistance spending went to the rural and urban MLSS schemes (87.3% and 71.3%, respectively), followed by medical assistance (25.3%), five guarantees (18.9%) and other social assistance programs (5.8%) (MCA 2015). The relative importance of means-tested social assistance in China is low.

PRIVATE HEALTH SPENDING

According to WHO (2014) data, private expenditure on health accounted for 44% of total health expenditure in China in 2014 (compared to 62% in 2004 and 56% in 1997). The relative importance of private-health spending in China is high.

4.2.3. Social-democratic stratification

The social-democratic stratification goal (universalism) is captured via the degree of universalism measured as the share of relevant population covered under pension, health and unemployment insurance schemes (Esping-Andersen 1990: 73).

DEGREE OF UNIVERSALISM

By the end of 2015, the number of people covered under the two pension schemes (UEPS and RPS) was 858.33 million, which is 75% of the total adult population¹⁴. Among them, 353.61 million people (including 262.19 million employees and 91.41 million retirees) contributed to the UEPS, which is 87% of the total urban employed population. In the same year, 504.72 million people contributed to the RPS, with 148 million beneficiaries (NBSC 2016). Among the rural residents, 463 million participated in the RPS, which Liu and Sun (2016: 24) estimate to be 80% of the total rural adult population. By the end of 2015, the number of migrant workers who participated in the UEPS was 55.85 million, which is 23% of the migrant population (MoHRSS 2016).

By the end of 2013, the three health insurance programs of UEBMI, URBMI and NCMS had covered 1.34 billion people, equivalent to 99% of the total population (NBSC 2016). Among them, 570.73 million people were covered by the urban scheme (78% of the urban population), with 274.43 million UEBMI participants (72% of the urban employed population) and 296.29 URBMI participants (85% of the urban non-

¹³ Total public social expenditure (defined as national government expenditure for education, healthcare and social security and employment aid) was 49186.8 billion yuan in 2014 accounting for 7.6% of GDP (see Appendix III: Evolution of China's public social expenditure).

¹⁴ Calculated by author as total population aged 15 years and above (1.15 billion in 2015) (NBSC 2016).

employed population). The NCMS covered 802 million rural residents, accounting for 99% of the rural population (NHFPC 2014). In 2015, 51.66 million migrant workers participated in the UEBMI, which constitutes a coverage rate of 21% (MoHRSS 2016).

Despite extending the coverage beyond the SOE sector in 1999, the UI currently covers less than half of the urban workforce. In 2015, 173.3 million were insured under the UI program which is a coverage rate (share of insured workers in total urban workforce) of 43%. Thus, the UI program only included 23% of the total workforce in 2015. The number of recipients of unemployment benefits was 2.27 million, which constitutes 24% of the registered unemployed (NBSC 2016). Among the insured, 42.19 million migrant workers, or 17% of the total floating population, participated in unemployment insurance (MoHRSS 2016). **Table 7** summarizes the coverage rates for China's pension, health and unemployment insurance programs.

Table 7: Coverage rates for China's pension, health and unemployment insurance programs

Scheme	Participants	Total	Coverage rate ¹	Total (as % of total population ²)
UEPS	353 million	858 million	87%	75%
RPS	505 million		/	
UEBMI	274 million	1,340 million ³	72%	99%
URBMI	296 million		85%	
NCMS	802 million		99%	
UI	173 million	173 million	43%	23%

Note: Figures for UPES, RPS and UI are for 2015, whereas figures for health insurance schemes (UEBMI, URBMI and NCMS) are for 2013.

¹ The coverage rate indicates the share of the relevant population covered under a program. For the UEPS, UEBMI and UI, the relevant population is defined as the urban workforce, for the URBMI it is the urban unsalaried population (urban population minus urban workforce), and for the NCMS it is the total rural population; ² For pensions, the total adult population defined as the total population aged 15 years and above is considered. For unemployment insurance, the total workforce is considered; ³ As migrant workers can be enrolled in both UEBMI and NCMS, there might be overlaps in participant numbers between these two schemes. This figure is reported to be the number of the population covered under all three schemes, without overlaps (NHFPC 2014).

Source: Data for the NCMS are compiled from NHFPC (2014), others are compiled from NBSC (2016).

4.2.4. Interim conclusion

China's pension system is not divided along occupational lines, nor is it selective regarding the preference of civil servants and government employees. Thus, the degree of occupation- and status-based stratification tendencies in the Chinese welfare state is low.

Concerning liberal stratification, China scores low on the social-relief variable and high on the private-health variable. As such, the Chinese welfare state is not residual in terms of the preference of social relief in welfare provision, however private healthcare plays a non-negligible role. In this way, the Chinese welfare state shows a medium degree of market-based stratification tendencies.

With regards to social-democratic stratification, the picture is less clear. Even though we find a medium to high coverage rate for pension and health insurance, unemployment insurance covers less than half of the urban workforce and less than a quarter of the total population. Hence, the Chinese welfare states shows a medium degree of universalism (see **Table 8**).

Table 8: Analysis of social stratification in the Chinese welfare regime

Stratification effects	Findings	Implications
Conservative stratification	Pension system not occupationally fragmented	Low degree of corporatism
	No pension privileges for civil servants and government employees	Low degree of etatism
Liberal stratification	Low government expenditure on means-tested social assistance (<1% of total public social spending)	Not residual in terms of social relief
	High private health spending (44% of total health spending)	Residual in terms of private health
Social-democratic stratification	Medium coverage rate in pension insurance (75%), high in health insurance (99%) and low in unemployment insurance (23%)	Medium degree of universalism

Source: Compiled by author.

4.3. Dimension III: State-market-family relationship

The third analytic dimension looks at the relationship between the state, market and family in welfare production in the Chinese welfare state. As Esping-Andersen (1990: 21) argues, the welfare state cannot be solely understood in terms of the rights it grants, but also in terms of how the state's activities are interlocked with the role of the market and family in welfare provision. This state-market-family relationship plays a key role

in shaping both decommodification and social stratification within a welfare regime (Esping-Andersen 1990: 77). In order to determine the state-market-family relationship in the Chinese welfare regime, the social security arrangements discussed in Dimension I – pension, health and unemployment insurance – are examined with regards to both the *administration* of schemes and their *financing*.

4.3.1. Administration

China's pension, health and unemployment insurance systems operate both at national and local government level. The central government (through different government bodies and departments) sets the general guidelines to local governments' social insurance programs, ensures the compliance of local regulations, and supervises benefit provision and non-participating enterprises. Relevant government bodies include the Ministry of Human Resources and Social Security (MoHRSS) and the National Health and Family Planning Center of China (NHFPC) which is responsible for the administration of the NCMS.

The Department of Pensions and Department of Rural Social Insurance under the MoHRSS provide general supervision of the pension system. The Department of Medical Insurance under the MoHRSS is responsible for the UEBMI and URBMI and sets the general guidelines to local governments' health insurance programs, ensures the compliance of local regulations, and supervises benefit provision and non-participating enterprises. The Department of Unemployment Insurance under the MoHRSS provides general guidance and ensures that local regulations follow central government guidelines. Program administration is decentralized to the provincial or lower levels.

Pension insurance funds and individual accounts, as well as the RPS, are administered by provincial or local social insurance agencies, with funds being regulated by social security authorities.

The UEBMI and its health insurance fund are administered by local government social insurance agencies and participating enterprises. Individual savings accounts and the URBMI are administered by local governments and social insurance agencies. The NCMS is administered by county-level public health authorities (non-government institutions) and partly operated by commercial insurance companies in 24% of counties, districts or cities (NHFPC 2014). After central government guidelines and local (pro-

vincial) government implementation plans, the NCMS funds are pooled at the county level (n=2852 rural counties in 2012), whereas the funds of UEBMI and URBMI are pooled at municipal (prefecture) level (n=333 municipalities in 2012) (Meng et al. 2015).

The administration of the UI program is decentralized to social insurance agencies at the provincial or lower levels. Program funds are managed by local finance departments and are pooled at the municipal level in municipalities directly under the central government. Contributions are collected by tax authorities and local government social insurance agencies, which pay out unemployment benefits.

4.3.2. Financing

EMPLOYMENT-BASED SCHEMES

Sources of finance for employment-based schemes include financial contributions which for the most part are shared between employers and employees at different rates, as well as supplementary government subsidies (see **Table 9**).

Table 9: Financing of employment-based social insurance schemes

	Employers	Employees	Government
Pension insurance	20%	8%	Central and local governments provide subsidies as needed
Basic health insurance	6-8%	2%	Central and local governments provide tax concessions and subsidies for administrative costs
Sickness benefits	Total costs	None	None
Unemployment insurance	2%	1%	Provincial regulatory fund and local governments provide subsidies to unemployment funds as required.

Note: Employer contributions as share of total payroll, employee contributions as share of total wage.

Source: SSA (2015).

Pension insurance: Insured persons under the URPS contribute 8% of their total wage into a mandatory individual account, whereas employers pay up to 20% of the total payroll into pension funds. Self-employed persons pay 12% of the local average wage into the pension fund, and 8% of the local average wage into a mandatory individual account.

Central and local governments may provide subsidies to pension funds and individual accounts as needed.

Health insurance: Contributions to the UEBMI are paid by employers (6-8% of total payroll) and employees (2 % of total wage). Employee contributions are paid into a mandatory individual account, whereas employer contributions are paid into a social pooling fund (70%) and individual savings accounts (30%). Self-employed persons pay all contributions (10% of their total earnings) into individual accounts. Central and local governments provide tax concessions and subsidies for administrative costs. Central and local governments finance complementary health insurance system for civil servants and public employees (SSA 2015).

Sickness benefits: According to central government guidelines, sickness benefits are paid by the employer (SSA 2015).

Unemployment insurance: The financial responsibility for UI contributions is shared between employers (2% of total payroll) and employees (1% of total wage), with short-falls to be covered via subsidies by a provincial regulatory fund and local governments. Local governments cover the administrative costs of UI program operations, but usually do not finance the UI program directly. Their subsidies are to be used only as a last resort once other sources are depleted (Vodopivec/Tong 2008).

RESIDENCE-BASED SCHEMES

Sources of finance for residence-based schemes include individual premiums, government subsidy and public financing (see **Table 10**).

Table 10: Financing of residence-based social insurance schemes

	Individual	Government
Social pension	None	Total costs (min. 70 yuan/month)
Pension insurance (individual account)	Individual premium	Local governments provide a minimum subsidy of 30-60 yuan/year
Social health insurance (urban and rural)	Individual premium	Combined central and local government contribution of 360 yuan/person

Source: SSA (2015).

Social pension: The central government provides the total cost of the non-contributory social pension (at least 70 yuan a month per insured person) in central and western re-

gions, and 50% of the costs in eastern regions. Local governments may make additional contributions to the social pension.

Pension insurance (individual account): Insured and self-employed persons can choose to contribute between 100 and 2,000 yuan per year according to 12 scales (local governments may increase the number of scales) to the RPS's individual accounts. Local governments provide an annual subsidy of 30 yuan to the RPS's individual account of each insured person (at least 60 yuan for those who contribute at least 500 yuan) (SSA 2015).

Social health insurance: The social health insurance schemes of URBMI and NCMS are financed by annual individual premiums (90 yuan in average, 2014) and government subsidies. For both schemes, individual premium levels vary regionally. Contributions to the URBMI include government subsidies for contributions by unemployed or social assistance recipients, as well as individual premiums of annually 200-500 yuan (or 50-100 yuan for children). Contributors to the NCMS include central and local governments, as well as rural collectives, with individual premiums of 20-50 yuan per year. Central and local governments' subsidies amount to ca. 80% for the rural program and ca. 60% for the unsalaried urban residents' program. They include an annual matching contribution (combining central and local governments) of 360 yuan per person (in 2015), with the actual amount varying by province (SSA 2015).

4.3.3. Interim conclusion

The organization of social insurance is dominated by the central government and state actors at different administrative levels. The central government sets the general guidelines and provides general guidance and supervision through different government bodies and their departments. The administration of social insurance schemes is decentralized to local government social insurance agencies at provincial or lower administrative levels, which play a direct role in managing schemes, funds, individual accounts and benefit distribution. The private sector plays a marginal role in the social insurance system, except for the administration of health insurance where the market assumes an increasing role in the operation of the NCMS through commercial insurance companies (see **Table 11**).

Table 11: Analysis of the state-market-family relationship in the Chinese welfare regime

Scheme	Administration	Financing
UEPS	Provincial or local social insurance agencies and social security authorities	Employer, employees, government subsidy
RPS	Provincial or local social insurance agencies	Government (and individual)
UEBMI	Local government social insurance agencies and participating enterprises	Employer, employees, government subsidy
Sickness	Individual state-run enterprises	Employer
URBMI	Local governments and social insurance agencies	Government and individual
NCMS	County-level public health authorities (non-government institutions) and partly commercial insurance companies	Individual premium and government subsidy
UI	Social insurance agencies at the provincial or lower levels, and local finance departments	Employer, employees, government subsidy

Source: Compiled by author.

Regarding the financing of social insurance, the state assumes a central role in residence-based schemes and a supplementary role in employment-based schemes, while being residual in the provision of sickness benefits. Social insurance is mainly financed by employer and employee contributions, whereas the state provides subsidies as needed. Sickness benefits are solely paid by employers, with no government subsidies. For self-employed persons, social insurance is voluntary and they need to make all the contributions themselves. For those outside the urban work sector, such as rural residents and urban unsalaried resident, the state provides generous subsidies or, in the case of China's social pension, bears the total costs.

4.4. The Chinese Welfare Regime

Considering the results of the analysis of decommodification, social stratification and the state-market-family relationship in contemporary China, the Chinese welfare regime shows the following features:

In the Chinese welfare regime, social rights are modest as they are either linked to employment and extended on the basis of financial contributions and work records, or linked to residence but provide meager benefits. The principle mode of welfare provision is based on the social insurance principle, with an employment-based system operating in urban areas and a residence-based system for those outside the urban employ-

ment sector, namely unsalaried urban residents and the rural population. The latter social insurance system is a novelty and grants universal access to citizens.

Furthermore, the Chinese welfare regime is dualistic in the sense that it provides different social rights to different social groups, mainly differentiating between the rural and urban population, and within the urban population between the formal employment sector and all other urban residents. China's pension system is neither fragmented along occupational lines, nor does it provide privileges to the civil service and employees in the public sector. There are market-based stratification tendencies in terms of private healthcare. Access is nearly universal for residence-based schemes, whereas coverage rates for employment-based schemes lag behind, especially regarding unemployment insurance. What is more, the decentralized nature of China's welfare system makes for a narrow sphere of solidarity between localities, as social pooling is done at the municipal or county level and does not allow for risk pooling between localities.

In employment-based schemes, the state assumes a regulative role rather than being a direct fiscal provider as evident in the predominately contribution-based social insurance system, although it provides some subsidies. In doing so, it delegates its administrative responsibilities to local governments and its financial responsibilities to employers and individuals. In contrast, residence-based schemes are heavily subsidized, and in case of China's social pension fully financed by the state, which indicates an increasing state commitment in welfare provision. The market plays a strong role in welfare provision for as social insurance is mostly employment-based. In terms of sickness benefits, people depend on the market as they are solely financed by employers. This makes individuals fairly dependent on the labor market to meet their welfare needs. Given the gaps in China's social security system and the low benefits provided, familial support assumes an important role, especially for social groups outside the formal employment sector. Employment-based schemes are only available to the urban workforce, leaving rural workers without access to sickness and unemployment benefits. Consequently, rural residents remain heavily dependent on themselves or their family members in welfare provision. In contrast to rural China, the family's role in the urban welfare mix can be described as strong, but rather 'substitutive'. In sum, welfare provision in terms of pension, health and unemployment insurance is delivered through both the state and the market, whereby people outside the urban formal sector and rural residents are disadvantaged in relation to the former circle of people.

Hence, China is characterized by a medium-low degree of decommodification, a medium-high degree of stratification and low benefit levels which enhance the role of the market and family in welfare provision, albeit with a different welfare mix in urban and rural areas (see **Table 12**).

The welfare-typological classification of the Chinese welfare state reveals a profile of the Chinese welfare regime that does not present a homogenous picture. It rather shows specific characteristics which cannot be interpreted clearly in welfare-regime terms. At the first sight, we find two separate welfare regimes: an employment-based social insurance system for urban employees, and a residence-based system for those outside the urban (formal) employment sector. Before turning our attention towards the peculiarities that have shaped the contemporary Chinese welfare regime, China's welfare-regime profile should be compared with exiting welfare regimes – liberal, conservative-corporatist and social-democratic – by examining their similarities and differences. In what aspects do China and the Three Worlds resemble each other? In what aspects does China differ from the liberal, conservative-corporatist and social-democratic models? What are the unique characteristics of the Chinese welfare regime? Finally and most importantly: how can the Chinese welfare state be classified according to the Three Worlds typology? These questions shall be answered in the following chapter.

Table 12: Summary of China's key welfare-regime characteristics

The Chinese welfare regime		
	<i>Employment-based schemes</i>	<i>Residence-based schemes</i>
Social rights	Linked to employment and extended on the basis of financial contributions and employment records	Linked to residence and extended on the basis of individual premiums or granted regardless
Dominant mode of solidarity	Employment in urban areas	Residence
Dominant locus of solidarity	State and market	State and family
Decommodification potential of social policies	High for the formal sector, albeit low benefit generosity	High in terms of accessibility, albeit limited range of entitlements
Stratification potential of social policies	Stratification along employment-status lines	Stratification along <i>hukou</i> -status lines
Role of:		
<i>State</i>	Regulative	Increasing
<i>Market</i>	Strong	Marginal
<i>Family</i>	Substitutive	Strong

Source: Compiled by author.

5. ANALYSIS

Having established the basic welfare-regime features of the Chinese welfare regime, the focus now shifts towards its classification according to Esping-Andersen's Three Worlds framework. An essential step here is appreciating the peculiarities of the Chinese welfare regime. The first section of this chapter discusses similarities and differences between China and the Three Worlds, before turning the attention towards the peculiarities of the Chinese welfare regime in the second section. The welfare mix underlying the Chinese welfare regime is analyzed in the third section. The final section returns to the main question of this scholarly project and discusses how the Chinese welfare state can be classified with Esping-Andersen's Three Worlds framework.

5.1. China and the Three Worlds

Esping-Andersen (1990) emphasizes the importance of historical forces accompanied by underlying logics (residualism, conservatism and universalism) that have shaped welfare regimes, and characterizes them with unique welfare-regime components. In what follows is a comparison of the welfare-regime components of the Chinese welfare regime identified in the previous chapter with Esping-Andersen's liberal, conservative-corporatist and social-democratic welfare regimes.

Before we compare China and the Three Worlds, let us briefly review the key components of the Three Worlds. In the political economy of liberal welfare regimes, the welfare *state* is residual and market welfare is deliberately encouraged. Social rights are conditional upon labor market commodification (company-based insurance or private insurance) or market failure (restricted and targeted social assistance), which creates a dualism between the better-off who can rely on market solutions and the poor who depend on the state. Insurance arrangements are voluntary, contractual and actuarial, and benefits depend on contributions. Conservative-corporatist regimes are characterized by occupationally fragmented social insurance schemes and the privileged treatment of the civil service and government employees. Social rights are linked to employment or (family) status and extended on the basis of past contributions and employment records. The family assumes a central role in welfare provision to its members, whereas the role

of the states is subsidiary. Social-democratic welfare regimes demonstrate a maximum commitment to decommodification and universal coverage, whereby a service is rendered as a matter of right and a person can maintain a livelihood without reliance on the market.

At first sight, China's social security system closely resembles those of conservative-corporatist welfare regimes: a social security system built on the Bismarckian type of social insurance in which social rights are linked to employment and extended on the basis of past contributions and employment records. What distinguishes China from the conservative model is that social insurance is not divided along occupational lines. The distinction in Chinese social insurance is not primarily between occupational groups, but between the urban-employed and the rest of the population including rural residents, unsalaried urban residents, and within the urban workforce between the formal sector and other types of workers (self-employed, irregular and part-time employees, migrant workers). Nonetheless, there is some degree of corporatism in China's health insurance system in forms of supplementary company-based insurance and a supplementary (but not separate) scheme for civil servants and government employees.

Another difference is the advent of new forms of social insurance in China in terms of residence-based schemes for those outside the urban employment sector, namely unsalaried urban residents and the entire rural population. In that way, the Chinese welfare regime is more universal than conservative-corporatist regimes where social rights for the non-employed population are typically derived from the (male) breadwinner in the form of co-insurance of family members. China's residence-based schemes provide social rights linked to residence and extend them on the basis of individual premium payments supported by generous government subsidies, and in the case of China's non-means-tested, non-contributory social pension, are granted regardless. This reflects social rights in terms of universal coverage and a right to social income outside wage labor, which is highly decommodifying (Esping-Andersen 1990: 44). However, risk coverage remains only comprehensive in urban areas. The rural population has only access to pension and health insurance and rural workers are excluded from sickness and unemployment benefits. The access to residence-based schemes may be universal, but their benefit generosity is limited. Although the social pension is more or less organized around the Beveridge principle of universal flat-rate benefits, individual accounts re-

main important for as benefits of the social pension are very low with a country average of only 81 yuan (12 USD) per month (Liu/Sun 2016).

What is residual in the Chinese welfare regime is that social insurance mainly caters to urban employees of the formal sector, with voluntary and limited coverage for other types of urban workers and exclusion of rural workers. For self-employed persons, social insurance is voluntary and they need to make all the contributions themselves. Sickness benefits are financed by employers only. This makes individuals fairly dependent on the labor market in case of unemployment and sickness during employment. Residual welfare in rural areas rests on the assumption that farmers can provide for themselves, which enhances the welfare role of households. Moreover, benefits of employment-based schemes provide only low income replacement – with pension and unemployment benefits approximating 45% and 23% of the previous earnings, respectively – and are likely to drive recipients back to work (Esping-Andersen 1990: 47).

With regards to liberal stratification goals, the Chinese welfare regime shows a medium degree of market-based stratification tendencies. In China, expenditure on means-tested social assistance is less than 1%. As such, the welfare *state* is not residual in the sense of primarily providing restricted and targeted social rights to citizens. China has a long poor-relief tradition dating back to the imperial period. Currently, social assistance consists of the unified MLSS and the rural Five Guarantees system. The MLSS requires means-testing and grants cash benefits conditional on family income which must be below the regional minimum living standard. In history, the Five Guarantees system catered to the poorest rural residents who had to undergo means-testing by neighbors. Benefits were granted only in extreme cases, and attached with heavy stigmatization of its recipients. Even today, MLSS applications are processed by community members (local street officers and residents' committees) who monitor recipients, which leads to stigmatization (Ngok 2010). Notwithstanding, we cannot speak of a 'social assistance model' in the Chinese welfare regime. In the liberal regime, social assistance is the dominant mode of state welfare provision, whereas in China the MLSS and other programs constitute the last safety resort in a somewhat comprehensive social security system. Although private insurance plays a marginal role in China, mostly in forms of supplementary company-based insurance and commercial pension and health insurance, the private healthcare sector plays a non-negligible role with 44% of the total health spending devoted to private health. As such, China remains polar in terms of market provision

of welfare with marginal importance of social relief and high importance of private health spending.

When considering conservative stratification goals (corporatism and etatism), we find striking differences between China and the conservative-corporatist model. China scores low on both indices that capture conservatism (no segmented corporatist social insurance, no pension privileges for the civil and public service). China's pension system is not divided along occupational lines, but there rather exists one unified pension program for all urban employees. Since the 2015 pension reform, civil servants and public employees are now subject to the same pension rules as employees in enterprises and must make contributions. In order to show the innovative character of this reform, it is advisable to look at the history of civil service pensions. Etatism has a long history in the Chinese welfare regime. Civil servants and public employees have been enjoying privileged welfare treatments since the establishment of the GIS in 1953. Prior to the 2015 pension reform, civil servants and public employees enjoyed a privileged status with a separate pension scheme) consisting of a non-contributory fully state-funded pension, with pension benefits approximating 80-90% of previous earnings (Feng/Chen 2016). As such, China's pension system reinforced inequalities between workers in the state and public sector and the rest of the urban workforce. In 2006, public expenditure on pensions of civil servants and government employees constituted 1.1% of GDP (Palacios/Whitehouse 2006). The introduction of the new pension reform meant the abolishment of the wholly state-funded government pension and the end of dual urban old-age pension schemes.

If we look at social-democratic stratification indices in the Chinese welfare regime, the picture becomes less clear. Coverage rates for social insurance are fairly high, with the exception of unemployment insurance which covers only 23% of China's total workforce. According to Bösch (2012), reasons for low UI coverage rates include that many enterprises can evade from paying-out benefits, that access to unemployment insurance is limited outside the formal sector and that contribution payments are misused by local authorities. Active labor market policies and regulated markets are characteristics of the latter regime (Esping-Andersen 1990: 80), whereas in contemporary China unemployment insurance is underdeveloped. The official registered unemployment rate in urban China has increased steadily from 3.0% in 1996 to 4.1% in 2015. Across regions, unemployment rates vary from 1.4% (Beijing) to 4.5 % (Heilongjiang) in 2015

(NBSC 2016)¹⁵. Nevertheless, there is no effort to active labor market policies in China, and what is more, no unemployment insurance for rural workers. In this sense, the difference between the Chinese and social-democratic welfare regime is significant. Even if access to pension and health social insurance is nearly universal, programs for urban employees and other social groups differ in regards to benefit levels and the scope of social entitlements. In order to emphasize unequal benefit distribution in China's social insurance system, at this point I shall illustrate the differences in benefit levels in China's pension: the average benefit of the social pension amounted to 81 yuan, whereas the country average level for UEPS benefits was 2,270 yuan per month which is 30 times higher than the social pension (Liu/Sun 2016; MoF 2016).

Given that China's social security system is a predominantly employment-based social insurance system, the market and family assume a strong role for individuals outside the urban (formal) work sector. What distinguishes China from the conservative, social insurance model is the advent of new forms of social insurance, in which the state assumes a central role in financing schemes. But this not sufficient to replace the role of the family, for as the range and scope of benefits for residence-based schemes are limited. The absence of comprehensive social security arrangements in rural China rests on the assumption that the family is still the main welfare provider. In this sense, China's approach in rural areas resembles conservative social policy.

The logic underlying this welfare mix can then be best described as 'conservative socialism', expressed by a considerable policy commitment to universal social insurance, albeit with gaps in the social security system which reinforce the role of the family outside the urban formal employment sector, especially for rural residents. At first sight, China seems to combine elements of all three regimes. It shares with the liberal welfare regime a strong reliance on private healthcare, with the conservative-corporatist model a welfare system primarily based on the social insurance principle, and with the social-democratic model a considerable commitment to universal social insurance coverage (see **Table 13**).

¹⁵ Scholars argue that unemployment in China is difficult to measure due to its inconsistency with ILO definitions (Vodopivec & Tong 2008). Thus, the actual unemployment rate it thought to be much higher than official figures indicate, as they do not include *xiagang gongren*, migrant workers, and young college and high school graduates who have been out of school for six months or less (Bösch 2012).

Table 13: Comparative summary of the Three Worlds and the Chinese welfare regime

	Liberal welfare regime	Conservative-corporatist welfare regime	Social-democratic welfare regime	Chinese welfare regime
Main welfare ideology	Residualism	Conservatism	Universalism	Conservative socialism
Social rights	Clientelistic; linked to market participation or means-testing	Performative; linked to employment and status	Universal; linked to citizenship or residence	Performative in employment-based schemes, universal in residence-based schemes
Dominant type of social security program	Dualism between private insurance for better-off and means-tested social assistance for 'welfare dependents'	Bismarckian social insurance fragmented along occupational and status lines, NGO-based provision	Universal and encompassing public social security systems	Employment-based social insurance for urban workforce and residence-based social insurance for others
Role of:				
<i>State</i>	Marginal	Subsidiary	Central	Increasing
<i>Market</i>	Central	Marginal	Marginal	Decreasing
<i>Family</i>	Marginal	Central	Marginal	Strong
Degree of decommodification	Minimum	High for breadwinner	Maximum	Medium-low
Degree of stratification	High	Medium	Low	Medium-high
Welfare mix	A residual welfare <i>state</i> which encourages individualism and market provision	A subsidiary welfare <i>state</i> with strong entitlements for the (male) breadwinner which reinforces the role of the family	A strong welfare <i>state</i> which outperforms the market and family in welfare provision	A regulative, but increasingly providing welfare <i>state</i> in which the family assumes a substitutive role
<i>Source:</i>	Compiled by author.			

At the same time, the Chinese welfare regime shows peculiarities that cannot be clearly interpreted. For this reason, it is important to have a closer look at these elements, before analyzing in greater depth how China's welfare-regime characteristics function and combine in the welfare mix.

5.2. Peculiarities of the Chinese welfare regime

The following section sheds light onto the peculiarities of the Chinese welfare regime, that haven been identified in concluding the classification of the Chinese welfare state in chapter 4. These include i) the rural-urban-divide and exclusion of migrant workers, aggravated by China's *hukou*-system (*hukou-status based inequalities*), ii) the division within the urban workforce between the formal and informal sector (*employment-based inequalities*), as well as (iii) *regional disparities* as a result of decentralized and fragmented social insurance administration.

HUKOU-STATUS BASED INEQUALITIES

The probably most distinctive feature of China's social security system is the rural-urban-divide which is linked to the different stages of economic development of the respective areas and was strengthened by the household registration system. By the late 1970s, the Chinese welfare state catered to about four fifths of the urban population. Of course, the percentage of people living in the cities at that time was only 19 percent. This means the Chinese welfare state was only existent in the cities, and not in the countryside (Aspalter 2001). China's dual economy is a result of a heavy industrial priority model designed to boost industrialization by transferring value from rural to urban areas, which is characteristic for state-socialist economies (London 2014). This economic dualism was transferred to the area of social security through China's household registration system, with different and much leaner sets of social rights for rural residents.

The Chinese household registration system – *hukou* system – was modelled after the Soviet style internal passport and the traditional *hukou* used in imperial China. Established in 1955 and effective as of 1958, the *hukou* system ever since divides the population into agricultural (rural) and non-agricultural (urban) residents. Under the centrally-planned economy, the rural *hukou* entitled its holder to access to land (the right to use construction land, farmland and contracted forestland), whereas the urban one granted

its holder a variety of social entitlements (including pensions, healthcare, education and other public services). Since then, the *hukou* has determined different privileges in terms of access to good jobs, education for children, housing, healthcare and the right to move to cities according to one's *hukou* status (Melander/Pelikanova 2013). As social security programs in China were primarily tailored for urban-*hukou* holders, farmers and other rural residents were excluded from the urban welfare system. The purpose of initiating the *hukou* system was twofold. Firstly, it served as employment control by preventing the rural workforce from moving out from agriculture and consequently maintaining an exclusive employment system in urban sectors. Secondly, the central government wanted to tie welfare entitlements to one's *hukou* status in order to separate exclusive urban employee entitlements from rural migrants' entitlements (Cai 2011). This approach was based on the assumption that rural residents could provide for themselves through farming and that land ownership would serve as an ultimate safety net (Cook 2002). Consequently, China's pre-reform social security system was characterized by a sharp urban-rural divide and marginal welfare provision in rural areas.

For a long time, the *hukou* system has been responsible for different sets of social rights for urban and rural residents. The range of social entitlements is greater for urban (employed) residents. This can be exemplified by the absence of an unemployment insurance system in rural China. This is due to the perception of unemployment as 'hidden' or 'surplus labor', which is still not subject to national policy objectives (Kongshøj 2015). As a result, there is no official registration of unemployment in rural areas. This also applies to the remaining fields of social insurance.

As most migrant workers lack an urban *hukou*, are employed outside the formal or public sector, lack labor contracts, have less stable work and low wages, they are vastly excluded from urban employment-based schemes. Moreover, both employers and migrant workers are discouraged to participate in social insurance programs due to high contribution rates, the high mobility of migrant workers and the low transferability of social insurance accounts (Cai 2011).

EMPLOYMENT-STATUS BASED INEQUALITIES

Apart from one's *hukou* status or locality, China's welfare system is aligned to the existence of an employment contract which comes with disadvantages for the atypically

and informally employed. This leads to a division of the Chinese urban workforce between the formal sector and all other types of employees including self-employed, irregular and part-time employed persons who receive little or no social benefits.

REGIONAL DISPARITIES

China's social security system is characterized by a highly fragmented administration, which makes it hard to speak of a uniform national system. This is largely due to China's decentralized economy that emerged in the wake of market transition. Decentralization in China took the form of fiscal federalism where local governments resembled actual government in their own right (London 2014). As already mentioned, the central government assumes a regulative role in the administration and financing of social insurance by delegating these responsibilities to local governments and enterprises. This gives local governments at municipal or even county level autonomy in the design and implementation of central government guidelines. Social policy devolution hinders a comprehensive implementation of central government guidelines, and promotes improper or corrupt use of social funds. This translates into a large number of local funds and low risk pooling between localities – and between richer and poorer areas – which undermines the funding of China's social insurance system.

The size of social insurance pools depend on local incomes which results into huge regional disparities (Meng et al. 2015). For example, the benefit level of the social pension is set at 70 yuan per month. As local governments may add up to this amount according to their financial condition or cost of living, benefit levels vary greatly by region: the social pension in Shanghai was 540 yuan (88 USD) per month, whereas in Kunming it amounted to only 84 yuan (14 USD) (Liu/Sun 2016: 22). Another example of the high level of policy discretion of local governments is the determination of UI benefit levels according to the minimum living standard and minimum wage, which are both locally defined. As local governments may add up to this level according to their fiscal capacities, naturally, UI benefits will vary by region. The fragmentation of the social security system is also disadvantageous for migrant workers for as labor mobility and the transferability of social entitlements between regions remains problematic.

The stratification outcomes in the Chinese welfare regime exhibit a dual and overlapping character. The next section looks at the historical, political and economic logics

behind these stratification effects in the overall welfare mix – state-market-family relationship in welfare allocation – of the Chinese welfare regime.

5.3. The welfare mix in the Chinese welfare regime

This section explicates the historical determinants and stratification effects of the Chinese welfare regime over time. It examines in greater depth the roles of the state, market and family in its welfare mix, focusing on both features of established welfare regimes (liberal, conservative-corporatist and social-democratic) and Chinese peculiarities in the course of welfare-state development.

ROLE OF THE STATE

Until the late 1970s, welfare provision in China was an example of the corporatist welfare state. The urban work unit – *danwei* – was the basic building-block of the centrally-planned economy and was responsible for welfare provision to SOE employees via an enterprise-based social insurance system (LIS) (White 1998), which covered 94% of the urban workforce in 1978 (Zhang 2005). The *danwei*-based welfare system has a strong similarity with the former socialist ‘ghetto’ model in Europe in that it not only provided social benefits, but also a wide range of welfare and communal services. The underlying motif is also similar: the cultivation of loyalties, solidarities and harmonious integration (Esping-Andersen 1997: 185). In this sense, China’s ‘iron rice bowl’ resembled ‘the cradle to the grave welfare system’ in Sweden (Aspalter 2001). Despite providing a comprehensive range of welfare packages, China’s pre-reform system exclusively operated in urban areas and covered only 18% of the total population in 1977. Within the urban population, it catered to an already privileged clientele of SOE employees. As such, from a national perspective the pre-reform system could not be regarded as a comprehensive welfare state (White 1998). As White (1998: 178) states, for authoritarian regimes welfare functioned as tool to reinforce authority by winning the support of these groups or at least securing social order. In that sense, China’s pre-reform system resembled Esping-Andersen’s conservative-corporatist welfare regime. Although welfare provision was guaranteed and overseen by the central government, the actual management and financing of social insurance was handled by the *danwei*’s, restricting the

state's role to the regulation of welfare (Wilding 2008). The welfare *state* was residual in that its role was largely confined to limited social relief for a targeted group of people outside the *danwei* system. People outside the urban sector, notably the rural population, had to see their own welfare needs either through the family or the community. In rural areas, welfare was provided through the rural collectives. Public welfare provision was marginal, mainly including limited material relief to the poorest households (Five Guarantees). Consequently, China's pre-reform welfare system was characterized by a sharp sectoral divide: the urban system was an example of the corporatist welfare state, whereas the rural system resembled the residual approach of liberal welfare regimes.

The introduction of economic reforms in the late 1970s and early 1980s marked a social turn. In what followed was a neo-liberal and developmental phase of social security development in China. As the *danwei*-based welfare system was seen as an obstacle to promoting economic growth, the central government initiated the privatization of SOEs under the slogan 'small government and big society' (Leung 2005). Consequently, substantial reforms to the socialist welfare system have ever since been initiated. The sectoral divide that characterized the pre-reform system sharpened with introduction of the household responsibility system in rural areas in the early 1980s. Welfare expansion to accommodate the welfare demand caused by economic transition was firstly targeted to urban areas. This is a feature of state-led development in China whereby public measures and resources have been mobilized primarily for economic purposes, especially for those who would carry the economic transition, foremost SOE employees (Lee/Ku 2007). With declining capacity of rural collectives to provide welfare benefits, collective welfare collapsed, putting a heavy welfare burden onto individuals and households in rural China. In contrast, the *danwei*-based welfare system was much slower to erode. These changes marked a shift away from the communist notions of class solidarity and decommodification towards a neo-liberal, productivity-oriented welfare regime which reinforced individuals' and families' welfare responsibilities (White 1998; Choi 2012). With ongoing market transition, China's previous socialist welfare system began to erode, leaving huge parts of the population unprotected. This was accompanied by the emergence of new labor market phenomena, such as unemployment, informal employment and migrant workers, which were disregarded in the urban social security system.

Liberal reforms brought an end to China's full employment policy, and the traditional socialist social policies – *danwei*-based and collective welfare – were transformed into more market-friendly policies (Choi 2012). With the introduction of employment-based social insurance schemes in urban areas, welfare responsibilities shifted from enterprises to employers, employees and the state. The state remained a welfare regulator, rather than being involved in the financing of social welfare. What is more, the administration and provision of social benefits was decentralized from enterprises to regions. Formerly, the LIS fund was pooled at the national level, whereas now social pooling was to be done at local government level. Although the new system social insurance included social pooling, it only remained redistributive in the group it covered (urban formal workers) and within the locality it operated in (no risk pooling between localities), and was thus socially regressive.

By the end of the 1990s, the social consequences of market transition were no longer negligible. After the state recognized that a socialist market economy cannot function with some of social security, effort towards building a more inclusive welfare state intensified. A first phase of serious social reform took place by the end of the 1990s for selective, traditionally privileged groups of public sector and urban formal sector employees, including health insurance, pensions and social assistance. In sum, this neo-liberal and developmental phase was characterized by social policy neglect, especially in rural areas. The consolidation towards a more inclusive system started towards the end of the century and ever since has been a continuous process.

The year 2003 marked the turning point in Chinese social policy making. After the SARS crisis, a rural health insurance system was introduced with substantial government funding, now covering nearly the entire rural population. Under the slogans of 'building a harmonious society' and 'putting people first' of the Hu-Wen administration (Hu Jintao and Wen Jiabao) from 2002-2013, and under the current Xi-Li government (Xi Jinping and Li Keqiang), social security was brought to the fore of the political agenda. Social policy innovations included the introduction of social programs beyond employment-based social insurance in urban areas, extending coverage i) from urban to rural areas, ii) from formal to the informal sector, iii) from the state-sector to non-state sector, and iii) from within the labor market to outside, integrating urban and rural social security systems and ensuring more social security for the most vulnerable groups.

In 2007, the MLSS was extended to rural areas which marks a shift from the state's previously residual approach in rural areas to more state commitment in welfare financing and provision. In 2011, the first national legislation on social insurance was introduced which requires that coverage was to be extended to migrant workers, that contribution were to be split between employers and employees at different rates (except for sickness benefits) and pooled into local funds and enhanced the portability of social entitlements when changing work places or locations. Along with other regulations, this resulting in an increased social insurance participation of migrant workers (see **Appendix III**). The coverage of existing social insurance schemes was further expanded. For example, China's social health insurance system covers 99% of the total population and hence has achieved universal coverage (compared to less than 30% in 2003). In recent years, the Chinese government has introduced new form of residence-based social insurance.

The Chinese welfare state is increasingly engaged in efforts to integrate the urban and rural social security systems, which is a trend away from *hukou*-determined stratification and separate welfare systems in urban and rural areas. These include the introduction of pension insurance schemes for rural and urban unsalaried pension and the merging of these schemes into a unified, residence-based pension insurance system; as well as replacing the civil service person with a unified urban employees' pension insurance system. The institutional design of social insurance has been moving away from the conservative-corporatist model, towards a more inclusive system.

ROLE OF THE MARKET

As the communist one-party system remained basically intact in China, the private welfare market has been rather marginal in the Chinese welfare regime and thus very slow to emerge (White 1998). Prior to economic reforms, the market-based welfare existed in the form of corporative welfare via work units, with only limited and targeted public welfare provision to the demonstrably needy. Even today, employment-based welfare assumes an urban employment status. This divides the workforce into urban and rural, and within the urban into market 'insiders' and 'outsiders'.

In the neoliberal reform era (after the launching of economic reform), there was an extensive market orientation in healthcare along with the transformation of the economic system. Whereas in the pre-reform era, free healthcare was provided under the iron rice bowl system through work units and collectives, with market transition this system

of healthcare provision became inefficient. Since 1990, health insurance has entered a phase of rapid development and de-commercialization with the initiation of social insurance in the 1990s. Prior to 2000, rural residents were not covered by a formal social security system. This was crucial especially after the collapse of collective welfare in rural areas. An expansion of health insurance was initiated only in the 2000s (especially after the SARS crisis in 2002/03).

Today, there is supplementary company-based insurance in pension and health, and private health spending is fairly high – about 44% of health spending is private. This indicates that the private-market based health sector is becoming strong in China.

ROLE OF THE FAMILY

Finally, we return to the family's role in the welfare mix – a core element of conservative-corporatist welfare regimes. Before examining, it is revealing to look at China's history. The institution of family care (*jiating baozhang*) is deeply rooted in the Chinese tradition and culture and has been the main pillar of old-age protection for centuries (Stepan/Lu 2016). In imperial China, the family assumed a central role both in society and in welfare production as other forms of social welfare did not exist or played a minor role. Welfare, such as care for elderly family members, was provided mutually by kinship and rested on the Confucian value of filial piety (Bösch 2012). Family boundaries were extendable to include colleagues, friends and neighbors into a network of mutual welfare. The centrality of the family in the imperial period was strengthened by the agriculture-based society: the majority of Chinese people subsisted on family farming which required mutual help and assistance of all family members, and impeded individuals' mobility and independency. The state did not interfere into family matters but rather established the macro-economic framework for family self-servicing. Recurrent natural disasters and famines prompted some state-welfare activities so as to prevent social unrest and maintain authority. Welfare benefits – if existent – were only granted to those who could not rely on family support, which is still an important eligibility criterion for Chinese public welfare entitlements (i.e. social assistance benefits) today (Wong 1998).

In the first decades of the 20th century, the early phase of industrialization was accompanied by urbanization and the emergence of an industrial workforce. Still, there was no significant welfare *state* commitment. According to Bösch (2012: 15), this was

due to the lack of state influence and financial resources as a result of the long-lasting war turmoil. At the same time, the family-welfare system was weakened: firstly, strong kinship ties were regarded a hindrance to the formation of a unified nation, and secondly, the slowly emerging industrialization increased the labor demand outside family farming. Lastly, families were torn apart due to the long-lasting wars which undermined families' capacity to care for their members.

In contemporary China, children are legally obliged to provide old-age support in terms of income to their parents (Wu 2013). In the pre-reform system, old-age protection in rural areas relied on a farmland- and family-based elderly support model. Pension insurance was established much later in rural than in urban areas, for as old-age protection in rural areas was seen as an individual responsibility and was provided for through a system of family and communal support (Zhu 2012; Stepan/Lu 2016). This system of family and communal support for elderly rural residents was also enhanced after the economic reform. The 'Decision on some major issues concerning improving the rural social security system' of the third plenary session of the 16th CP Central Committee in October 2003 included the principle that 'old-age provision in rural areas should rely on family support, community service, and state assistance' (Stepan/Lu 2016: 123).

In recent years, the central government has shown political commitment to universal pension coverage against the legacy of one-sided protection of the urban workforce and the dominance of family self-servicing in old-age protection in rural areas (Stepan/Lu 2016). However, as Liu and Sun (2012: 22) argue, the access to social pension in rural areas is linked to a 'policy bundle' in which local governments oblige adult children's participation in order to let their parents receive the pension. This is a local practice in the regions with the lowest level of administrative structure (counties, townships, villages) where the participation rate is comparatively low, and aims to encourage or enforce the participation of middle-aged rural residents. Considering the comparatively low benefit generosity and restricted accessibility of the social pension in rural areas, this commitment only reflects the definition of a minimal state responsibility towards citizens, leaving the major task of old-age protection to the individual (Liu/Sun 2016: 25).

Even in urban areas, the family assumes a strong role in welfare provision as employment-based social insurance is tied to one's (formal) employment status and dis-

criminate against atypically and informally employed (including migrant workers). Due to the lack of an urban-*hukou* status, migrant workers are particularly disadvantaged as they are excluded from the MLSS scheme. For these social groups the family consequently assumes an important substitute for public welfare provision. In this sense, it is justified to speak of ‘conservative’ socialism in China. However, the family’s role in old-age protection will be increasingly challenged by China’s family-planning policy and the rapid ageing of its society. The number of people aged 65 and above reached 10.5% of the total population, with a life expectancy at birth of 76 years (74 for males and 79 for females) (NBSC 2016), which makes China an ‘ageing society’ (Liu/Sun 2016: 14).

Summarizing the welfare mix in the Chinese welfare regime, we find that inequalities of the previous social security systems were reproduced over several developmental periods: i) a rural-urban-divide as a legacy of the *hukou*-system and China’s dual economy, (ii) a sectoral divide between the core urban workforce and those outside as a legacy of conservative-corporatist social policy, as well as (iii) a regional divide between richer and poorer regions and localities as a result of social policy devolution in the course of market transition. At the same time, China’s welfare system has become more inclusive, more providing and less unequal. However, given the shortcomings of the Chinese welfare state, the family still plays an important role, while the role of the market seems to be lessening with the introduction of social insurance arrangements beyond urban employment.

5.4. How to classify the Chinese welfare state?

Great changes have been taking place in the Chinese welfare state since 2003. China has expanded its social security arrangements, which in the past only existed in urban areas and now reach out to rural residents and vulnerable groups. At the same time, the central government has increased public social spending (see Appendix III). Social rights have become less linked to the employment status and more attention has been given to the ‘unproductive’ population. Overall, the state significantly increased its role in welfare provision. This brings us back to the original question. How do we classify the Chinese welfare state according to the Three Worlds framework?

At the first sight, it seems that the Chinese welfare state has – depending on the development period – developed from a conservative-corporatist over a neo-liberal to a more universal welfare regime. In Esping-Andersen’s (1990) terms, the contemporary Chinese welfare state is most likely a hybrid of all three regimes: liberal in the sphere of healthcare, conservative-corporatist in the sphere of social insurance and social-democratic in the sphere of universal coverage – but less residual than the first, less corporatist and etatist than the second, as well as less universal and generous than the third. At the same time, the Chinese welfare state exhibits peculiarities that spring from particular historico-political determinants and have been shaping social security development in China since the Maoist era.

The welfare-typological analysis of the Chinese welfare state shows a sharp, but lessening divide between the rural and urban population. To some extent, we can speak of two welfare-regimes in China: a developed, employment-based social insurance system which provides more but exclusive benefits to urban employees, and a developing residence-based system that provides more inclusive, but less generous benefits to all other groups. The former system resembles Esping-Andersen’s conservative-corporatist regime, whereas the latter shows tendencies towards the social-democratic model. However, a consolidation towards a more uniform social security system is the focus of the current policy agenda. The introduction of the non-means-tested, non-contributory social pension was an example for increasing universalism in the Chinese welfare regime, as well as the merging of the urban pension schemes is an example of flattening stratification.

Despite recent efforts toward a more universal social security system, the Chinese welfare state shows a wide array of deficiencies: Firstly, although access to social insurance is moving towards being universal, it remains ‘incomplete’ (Liu/Sun 2016). There is still a large share of the population that is not covered by social insurance, especially migrant workers whose social rights are linked to their *hukou*-status. Recent reforms towards the portability of social entitlements resulted in an increasing social insurance participation of migrant workers (see **Appendix IV**: Developments in social insurance participation of migrant workers). However, when compared to urban-resident workers participation rates remain low: in 2015, only 23% of the migrant population participated in pension insurance, whereas the coverage rate for urban-resident workers was 87%

(MoHRSS 2016). What is more, due to the *hukou*-based nature of the MLSS system, migrant workers are excluded from social assistance.

Secondly, benefit levels are low and do not provide an adequate substitute in case of social risks. Besides, there remain significant differences in benefits levels between social groups (including between rural and urban residents, and between the urban formal and informal employment sectors). As such, recent reforms to unify the welfare system present only a case of ‘flattened’ stratification (Liu/Sun 2016).

Lastly, social policy devolution has given autonomy to local governments to interpret and implement central government guidelines, which affects the access to social insurance for vulnerable groups and limits the scope and level of benefits, which leads to regional disparities. This results in a highly fragmented welfare system with unequal provision of benefits across schemes, social groups and regions. The central government is meanwhile well aware of these problems, as evident in recent policy initiatives. However, it remains to be seen how they will be handled.

Overall, a distinct type of political economy has developed in China since its market transition and, along with it, a specific kind of welfare regime. However, this is not enough to conclude that China’s welfare regime is unique. There is one basic reason why we should hesitate to draw a final conclusion: the Chinese welfare state is still in process of evolution and is developing rapidly. It is far from arriving at the point of crystallization. In contrast to other (East Asian) nations, China’s social security system has undergone an incredible transformation, with a peculiar welfare mix at different historico-political stages. What has remained in the course of rapid transformation is the legacy of peculiar stratification effects, although no longer along *hukou*-based, but more along employment-based and regional lines. The ultimate direction of welfare-state development in China is to be seen in future. With reference to Gordon White’s (1998) findings, it is to be expected that whatever type of welfare regime is going to emerge in China, it will exhibit Chinese idiosyncrasies.

6. CONCLUSION

Esping-Andersen's (1990) *The Three Worlds of Welfare Capitalism* is one of the most cited works in the field of comparative welfare research, offering both a fruitful and enriching framework. The main advantage of the threefold typology is that it provides empirical validation, analyzing programmatic features of the welfare state for a number of ideal typical welfare-state regimes (Castles 2001). Most other works have either been focusing on program characteristics without consulting systematic empirical or spending data, which alone do not allow for an institutional classification (Esping-Andersen 1990; Scruggs/Allan 2006). Scholars argued that if alternative criteria were considered there might be additional regimes, such as in capitalist nations of East Asia (notably Jones 1990; Holliday 2000; Aspalter 2001). But, as Esping-Andersen (1997: 197) maintains, "the point of generalization is economy of explanation". If we extended the threefold typology, we would sacrifice its merits and return to case studies instead (Esping-Andersen 1999: 88). It is in this respect that the utilization of the Three Worlds framework remains fruitful.

In this thesis, I addressed a highly neglected case in the debate on welfare regimes, namely China. Analyzing the Chinese welfare state towards its decommodification, social stratification and the state-market-family relationship offered a useful interpretative framework for identifying both welfare-regime traits and the peculiarities underlying the welfare mix of the Chinese welfare regime. As mentioned earlier, the objective was not to incorporate China into the Three Worlds typology, but rather to engage China into the broader welfare-regime debate. In doing so, this master's thesis aimed to make an important contribution to comparative welfare-state research.

The welfare-regime literature on China presents a research desideratum. With the new official Chinese goal of building a more universal welfare system, the analysis of the Chinese welfare state has gained relevance in recent years. Against this background, the Chinese welfare state was classified with Esping-Andersen's (1990) theoretical framework for his Three Worlds typology. By means of this classification, a welfare-regime profile of China was created and in a further step compared to the liberal, conservative-corporatist and social-democratic regimes in a systematic form. The welfare-typological analysis of the Chinese welfare state identified both common welfare-

regime traits of Chinese social policy making, as well as uniquely Chinese characteristics.

LIMITATIONS

This thesis was authored in relatively few pages. This is due to the author's personal trade-off between including more analytic dimensions (i.e. 'de-familialization' or 'familialism') or further social policies (i.e. social assistance, family policies and social services) and reducing the complexity of the overall topic underlying this thesis. The former would go beyond the scope of a master's thesis. And given that this scholarly project comprises a thorough research and comprehensive analysis of the Chinese welfare state in a precise and efficient manner, the latter choice appears reasonable and justified.

Although this research was carefully prepared, there were some unavoidable limitations. First of all, there was a lack of available and/or reliable data. As such, it was difficult to assess the number of persons covered under social insurance for each scheme in order to calculate coverage rates for different social groups. This also applied to benefit levels and replacement rates of cash-benefits for income-maintenance programs. This may be partly due to the limited accessibility of Chinese national data, but in part also due to the lack of official documents available in English. It must be acknowledged that the author is not fluent in Mandarin and thus is limited in being able to read and interpret Chinese language research on the topic. Secondly, as social policy is highly decentralized in China, national data tend to hide regional variations, which again makes it difficult to draw general conclusions on *the* Chinese welfare state. Hence, these results need to be interpreted carefully. Finally, as some of Esping-Andersen's (1990) indices were modified and operationalized by the author herself, it is unavoidable that a certain degree of subjectivity can be found in this thesis.

SUMMARY OF KEY FINDINGS

In the last forty years, China has been undergoing a major economic and social development. Reforms of the Chinese social security system have been part of this socio-economic transition. The Chinese welfare regime of the pre-reform era was strongly influenced by the socialist institutions of the work unit and rural collectives. It was

characterized by distinct state, collective and enterprise welfare provision. Since economic reforms towards a socialist market economy were launched in 1978, major changes to the former socialist security system guided by neo-liberal and developmental regime logics have been taking place. In recent years, the Chinese welfare state has undergone a remarkable development towards a more uniform and inclusive system. This includes the following changes: a new cooperative health insurance system was established which covers the entire rural population; a new form of social health insurance for unsalaried urban residents was created; the coverage of the MLSS was extended to the rural population; a uniform and non-contributory social pension was introduced; the urban pension system was unified by replacing the pension scheme for civil servants and government employees with a urban-employees' pension scheme; and the overall coverage of urban social insurance was extended. The contemporary Chinese welfare state is most likely a hybrid of the Three Worlds: liberal in the sphere of healthcare, conservative-corporatist in the sphere of social insurance and social-democratic in the sphere of universal population coverage – albeit with Chinese deficiencies.

CHALLENGES AND POLICY IMPLICATIONS

The contemporary Chinese welfare regime has developed towards a more universal social security system with efforts to integrate the urban and rural welfare regimes into one unified system and efforts to include disadvantaged social groups into the welfare system. Despite these expansion, there are significant shortcomings of China's welfare system. Although the stratification effects of China's *hukou* system have been lessened through social policy expansion to rural areas and increasing efforts to include migrant workers into the urban welfare system, the rural-urban-divide continues to play an important role, especially in policies regarding unemployment and sickness benefits. Most types of social insurance are restricted to urban areas and are not transferable across localities. Moreover, urban social insurance is linked to (formal) employment and discriminates against the informally employed. And what is access to, is inadequate, as benefit levels are low and far away from securing an adequate livelihood in case of social risks. And finally, social policy devolution undermines the sustainability of the China's social insurance system, both in terms of fragmented funding and low risk pooling, leading to regional disparities.

In order to qualify as a universal welfare state in ideal-typical terms, China has to integrate its urban and rural welfare regimes into a unified national system, beginning with the development of the rural social security system and facilitating the transportability of social entitlements (especially for migrant workers), while at the same time strengthening the supervision of compliance with central government guidelines; further extend population coverage and make access easy for vulnerable groups with financial support; adjust benefit levels to standard earnings and increase benefits levels for the social pension; re-centralization social pooling to national or higher administrative levels to allow for risk pooling between wealthier and poorer regions and localities; and expand its unemployment insurance system by extending coverage beyond the urban formal sector and introduce active labor market policies

In view of these problems and China's new policy agenda, an increasing state intervention in both the financing and provision of welfare benefits is to be expected.

RECOMMENDATIONS

The Chinese welfare state has been undergoing a rapid development – which is a truly unique feature. Since only social policy reforms until 2015 were included into analysis, innovations to China's welfare system introduced thereafter could not be taken into account. All the more it appears important to conduct further and continuous research. The focus of this thesis primarily rested on China's pension, health and unemployment insurance systems. Future studies on the Chinese welfare regime should include further social policies into their analysis, such as the MLSS, healthcare, education and housing. Another interesting social policy aspect is the role of social (care) services and family policies in China, especially with regards to their potential to disburden households from their welfare responsibilities and to decommodify women (Esping-Andersen 1999).

The Chinese welfare regime is highly dynamic and idiosyncratic, characterized by socialist, capitalist and conservative social policy. The transition of China's social security system is still in progress, with promising developments in the present system in recent years. Prospects of the Chinese welfare system remain an issue of great interest. The findings of this thesis offer a fertile ground for further comparative welfare state studies.

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APPENDIX

Appendix I: Calculation of decommodification indices

Esping-Andersen (1990: 54) calculates decommodification indices for pension, sickness and unemployment cash-benefit programs using four indicators. He measure the decommodification in pensions by using 1) net replacement rate of minimum pension benefits average worker earnings; 2) net replacement rate of standard pension to average worker earnings; 3) contribution (or employment) period needed to qualify for a standard pension, measured as number of years of contribution (scored inversely); 4) individual's share of pension financing. Based on the values on these indicators for the 18 country cases, for each dimension there was given a score of 1 for low decommodification, 2 for medium decommodification and 3 for high decommodification. The classification into the three scores was done based on one standard error below and above the mean. Finally, the scores were weighted by percentage of the (relevant) population covered under the relevant program. Net replacement rates were multiplied by a factor of 2.

Decommodification for sickness and unemployment cash benefits was measured in terms of 1) net benefit replacement rates for a standard worker during the first 26 weeks of illness/unemployment; 2) number of weeks of employment required prior to qualification; 3) number of waiting days before benefits are paid; 4) number of weeks in which a benefit can be maintained. As with pensions, there were given scores of 1, 2 or 3 based on the standard deviation to develop a summary decommodification index. This was then weighed by the (relevant) population covered as percentage of the labor force. Here too, net replacement rates were multiplied by a factor of 2.¹⁶

¹⁶ For a rank-order of welfare states in terms of combined decommodification, see Esping-Andersen 1990, Table 2.2 on page 52.

Appendix II: Calculation of stratification indices

Esping-Andersen (1990: 77-78) develops stratification indices based on the distributions of countries around the mean and standard deviation on individual variables, which include welfare-regime attributes. Conservative-regime attributes include the variables ‘corporatism’ (number of occupationally distinct pension schemes in operation) and ‘etatism’ (degree to which civil servants are granted special welfare privileges measured as pension expenditure for civil servants as share of GDP); liberal-regime attributes include a social-relief (expenditure on means-tested social assistance as share of total public social spending), private pension (private-pension expenditure to total pension expenditure) and private health (private health expenditure to total health expenditure) variable, and social-democratic regime attributes includes the degree of universalism (percentage of relevant population – labor force between ages 16 and 65 – covered under respective programs) and low benefit differentiation (what a normal standard worker will receive as a standard benefit to the maximum benefit stipulated in the rules of the system).

For the corporatism variable, a score of 0 was given to countries with less than (or equal to) two separate occupationally distinct pension programs, a score of 2 was given to countries between two and five (inclusive), and a score of 4 was given to countries with more than five occupationally distinct programs. For the etatism variable, a score of 0 was given where the share is less than (or equal to) 1 percent; a score of 2 was given where the share was between 1 and 2.1 percent, and a score of 4 was given where the share was above 2.2 percent.

For the social-relief variable, a score of 0 was given for an expenditure ratio of less than 3 percent, a score of 2 was given for a ratio from 3 and 8 percent, and a score of 4 was given for a ratio of more than 8 percent. For the private-pension variable, a score of 0 was given for an expenditure ratio of less than 10 percent, a score of 2 was given for a ratio from 10 to 15 percent, and a score of 4 was given for a ratio of more than 16 percent. For the private-health variable, a score of 0 was given for an expenditure ratio of less than 10 percent, a score of 2 was given for a ratio from 10 to 20 percent, and a score of 4 was given for a ratio of more than 21 percent.

To determine the degree of universalism, a score of 0 was given for less than (or equal to) 60 percent of population coverage (low degree of universalism), a score of 2

was given for a coverage between 61 and 85 percent (medium degree of universalism), and a score of 4 was given for a coverage of more than 86 percent (high degree of universalism). Income-test-based programs were scored equal to 0, as they do not grant automatic universal rights. Finally, for benefit differentiation, a score of 0 was given for a standard benefit of less than 55 percent of maximum benefits (very high benefit differentials), a score of 2 was given for a ratio between 55 and 80 percent (medium benefit differentials), and a score of 4 was given for a ratio above 80 percent (low benefit differentials).¹⁷

¹⁷ For a clustering of welfare states according to conservative, liberal and social-democratic regime attributes, see Esping-Andersen 1990, Table 3.3 on page 74.

Appendix III: Evolution of China's public social expenditure

Appendix III: Evolution of China's public social expenditure, 2010-2015						
	2015	2014	2013	2012	2011	2010
Education	26271.88	23041.70	22001.76	21242.10	16497.33	12550.02
Healthcare	11953.18	10176.80	8279.90	7245.11	6429.51	4804.18
Social security and employment aid	19018.69	15968.90	14490.54	12585.52	11109.40	9130.62
Total	57243.75	49186.80	44772.2	41071.73	34036.24	26484.82
as % of GPD	8.3%	7.6%	7.5%	7.6%	6.9%	6.4%
GPD	689052.1	643974.0	595244.4	540367.4	489300.6	413030.3

Note: Data refer to national government expenditure (in 100 million yuan).

Source: NBSC (2016).

Appendix IV: Developments in social insurance participation of migrant workers

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	2007	2008	2010	2015	Coverage rate ¹
Pension insurance	18 million	24 million	33 million	56 million	23%
Health insurance	31 million	43 million	46 million	51 million	21%
Unemployment insurance	12 million	n/a	20 million	42 million	17%

¹ Percentage of migrant population (247 million in 2015) that is covered under the relevant social insurance program at the end of 2015.

Sources: Cai (2011) and MoHRSS (2016).