

One Country, Three Systems: The Politics of Welfare Policy in China's Authoritarian  
Developmental State

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## **I. Introduction**

Welfare policy in China today can be characterized as “1 country, 3 systems.” Three broad segments of the population live under distinct welfare regimes. Communist party and government officials numbering from 10 to 11 million enjoy generous benefits ranging from free health care to full pensions, financed from state budgets. For roughly 275 million urban workers, the target of state enterprise restructuring in the 1990s, welfare benefits have been cut dramatically. With the introduction of contributory schemes or social insurance in the 1990s, urban workers now have their pensions, health care, and other welfare protections financed through payroll deductions. Some 500 million rural workers, by contrast, have no welfare benefits to speak of, unless they happen to live in towns that voluntarily organize insurance pools to provide various welfare measures. Among the rural workforce, at least 125 million work in urban areas but generally have no welfare coverage. Continued urbanization means continued demand for urban welfare provisions.

China is hardly alone in its failure to provide broad-based coverage for basic welfare measures. Favorable treatment of civil servants and the military officers at taxpayer expense is a nearly universal phenomenon. Rural migrants to urban areas and informal sector workers in most of the developing world also generally lack social safety net protections. Thus, in comparative terms, China appears to offer support for each of three general arguments that privilege different variables as the drivers of social policy: long-term trends of industrialization and urbanization (the “modernization” argument); the pursuit of export-led, high savings, low consumption development strategies (the “developmental state” argument); and the tendency of authoritarian governments to create highly stratified welfare states for select political clienteles (the “regime type” argument).

This paper argues that China’s evolving welfare regime today is best understood from the perspective of its high-growth development strategy and its authoritarian regime. China’s social policy shares much in common with the East Asian developmental states during their high-growth phases under authoritarian rule. Comparing China’s social policy with that of East Asian developmental states is not meant to imply that a single model exists for the entire East Asian region.<sup>1</sup> States outside the region that have similar strategies of export-led growth, high savings rates, low consumption, and active bureaucratic management of selected sectors should also be characterized as developmental. My argument implies that such states would have similar welfare

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<sup>1</sup>Kasza (2006) argues persuasively that welfare policy across East Asian cases varies to such an extent that no “model” can be said to exist for comparative purposes or otherwise.

regimes and social policies as those found in the East Asian developmental states. However, regime type acts as a crucial mediating variable for developmental states. When the latter undergo democratization, their social policies change in fundamental ways: they achieve nearly universal welfare coverage and increased expenditures on existing programs. (Haggard 2005b)

The democratization of South Korean and Taiwan fundamentally altered their respective welfare policies and politics, by making citizenship rather than status group the basis for welfare eligibility. Post-war Japan achieved universal coverage based on citizenship by the late 1950s. (Campbell 1992) This linkage between regime type and the extension of basic rights to healthcare, pensions, unemployment insurance, and other safety net provisions is well-established in a number of recent studies. (Haggard 2005a; Rudra and Haggard 2005; Wong 2004) The implications of this argument for China's welfare state, addressed in the concluding section of the paper, are direct: continued authoritarian rule under the Chinese Communist Party will perpetuate dangerously inadequate welfare policies. Failure to provide access to basic pensions, healthcare, and other welfare rights will undermine the legitimacy of CCP rule and exacerbate intra-elite divisions within the CCP.

The argument presented here asserts that China's social policy and welfare provision is not directly comparable to other plan-to-market transitional economies of Eastern Europe and the former Soviet Union. While the introduction of market forces, state sector restructuring, and trade liberalization have created pressures for

unemployment and other compensatory policies in China and in the transition cases, China's baseline welfare regime varied considerably from the other transition economies. In the East European and Soviet cases, citizens enjoyed broad coverage of health and pensions, generally under nationally-administered agencies. (Kramer 1996; Inglot 2003) Welfare provision under China's command economy, on the other hand, was primarily limited to urban workers and delivered through their enterprises. By contrast, the Soviet and East European welfare regimes were over-developed, and therefore financially unsustainable as the market transition began. As a consequence, social policy reforms were directed at downsizing the welfare state. (Kornai, Haggard, and Kaufman 2001) Most crucially, these social policy reforms took place in the context of the early years of newly installed democratic regimes.

Moreover, China's social policy is not an appendage to a "crony capitalist" political economy, in which private sector and other social elites with privileged access to politicians and bureaucrats can operate with little restraint from regulators and tax authorities. While this concept could be applied to parts of China where private businesses and illegal networks enjoy preferential treatment from local governments, at a national level it is difficult to conclude that state autonomy has been eroded by these social forces. More to the point of this discussion, while some employers no doubt enjoy exemptions or preferential treatment on compliance with social insurance and other welfare policies, China's welfare regime does not fit what we would expect to observe in a "crony capitalist" welfare state: systematic evasion of social insurance fees, declining numbers of covered workers, and a possible displacement of state welfare provision by

rival groups such as religious organizations. It would be inaccurate to conclude that China's welfare state is collapsing—although the disastrous health care system, the ongoing rural crisis in many regions, serious problems in access to education, and severe environmental damage might suggest otherwise.

As the sections that follow demonstrate, social policy in China follows a political logic similar to that found in the authoritarian periods of South Korea and Taiwan, and in authoritarian Singapore.<sup>2</sup> China's welfare policies are subordinate to the greater good of rapid economic growth. Welfare provision in China remains linked to employment status and is heavily biased in favor of social insurance over social assistance. China's welfare regime is directed at securing support from crucial constituencies, including civil servants, military officers, state enterprise workers and other public sector employees. The Chinese government now faces the problem of how to extend welfare coverage to a rapidly urbanizing rural population and other groups excluded from welfare services or social insurance programs.

## **II. East Asian Developmental States and Production-centered Welfare**

A sizeable literature has emerged in recent years on the welfare or social policy dimensions of the East Asian developmental state, prior to and in the wake of democratization. (Haggard 2005a, 2005b; Wong 2004; Holliday and Wilding 2003a; Tang 2000a, 2000b; Goodman, White, and Kwon 1998) Earlier treatments of the East Asian developmental state linked the remarkably underdeveloped welfare regimes to the

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<sup>2</sup>I do not include Hong Kong in this discussion because it is debatable whether colonial Hong Kong's liberal economic policies make it a developmental state. However, in its social policy Hong Kong (pre- and post-1997) shares much in common with Singapore.

constraints imposed by late development and export-led growth. (Deyo 1989) However, democratization in cases such as Taiwan and South Korea beginning in the 1980s brought about a significant expansion of existing healthcare, pension, and unemployment programs, as well as broader participation in policy making and implementation by various non-state actors. A brief survey of East Asian welfare states in their authoritarian phases, in South Korea, Taiwan, and Singapore highlights a number of traits shared across the cases. While social policy in the authoritarian East Asian developmental states varied in significant ways, their shared characteristics can be usefully compared and contrasted with welfare policy and politics in contemporary China.

First and foremost, social policy in the East Asian developmental states was (and arguably remains) subservient to the goal of economic growth. Social welfare measures—including healthcare, pensions, unemployment benefits, relief programs, and broader policies such as education—were not enshrined as basic rights in the East Asian developmental states but were extensions of high-growth policies. This subordination of social policy to growth objectives, or even the stance that rapid growth was *the* most important social welfare measure, has been labeled the “East Asian Welfare Model,” (White and Goodman 1998) “Confucian welfare states” (Jones 1993), and “productivist welfare capitalism” (Holliday 2000), among other appellations. Models aside, the priorities of the East Asian developmental states to place growth over welfare can be seen in measures such as social expenditures as a percentage of GDP, which remained low, at generally between 4 to 6 percent, prior to the 1980s. Even with the expansion of social spending after democratization, the majority of social expenditures still go to education in

South Korean and Taiwan. In Singapore, housing and education account for about 75 percent of total social expenditures.<sup>3</sup>

A second shared trait, which followed from the goal of rapid growth, was the division of the labor force into privileged and peripheral sectors. Employment and job status served as the main determinant of eligibility for welfare measures. Taiwan's Labor Insurance provisions, established in 1951, covered only workers in firms of more than 200 employees. This cut-off point essentially incorporated state sector workers and excluded the private sector. Only about 2 percent of the population had health insurance in 1951, and the preponderant share of those covered were public sector employees. (Haggard 2005b: 152) As late as 1985, only about 22 percent of Taiwan's population was covered under social insurance. (Ramesh 2003: 89) In South Korea, no such coverage even existed for government employees and the military until the early 1960s, when social insurance provisions for pensions, health care, and workplace injury compensation were introduced, primarily directed at civil servants and employees of the largest firms. (Haggard 2005b: 162) The health insurance legislation in the early 1960s made coverage compulsory only for firms with more than 500 employees. (Ramesh 2003: 87) South Korea, like Taiwan, delivered welfare services through large enterprises. As a result, in 1980 health insurance in South Korea covered only about 24 percent of the population. (Wong 2004: 8)

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<sup>3</sup>Aspalter (2001: 7-8) cites social expenditure data summarizing UN, Asian Development Bank, and IMF data.

At the same time that the authoritarian East Asian developmental states incorporated crucial sectors, they excluded labor. Left-wing political parties and independent labor unions viewed in the welfare state literature as crucial in bringing about the extensive protections in West European cases (Huber and Stephens 2001; Pierson 2001), were either extremely weak or even illegal in East Asia. This repressive approach to labor organization and interest representation facilitated the strategy of producing a meager safety net for workers, and generally served to distribute welfare resources to employees in the public sector or the largest firms. (Ramesh 2000)

The authoritarian East Asian developmental states shared a third trait by having episodic cycles of welfare expansion in direct response to crises or challenges to the regime. The governments of South Korea, Taiwan, and Singapore sought to “incorporate key groups and bind them to the regime.” (Holliday and Wilding 2003b: 163) New legislation or policy adjustments arose in response to pressures for expansion or new administrations seeking to shore up their questionable legitimacy. Welfare expansion was closely linked to political events and pressures. The effort on the part of the South Korean leader dictator Park Chung-hee to broaden eligibility soon after the 1961 coup has been called a “preemptive strike to compensate for its lack of political legitimacy.” (Kwon 1998: 54) Park launched further expansions of social policy, including pensions, after a close call in the 1971 election. (Ramesh 2003: 93-4) In Taiwan, periods of growth in social expenditures corresponded with legitimacy crises faced by the Nationalist Party. (Ku 1995) In Singapore, the Central Provident Fund was initiated by the British colonial government in 1955 to emphasize “individual responsibility” for saving for old age,

housing, and medical care. (Tang 2000c: 86). Later, the CPF became a vehicle to bolster the legitimacy of the People's Action Party (PAP) as it sought to defeat socialist alternatives. The PAP embarked on expansions in education, health care, and housing after it came in to power in 1959. The political stability that PAP engineered allowed the Singapore government to avoid state-financed pensions, and most of its welfare expenditures today are through education and housing rather than redistributive transfer payments. (Ramesh 2003: 96-7)

Finally, leaders of the authoritarian East Asian developmental states spoke in cultural and ideological terms and placed a large burden on households and the community to share in the responsibility for welfare provision. Holliday and Wilding (2003b: 168) note that political elites have almost uniformly opposed European-style welfare regimes that putatively weaken the norm of filial piety and family obligation to support its members. In a deliberate attempt to avoid the costs of social assistance, the governments of Taiwan, South Korea, and Singapore have passed legislation that requires citizens to support family members. (Holliday and Wilding 2003b: 168) Even Singapore's commitment to public housing had a pragmatic basis. Lee Kuan Yew is said to have believed that in Singapore, home ownership would make citizens "more likely to fight for the country." (Kwon 1998: 37) Holliday and Wilding aptly note an important point about rights to welfare in the East Asian cases when they state that "there is little, or at best only a very weak, sense in these societies of a general right to welfare, of welfare as a right of citizenship. Rights may be secured through contributions to social or health

insurance schemes, but not simply through being a citizen.” (Holliday and Wilding 2003b: 167)

Identifying these shared traits of developmental states in East Asia is not meant to imply that welfare policies have withstood pressures for change, or that such patterns cannot be found outside the region. For example, family-centered welfare provision is found throughout agrarian societies. With industrialization and urbanization, attitudes toward welfare change along with demographics. It is no longer possible or realistic to assume that household heads can provide for elderly members, not to mention taking responsibility for the livelihood of relatives living scattered across cities. The East Asian states have seen a surge in demand for government welfare measures as their societies have urbanized. The most crucial pressure for change in welfare policy, however, lies in the electoral competition found in democratic politics.

The dynamics of electoral politics and welfare policies are well-illustrated in the case of Japan, the paramount East Asian developmental state. Social policy in postwar Japan resembled in many respects that of its small East Asian neighbors. Japan had a production-centered economy and a divided workforce in which benefits were closely tied to employment, and the belief in family support was certainly as strong as elsewhere in East Asia. Japan also possessed one key exception, however: electoral competition, or the credible threat that the ruling Liberal Democratic Party might suffer a decline in its ability to control the legislature. Social policy was sensitive to political considerations. Japan therefore differed from other developmental states in the region by attaining

universal coverage for pensions and health care in 1959, when the Diet passed laws to create “national” as opposed to “employee” pensions and health care coverage.

Subsequent adjustments to these national programs was largely driven by the logic of electoral politics and representation. (Campbell 1992; Calder 1988)

As was the case in early post-war Japan, democratization and political competition have had a direct impact on the expansion of welfare eligibility and social expenditures in South Korea and Taiwan. (Haggard 2005b: 155-163) Both quickly universalized health insurance coverage during the early phases of democratization in the late 1980s. (Wong 2004: 9) In Taiwan, National Health Insurance was introduced in 1995 as a rights-based system for all citizens, regardless of work status. Pension rights also expanded rapidly in both countries following democratization. Singapore, which retains its brand of one-party dominance and curtailed political rights, seems to confirm this association of regime type with social policy. The Central Provident Fund and other forced savings vehicles remain the dominant form of social policy in Singapore. During the 1990s, Singapore’s public spending on healthcare (as a percentage of GDP) averaged 1.5 percent, the lowest among five East Asian countries. (Tang 2000a: 51)

If a similar development strategy found among the East Asian developmental states strongly influences the form and substance of social policy, regime type mediates this relationship between economic strategy and social policy. Democratization does not overturn existing social policy, but it creates political incentives to expand coverage and to make citizenship, rather than work status, the principal source of rights to welfare

coverage. This analysis of the East Asian developmental cases explains much of the content and direction of social policy in China. China is not a prototypical East Asian developmental state, and it varies from the general pattern in significant respects. China under the reforms has seen a rapid rise in income inequality, in contrast to the East Asian developmental states, and China has had far greater openness to foreign direct investment. Still, the way in which China departs from and resembles the East Asian developmental states can help explain the sources of change and the current dilemmas of social policy reform in the PRC.

### **III. China as a Developmental State**

China's command economy-era welfare system possessed a radically different ideological basis from that of the East Asian developmental states, but it also had, in strategic terms, a number of similarities. Gordon White, in making comparisons between China's command economy and the East Asian capitalist cases, characterized pre-reform China as a "communist developmental state aiming at high levels of accumulation and unwilling to spend large amounts of funds on welfare benefits which were not directly productive." (White 1998: 178) Welfare policy under the command economy, like the East Asian cases, accorded privileges to select political clienteles, while excluding vast segments of the population, most clearly peasants. (White 1998) State sector workers were extended (and in some important sectors, maintained) welfare provisions, but in a relatively egalitarian fashion that distributed medical and pension benefits regardless of employee rank or status within the company. (Frazier 2002) Civil servants and military officers were granted generous benefits, including, *inter alia*, housing, education, medical,

and retirement. The welfare system was intensive in this respect, but hardly extensive, leaving some 80 percent of the population in rural areas without any formal welfare provision to speak of. While the welfare state of the command economy had features that made it unique among state socialist cases, at a broader level of generality, China's command-era welfare state conforms closely to the practices of other highly exclusivist welfare states among the authoritarian regimes of the developing world. Particular segments of an already small urban sector (full-time state enterprise workers, civil servants, party and military officers) received welfare provisions, to the exclusion of basically the rest of the population.

With the gradual reform and opening starting in the late 1970s and continuing with China's WTO accession in 2001, the welfare state of the command economy changed in fundamental ways. Foreign direct investment created new cities from scratch, populated by highly mobile labor and firms that could operate outside the rules and norms of state sector firms. The latter changed as well. The *danwei*, or work-unit, essentially dissolved as state enterprises turned over functions of health care, pensions, housing, and other once-free welfare provisions to urban governments. (Cook and Maurer-Fazio 1999; Solinger 2002; Duckett 2004; Frazier 2004) Contract labor, introduced in the mid-1980s, ended the institution of life-long employment and with it access to enterprise-financed welfare measures. (Gallagher 2005) With these changes to its welfare state, China has moved much closer toward policies found in the East Asian developmental states during their authoritarian phases.

In one sense, Chinese policymakers pursued policies that resembled those of neighboring East Asian cases because the latter were available as positive examples. Chinese policymakers, in designing reforms to welfare measures, have explicitly sought advice from multilateral institutions such as the World Bank and have studied the welfare institutions of several countries, not simply those in East Asia. Among these potential exemplars, Singapore stands out as first among equals. The principles of personal responsibility and individually funded accounts in Singapore's Central Provident Fund have been adopted in pension, healthcare, and housing regulations in the 1990s. While policymakers routinely reject explicit comparisons with Singapore—noting the obvious differences in size and level of development—China's pension reforms in particular share the same spirit of personal fully funded individual accounts. Singapore's CPF is overtly used for infrastructure projects; China's local governments, especially in Guangdong, covertly utilize social insurance funds for the same purposes. (Frazier 2005) Singapore's government has dense linkages with current and former officials in the ministries involved in pension policy design in China. The Singapore government funded a policy study of pension reform by two internationally renowned economists who presented a long list of policy recommendations at a private meeting with Premier Wen Jiabao and at a conference with ministry officials in 2004.<sup>4</sup> As a central government informant told Gordon White ten years earlier, "Shanghai is using its social insurance funds to develop the Pudong area; it's not really about pensions. It is really like Singapore." (White 1998: 191)

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<sup>4</sup>I observed this conference, at which the pension study was presented to labor and finance officials in Beijing.

China shares three broad traits with the East Asian developmental states during their authoritarian phases. First, China's development strategy under the reforms has prioritized high-growth at the expense of other public goods such as health care, education, and environmental protection. Several scholars have noted that local governments in China have fiscal and political incentives to promote growth. Jean Oi makes explicit comparisons between the East Asian developmental states and the "local developmental state" in China. (Oi 1999) Local officials possess rights to revenues and assets of firms within their jurisdiction. Local officials are also assessed and promoted by Chinese Communist Party personnel evaluators based on the level of economic growth they can generate in their area. The converse of this general rule is that social welfare measures, other than social stability, are simply disregarded in cadre evaluations. While this pattern is changing as local officials are given environmental criteria as part of "green GDP" and other measures of performance, employment and growth remain far above social welfare and other criteria.

Second, China's welfare regime privileges political clienteles, as took place in the East Asian developmental states during their authoritarian phases. Universal or citizen-based rights to healthcare or other social welfare measures do not exist in China. Welfare measures and protections go to occupations and sectors that are better off relative to others. (Solinger 2005) For example, civil servants receive full health care and pensions out of local public expenditure budgets, and PLA veterans above the officer rank receive benefits from military budgets. Moreover, neither civil servants nor military officials have to make contributions to social insurance funds. This largely unreformed area

accounts for some 10 to 11 million employees, or about 1.5 percent of the workforce. (State Statistics Bureau and Ministry of Labor and Social Security 2004: 8) The welfare bias toward public sector employees can be found in many developing countries, but in recent decades, the combination of a bloated public sector and fiscal constraints generated momentum for drastic pension reforms. (Madrid 2003) Given the importance in China of civil servants and military officers in maintaining elite unity, the CCP is unlikely to curtail benefits or substantially reform this sector in the near future.

Nowhere in Chinese welfare policy do “the tendency to privilege the stronger and the bias toward marginalizing the disadvantaged” (Solinger 2005: 88) come through more clearly than in the rural-urban divide. As noted at the outset of this paper, urban workers and residents are generally covered under contributory social insurance and other welfare programs, while rural residents are not. During the pre-reform era, this asymmetry in welfare eligibility was at least partially offset by the provision of commune-based services in rural areas. However, with the dismantling of collectives, rural health care has collapsed. (L. Wong 1998) With the rapid urbanization of rural areas surrounding major cities, this contrast in welfare provision has become more visible and acute. Moreover, migrant workers can also make legitimate claims to social insurance provisions, since the regulations require that all “employees in urban enterprises” receive coverage.

The glaring divide in eligibility makes official statistics on social welfare coverage in China highly misleading. Most localities, for example, report over 90

percent “coverage” for pensions and health insurance, but they reach this figure by excluding migrant labor, small entrepreneurs, laid-off workers, informal sector workers, etc. When the number of contributing (i.e., covered) workers is divided by entire labor force of a given locality, the coverage ratio for pensions is usually about 50 percent, and lower than that for medical insurance. In short, those most in need of social security coverage—those without formal enterprise employment—are least likely to have coverage in practice.

The “bias toward the better off” is also found in the disproportionate share of social expenditures that go toward pensions relative to other categories such as health care, unemployment, or even education. Local governments in China spent 359 billion yuan on pensions, compared to 27 billion yuan on health care and 13 billion yuan on unemployment benefits. (SSB and MOLSS 2004: 554, 571) Pensions are as popular with their recipients in China as they are elsewhere; if anything they are far more essential since they often act as unemployment benefits for those whose firms have closed. This is not to say that pensioners in China enjoy monthly benefits that permit expensive leisure pursuits and international travel, as is arguably the case for retirees in Japan and Western Europe. Still, average monthly benefits in China are rising rapidly, and China’s aging population will continue to absorb a large share of social expenditures.

China shares a third trait with the East Asian developmental states, in that a “crisis and compensation” dynamic drives changes in Chinese welfare policy. While clearly this dynamic is not driven by electoral concerns, the cycles of crisis-driven reform

are similar to those that the Nationalist Party in Taiwan or the Park regime in South Korea faced in the 1950s and 1960s. In China during the 1990s, the failure of welfare policy measures on unemployment and pensions led to widespread protests by state workers in dozens of cities. (Hurst and O'Brien 2002) A central government that had sworn to never make transfer payments to provinces was forced by the protests of the 1990s to transfer substantial sums of money so that pensioners and unemployed could receive benefits on time and in full. (Frazier 2004) More recently, in the face of escalating numbers of “mass incidents” (officially said to number 85,000 in 2005), the Hu Jintao administration announced measures to alleviate the burdens of the rural population, including direct cash payments for medical needs. In China, like the authoritarian developmental states in the region, the provision of acceptable welfare measures is tied up closely with regime legitimacy. Such responses to legitimacy crises are possible because the economy in a macro sense is enjoying rapid growth. Rapid growth distinguishes China and the East Asian developmental states from post-communist regimes in Eastern Europe and the former Soviet Union. The Soviet and East European cases generally suffered either drastic declines in economic output or were so fiscally constrained that their governments had little choice other than to make substantial cuts in welfare provision.

Finally—and most crucially for China’s political future—the East Asian economies reached a point at which decades of urbanization and industrialization created demands for welfare rights from citizens who remained ineligible for social security and other measures. The duration of China’s reform era now exceeds the timespan of its

command economy era (1953-1978). Rapid growth and the long-term trends of urbanization, industrialization, and rural out-migration have eroded the facile distinctions between rural and urban. Current regulations that call for “employees in urban enterprises” to receive social insurance coverage appear to draw a clear line between firms in cities and urban townships versus firms outside them. With rapid urbanization, this distinction is increasingly meaningless.

Local governments and employers can haggle over definitions of who is a “worker” and what is an “urban enterprise,” but can the Chinese Communist Party make legislative or constitutional reforms that guarantee citizens rights to basic health insurance, basic pensions, and other welfare rights? Given the experience of Korea and Taiwan, or Japan for that matter, we have grounds to be skeptical. None of the East Asian developmental states produced citizen-based welfare legislation until it was clear that the incumbent regime or ruling party faced the credible prospect of being voted out of office. Singapore’s experience as a self-help welfare state with essentially no rights to public welfare provisions offers further support for the notion that democratic polities create rights to welfare based on the concept of citizenship.

The politics of welfare expansion, while driven in part by long-term secular trends of urbanization and industrialization, played out in the East Asian developmental states prior to and following democratization. China now faces surging demand for welfare expansion, but in the context of continued authoritarianism. One of the crucial questions for the future will be whether the incumbent CCP regime can produce laws and policies

that provide universal access to health insurance and pensions, as Korea and Taiwan did in the early phases of democratization. Yet unlike the small East Asian cases, China faces a vast constraint on the introduction of universal coverage.

Income inequality across regions, combined with the quasi-federal fiscal and administrative structure of subnational governments in China, means that citizen-based welfare could be meaningless if provisions are set too low and might be impossible to finance without a vast centralization of social insurance funds. Further complicating matters in China is the inter-regional differences in the sort of welfare programs needed. Exposure to trade, foreign direct investment, and competition from new state firms resulted in job losses and firm bankruptcies in capital-intensive industries, and job gains and firm creation in labor-intensive sectors. These structural changes create the need for two very different welfare policies in China.

In regions where massive layoffs and de-industrialization of the state sector is the norm, a “compensatory regime” has emerged in which local governments are pressed—often literally by massed petitioners outside government offices—to distribute payments that in effect compensate these workers for what they have lost in terms of income, access to health care, housing, and others. Compensatory welfare politics can be found in northeastern Chinese cities and other areas that once had heavy concentrations of state enterprises. Northeast provinces received about 15 billion yuan in pension subsidies, out of a total 50 billion yuan allocated for pensions by the central government in 2002. By marked contrast, in the coastal and other high-growth areas of China, the presence of

mobile labor and capital (including private and foreign-invested enterprises) has created struggles over coverage and contribution. Local governments frequently bargain with firms over social insurance revenues and have reduced incentives to collect welfare revenues for highly mobile workers. Still, since pension and other social insurance contributions represent a new revenue source for local governments, the latter have some incentive to expand coverage. Guangdong province reported 4.4 million workers covered under pensions in 1995, and 12.8 million by 2003 (over 10 percent of the national total of 116 million covered workers). The “expansionary” welfare politics in the southern and eastern coastal regions are driven by revenue imperatives rather than compensation demands. (Frazier 2005)

Welfare policy is thus pulled in two directions: toward compensation of “rust belt” regions and their workers, and toward expansion and incorporation of private firms and their workers. The central government has had limited success in developing a transfer mechanism to collect social insurance funds from surplus regions and distribute benefits to deficit regions. As China’s population ages and the costs of administering healthcare and pensions expand, the center may attempt to federalize or centralize the administration of welfare funds. If this integration takes place successfully, the CCP would be better able to provide a crucial public good and would go far toward thwarting a potential source of regime-threatening unrest. But the objections to such a project, from locations such as Shanghai and Guangdong, have been strident. The central government, though the sale of its shares in state enterprises and the enlisting foreign pension fund

advisors, has created its own “national” pension fund in part so that it can subsidize provinces that cannot make their benefits payments for lack of revenues.

#### **IV. Conclusion**

The author of a widely-cited analysis of welfare policy in China stated of the reform era that “social policies receive attention only in so far as they abet the growth process . . . welfare pluralism presents itself as a panacea; collectives, families, and individuals must take fuller responsibility for their own protection.” (Wong 1998: 206) This pattern could easily have been applied to the East Asian developmental states with whom China has been compared in this paper: pre-democratic Taiwan and South Korea, and Singapore. While they possess obvious differences, China shares with these cases the subordination of social policy to rapid growth, the preferential treatment of political clienteles, and the use of cultural and ideological justifications for the low levels of social expenditures.

Today, the Chinese Communist Party is facing the same dilemmas that the authoritarian regimes in the East Asian developmental states once encountered. Regime survival dictates the expansion of welfare provision and increases in social expenditures.<sup>5</sup> Urbanization and industrialization create broad demands for welfare coverage from previously excluded categories of citizens. Yet the experience of the East Asian cases raises the question of whether welfare expansion can be achieved without democratization. The CCP is clearly trying to expand welfare rights while maintaining

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<sup>5</sup>Croll (1999: 697), writing during the outset of welfare policy reforms, makes a similar argument in her discussion of the long-term viability of state welfare provision in China.

its monopoly on power. The Hu-Wen administration stresses that it has embarked upon a new development strategy that involves slower growth and the expansion of welfare provision. While not framed in the discourse of rights expansion, the policy statements suggest that one aim is to provide broader welfare coverage and rights to those who do not yet have them.

Short of democratization, however, the citizenship-based national pension and health insurance systems developed in Japan during the 1950s, and in South Korea and Taiwan in the 1990s, are not likely to emerge in China. Simply put, the political incentives to create national rights to welfare are greatly diminished in an authoritarian developmental state. While it is true that oil-producing dictatorships do provide welfare of sorts based on citizenship, this exception supports my general claim: authoritarian regimes that do *not* have the benefit (or curse, as many have noted) of resource endowments will strive for power and legitimacy by adopting mercantilist economic strategies of forced savings, rapid growth, and miniscule social expenditures.

This argument is not meant to imply that simply by virtue of being democratic, a regime will adopt universal welfare protections such as national health insurance and pensions. Large population states, such as India, Brazil, and certainly China, face barriers to universal welfare rights that smaller states do not. Still, it is instructive to note a few points about India and Brazil in contrast to China. Both have long had autonomous union organizations, and Brazil developed social security programs covering most of the population even *before* democratization. Though not without financial problems and

inequalities, Brazil's social security program covered 87 percent of its population as early as 1980. (Madrid 2003: 140) India, by contrast, has extensive social legislation dating from independence, but only about 8 percent of its labor force is covered since the vast majority of workers are employed in the informal sector, or in firms that are too small to cross the threshold of 20 employees for coverage under the social policy legislation. As a result, India also possesses a "1 country, 3 systems" segmentation of its labor force by welfare programs. (Agarwala and Kahn 2002) It is thus possible that democratic politics are not a sufficient condition for what Wong (2004) has referred to as "healthy democracies" (i.e., those with strong health care and other social policies). Further research could productively pursue the question of whether the East Asian developmental states evolved broad welfare protections by having rapid, relatively equitable growth, followed later by the formation of democratic regimes. To the extent that China fails to achieve either of these conditions, its welfare state is likely to remain under its highly inequitable "1 country, 3 systems" pattern.

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