

The development of the Chinese Welfare State and the prospects of EU Policy Diffusion¹

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INTRODUCTION

“China to become a Welfare State by 2049” (China Daily 2008) was a recent headline in Chinese media referring to a report prepared by a team of experts working for the Chinese government.

Whereas the article provides a roadmap with the different mile stone goals for establishing a comprehensive Welfare State system by 2049 it remains completely silent on how it will look alike. Asking for “*Does the PRC develop a genuine Welfare state model or a system close to an existing model?*” is against this background an interesting research question to elaborate on the characteristics this Chinese Welfare State could feature by then and underlines the relevance of the underlying research paper. Furthermore it provides room for a comparison with the Welfare States of developed countries.

Welfare State Research

Comparative Welfare State research provides a number of distinct approaches to explain the emergence and development of Welfare States, although most of them are developed building on the political history in Western democratic countries they will be useful to study the development of the Chinese case. Without doubt such an exercise will be a difficult one, since as Pomeranz (2000) states China is due to its size, population and internal diversity more comparable “to Europe as a whole than to individual European countries” (ibid. 7). Two major schools of thought can be distinguished that have been used to study the Welfare State developments: Functionalism and Institutionalism – these two shall be presented in the latter.

From a functionalist perspective, represented by Harold Wilensky, Welfare States are a “functional response to the new social problems that emerged with industrialism, urbanization, demographic alterations in the populations, and the maturing of the capitalist economy” (Meier-Jaeger/ Kvist 2003: 577). Derived from this viewpoint is the scenario in which the Chinese Welfare State development

¹ The underlying article is a short version of the Master Research Project completed at the Erasmus University of Rotterdam in 2008.

will be similar to the one in Western democratic countries and will close up or even converge with the Welfare States in the latter in the long run while answering the challenges that grow more and more alike.

In the 1990s institutional perspectives on the Comparative Welfare State research became most prominent. Starting out from the early typology of Gøsta Esping-Andersen – the three Worlds of Welfare Capitalism (1990) – the approach become ever more sophisticated taking the respective institutional environment as explaining variable for welfare state diversity. Latest innovations of the approach include an understanding of the role of social learning for Welfare state change.

Studying the Chinese Case

Taken its recent past as planned economy, the transitional challenges, the huge population number, its one party system and last but not least the regional and cultural diversity unified in a longstanding history of a Chinese state China constitutes a unique case in more than one aspect. Making use of the theories and methods developed in doing research on the emergence and development of Welfare States in the Western industrialized countries and the newer discipline of studying the Welfare State developments in industrializing countries in East Asia is the approach to study the Chinese case. The main research question to be answered is if China follows in its development of a Welfare State the footsteps of Western or East Asian countries which have been industrializing at an earlier point of time or develops a genuine Welfare state model:

The research question falls in field of Comparative Welfare State research and Historical Institutionalism will be used as theoretical framework for the study. Studying the origins and challenges of the system will lead to a more informed view on the welfare state institutions in China and which viable options there are for the future. The method applied is a form of process-tracing or so called systematic process analysis and its features as outlined by Hall (2006). A process analysis can trace back the relative influence of factors on social phenomena with more precision than can be secured by a statistic one and herewith makes up for the implied weakness of small n-studies providing for causal interference (cf. *ibid*: 29). Furthermore the case inherent validity can be enhanced by making the processes transparent (cf. Blatter 2007: 195). By combining quantitative and qualitative elements the chosen approach is following the one adhered to by Historical Institutionalists in the field of Welfare State research and equally provides the ground for an assessment of the applicability of the second prominent theory family in explaining Welfare State research, namely Functionalism.

Against this background four sub-questions have been established, which are necessary to apply the framework of HI and to answer the main research question that will be built on the results of the research on the following questions:

1. *What factors characterize the Chinese Welfare State?*
2. *What role plays the socio-economic development stage and the related social challenges for the development of the Chinese Welfare State?*
3. *What events have been critical junctures for the Chinese Welfare State?*
4. *What role plays policy transfer for the development of a Chinese Welfare State?*

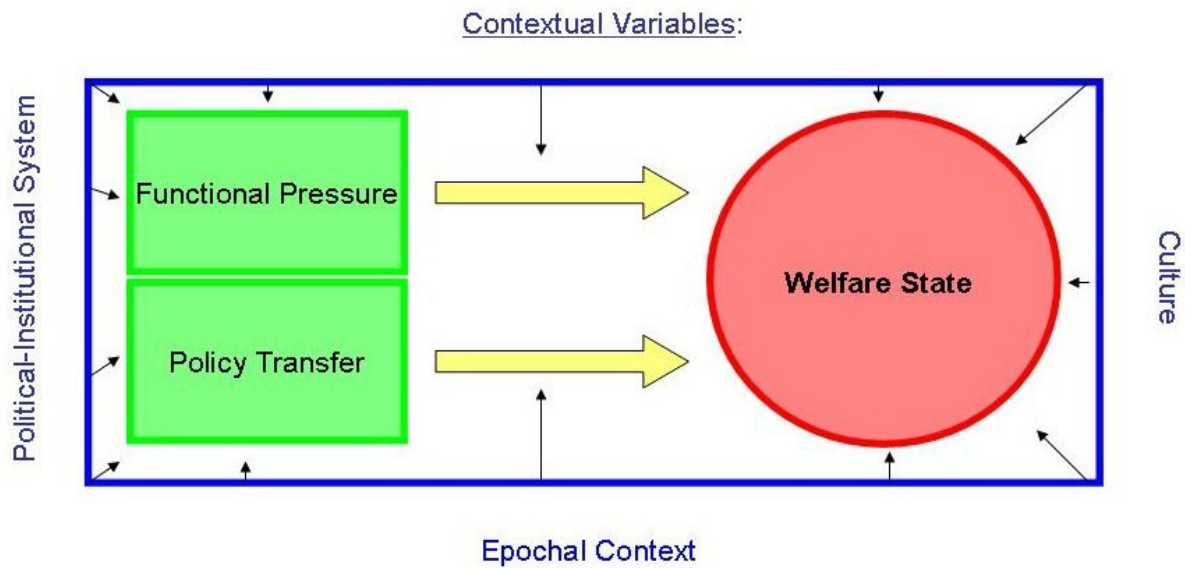
Special attention will be paid to the role played by internal pressures and constraints for reform, same as by policy transfer. Answering these questions has both - a practical and a scientific relevance. In respect of the first it helps to shed on light on the reform trajectory of the Welfare State system in the PRC and the future viable options; secondly by applying theories and models that have been developed according to experience in Western countries the study gains in academic relevance, since it can serve as a test for their external validity.

Model

Taken the different variables derived from previous research projects on the Welfare state together the following model can be established that provides a quick overview of the phenomenon under research and the assumed roles played by the independent and contextual variables.

The dependent variable is the development of the Chinese Welfare State. The arrows between Functional Pressure and Policy Transfer - the independent variables -on the Chinese Welfare State show the anticipated influence of the two factors on the development trajectory of the latter. The contextual variables of political institutions, culture and epochal context are visualized as the frame within the causal processes take place, furthermore the little arrows shall symbolize that the form and intensity of the functional pressure same as the role of policy transfer are highly dependent on the influence of the contextual variables, same applies to the dependent variable.

Graph: Model



Source: own design

Operationalization of the variables

The operationalization requires that the chosen indicators can help to measure properly a certain variable as intended in theoretical concept underlying the research project (Manheim et.al. 2001: 6). In the choice for indicators in the underlying study there is an orientation at other scholars in the field.

1. The development of the Chinese Welfare state

For an analysis of the Welfare State development in China the following characteristics of a Welfare State are chosen in accordance with Esping-Andersens Welfare regime approach: welfare state ideology, the composition of the welfare mix, same as the Welfare State outcomes social stratification and de commodification.

Welfare state ideology will be operationalized by using one indicators, the role given to social policy in respect to economic policy; is it subordinated, on equal footing or perhaps even privileged. The basis, on which welfare provisions are granted will be additionally looked into, is it the concept of social rights, on implicit norms rooted in the culture of the country or to be found in a more pragmatic approach in the quest for economic growth and stability.

The composition of the welfare mix is another indicator that has to be operationalized. At this point the traditional welfare mix as introduced by Esping-Andersen shall be applied, whereas the role of additional sources for welfare provisions as stated by Gough (2001) will also be looked into. A picture will be drawn what role the different institutions have in welfare provisioning. Since especially

the benefits and provisions made by the families cannot be completely translated in monetary terms the statistical data must be complemented by results of a qualitative analysis.

The indicator effects of stratification will be operationalized as the development of the GINI-index over time. The GINI-index is measuring the inequality in a society taking different indicators into consideration.

The degree of decommodification is another characteristic of the welfare state models. An indicator is the existence of government programs making the survival of the individual and its family possible without market participation and its generosity. This is the existence of a social safety net as for example a program guaranteeing basic living standard.

2. Functional Pressure

As stated in the last chapter the main focus will be put on internal pressures. Tracing back the influence of external pressures on Welfare State development is a difficult task and will only be done in a wider framework of the political history of the PRC.

The internal/ endogenous pressures can be operationalized by the following indicators for the level of socio-economic development that pre-empt the necessity for social policy making: the GDP in total can be taken as indicator for the availability of funding means to extent the coverage and generosity of welfare services, the GDP per head acts as a refinement for the indicator; the share of employment in the three industry sectors, the share of GDP of the three industry sectors, to show the situation and maturity of the economy; the rural-urban ratio of the population shall be an indicator for the degree of urbanisation as the average household size is for the changing family patterns - both are typical dimensions for measuring the development stage of a society; the development of the government expenditure on social security shall be taken as an indicator for the maturing of social entitlements, together with the indicators unemployment rate, GINI-index, the development of the rural-urban income ratio and the number of mass incidents shall picture pressing social challenges. The changing gender-role has been left out of the selected indicators since the issue as such would need more detailed study to place it in the cultural, historical and political-ideological context in China.

3. Policy transfer

Indicators for the role of policy transfer are derived from the Dolowitz-Marsh model of Policy Transfer as presented in the theoretical part. These are: the reasons why actors engage in policy transfer and the degree of doing this voluntarily; the actors involved in policy transfer; the content of transfer; the originating source of the lessons; the factors facilitating or restricting the process. These indicators can only be measured on a qualitative basis.

4. Contextual Variables

Clearly conceptualizing contextual variables is a challenging task, a major problem is the difficulty of measuring their influence and capturing all relevant features. At this point three dimensions shall be distinguished.

The political-institutional system is one of the most important context variables. Therefore the relevant institutions involved in social policy making will be identified- political same as administrative. A special focus will be laid on identifying a change in this system or major disturbance.

Measuring the influence of Culture can only be made on a highly qualitative level; indicators are the practiced religions and customs and their relation towards welfare state policies.

As last contextual variable identified by Historical Institutionalists the epochal context can be analyzed by identifying critical events in the political history of a country or in this case the Welfare State system. Critical events can be conceptualized as moments that indicate a departure from a long followed development path.

Data collection

The empirical part will be made up of three parts, each of these parts is different in its orientation and therefore a combination of methods of inquiry will be used – desk research same as expert interviews. By applying the principle of triangulation - “using more than one method or source of data in the study of social phenomena”(Bryman 2001: 274) - an advice given by King et al. (1994) in their groundbreaking book on social science inquiry will be consequently adhered to.

CHINESE SOCIAL POLICY IN PERSPECTIVE

In order to make a prediction what form and characteristics the future Chinese Welfare State will feature a look at the development trajectory to date is necessary. The empirical part of the research project will provide information necessary to give a picture of the developments of the Welfare state and key employment and social policies in Mainland China² same as of the factors that have been identified in the theoretical part as possible explaining factors. The results of the three individual chapters will later on be used in the analytical part.

The first chapter will give an overview of the socio-economic trends in China from the 1950s to present that materialize in form of *functional pressure* on the system. The indicators for these developments will be the ones operationalized in the part of the research design.

In the second chapter a chronological overview of the development of the Chinese Welfare State and its employment and social policies in the time since the establishment of the PRC is provided – in some cases it might be appropriate to deviate from a strict chronological order to stress links between policies. This overview will allow identifying characteristics of the system and domestic institutions that changed and others that remained stable over time.

In the third and final chapter of the empirical part the issue of *policy transfer* will be addressed in respect of the role of foreign experience and expertise on the development of policies in China. After a general overview of the entities identified as policy lenders, the EU-China cooperation in the field of Employment and Social policy will be studied in detail. Started in 2005 it will be taken as a case for outlining the openness towards and the provision of new opportunities for policy exchange at the beginning of the 21st century.

Functional Pressure

In general the time under research can be distinguished into two macro-periods, the pre-reform era of high equality on a low level of economic development and the post-1978 era of economic reform, high growth and rising inequalities.

In the years from the early 1950s up to 1978 the Chinese economy grew at a little annual growth rate, while the per capita GDP was equally low. The primary sector was dominant in respect of share of the persons employed and since there was no real market for the products of the primary sector its share of the GDP cannot be measured adequately. In terms of the development of the society the following

² For a consistency in terms of the geographical area the two provinces with special administrative status – namely Hong Kong and Macao – are not part of the research. Due to their colonial past independent systems of social welfare have been established that have not been changed after becoming a part of the PRC in the late 1990s. The terms PRC and China will be used synonymous in the ongoing study.

results can be presented. Except for the increase in the number of the population of the PRC all other factors have been relatively stable as for example the unemployment figures, high equality and a stable ratio of the rural-urban population. In comparison to the economic development status of the Western Industrialized countries China found itself lagging decades behind. From such a development status there was no urgent pressure of the establishment of large scale social policy making. A major achievement in respect of the starting point in the early 1950s was to lift millions out of poverty.

The second period starts with the reform and opening-up in the middle of the 1970s and the key date of 1978. Whereas in the first years of the reform period the economic growth rate was relatively low, from the 1990s onwards there was a steep increase in the GDP and the per-capita GDP which was primarily lead by export and the freeing of market forces. Along these developments major challenges emerged for which the existing welfare system was not fit: high levels of unemployment, changing family patterns, migration and occupational mobility that resulted in rising inequality and in turn civil unrest, that puts pressure on the government to find immediate solutions.

The stronger role of the secondary and tertiary sector of the economy and the rising inequality between rural and urban income fuelled urbanization and (mainly illegal) labour mobility. Furthermore “(T)he shift of the rural labour force to non-agricultural activities has brought with it the risk of unemployment and a retirement at a particular age” (Li/ Feng/ Gizelis 2008: 8).

The Chinese population is still growing and relatively young, whereas due to the one-child policy, the birth rate was falling since the early 1990s. Although in 2008 there is still a favourable old age dependency ratio, the future estimates underscore the importance of the establishment of a social security scheme that is viable to guarantee the welfare of the future aging society.

A more imminent threat to the existing social system is the change of family patterns. In the decade from 1996-2006 for which reliable data is available the national average household size shrank from 3.64 to 3.17. The traditional extended family structure gives way to small-size, nuclear households; in combination with the labour migration flows this results in the loss of functioning family support systems in the case unemployment, sickness and old-age dependency.

Further pressure stems from rising inequality in the 1980s, measured with the GINI index but also the rural-urban income gap. In combination with major layoffs, rising unemployment rates and market failures at the detriment of the workers these factors caused in many cases a social unease that resulted in a growing number of social protests since the 1990s. Decisive increases in the government expenditure on social security in the same period could not reverse this trend.

If the government does not find ways to deal with these major challenges in the framework of social policy making the political stability of the country will be at stake. In the demographic changes it can be perceived best that China is running out of time and needs to come up with solutions in the near future. In order to get a better picture what are viable options to reform the Chinese Welfare a look

into the history of the PRC is needed clearly focussing on relevant decisions for the Welfare state system, its institutions and policies is needed. Such a chronological overview will be provided in the next chapter.

Welfare State policies in the PRC

This chapter of the empirical part is dedicated to give a chronological overview of the development of the Chinese Welfare State and key social and employment policies. The information is mainly retrieved from secondary literature- the work of distinguished scholars in the field of Chinese Social Policy and to a lesser extent of Chinese government resources which are provided in English. Tracing the major developments in the social policy making in the years from 1949 to 2008 helps to identify critical turning points for the development of the Chinese Welfare State same as constant and changing characteristics of the system.

Setting a special focus on the developments since the current leadership of the PRC- President Hu Jintao and Prime Minister Wen Jiabao- started their first term in office three macro-periods will be distinguished a priori: the first period starts with the establishment of the PRC in 1949 and ends with the official start of the reform and opening-up period in 1978. The second period covers the reform era from 1978 onwards until in 2002-2003 the Hu – Wen - leadership is assuming office. This event marks the starting point of the third period that comprises the latest information on decisive decisions and developments until 2008.

Results from the distinguished periods

The first three decades of social policy making and welfare statism in the PRC have not been signified by a comprehensive approach; the developments have been driven or hindered by major ideologically motivated turns in the development strategies as for example the Great Leap Forward (GLF) and the Great Proletarian Cultural Revolution (GPCR) same as the power struggle within the Chinese Communist Party (CCP). Except for an interim period the CCP remained an unquestioned authority. Although the strategies to fight poverty were successful and millions were lifted out of poverty neither the anticipated goal of a fast economic development nor generous welfare state provisioning could be realized at full.

Despite its appraisal for its equality features the practiced enterprise welfare model showed in reality many shortcomings. The welfare provisions made by the enterprises were dependant on many factors as for example the nature and administrative level of the firms, same as their productivity. Since the work places were institutionalized into numerous self-managed and self-financed small societies, there was a lack of coordination of a multiplicity of enterprise based system – this resulted in a high

fragmentation and only weak redistributive effects of the system (cf. Lin/ Kangas 2006: 65; Xing 1999). The gap in the provisioning between the urban and rural population could not be closed down. Whereas the generous provisions of the so called “iron rice bowl” only applied to urban residents the main change for the rural population was the stronger role of the commune in providing welfare provisions under a more universal approach. Under the motto “each according to his needs” the original 5 guarantees³ for rural dwellers were in some places extended to up to 16 guarantees (cf. Dixon 1981: 196) what also depended on the commune and its means. Since life-long tenure was guaranteed in both areas the work incentive structure was very low. Furthermore the strict control of the labour movement between rural and urban areas in form of the “Hukou-system” hindered the establishment of a national labour market that provided urban enterprises with workers on a more flexible basis. All these factors contributed to a low economic growth and in turn the inability to extend the generosity of the Welfare State system further.

In the transition period from 1978 until 2002 the institutional relations and the practice in social policy were gradually transformed. The reforms followed in general the line of freeing the enterprises of their role and burden as provider of welfare and make them concentrate on the business operations while clearly defining the responsibilities and competencies of public bodies.

Economic growth was made the first priority and in the early 1990s a clear neo-liberal strategy was followed openly by the government centring on marketization, liberalization and deregulation. The modern market-based enterprise system was based on the notions of profitability, economic efficiency and the authority of managers – a clear opposition to the old ideas of the socialist welfare system, in which there was also a say of the workers in enterprise decision-making. Increasing numbers of industrial disputes- that make-up a big share of the so-called mass incidents- and a rising number of social inequalities caught the attention of the regime. This showed the need for a reform of public welfare services but also the lack of institutionalized channels for expressing social grievances and moderation before the problems become public (cf. McNally 2008: 158).

Building up new institutions and instruments around the market to guarantee a stable position in the now direct State–worker relationship in social provisioning turned out to be a difficult task and showed many setbacks. Whereas reforms of policies including re-distributional features such as the unemployment insurance scheme and the social security system were examples for setbacks, regulatory policies such as the new labour law and ambitions to provide employment injury insurance turned out as big success and brought the system at least in these respects closer to the state of the art social and employment policies in Western Industrialized countries.

Without doubt the initiatives brought on their way at the end of the 1990s are defining a clearer role of the responsibilities of the government and its institutions on which the future social policy-making can

³ The original five guarantees are food, clothing, housing, health care and sick leave, maternity benefits that are supplied partially free. Additional reported guarantees are education, funeral and wedding ceremonies, haircuts, entertainment, heating, lighting, tailoring, upbringing of children, transportation, a small marriage grant, and old age care (cf. Dixon 1981: 196).

be build. Shue and Wong (2007) are taking this development as an indicator for change towards a new balanced development paradigm (cf. *ibid.*: 2), nonetheless it will be a long way from the retreat from neo-liberal ideology to the implementation of a development strategy that includes more redistributive measures.

Under the new leadership of Hu and Wen the party ideology and the guiding principles were changed in a decisive manner and mark a departure from the neo-liberal strategy that was adhered to by their latest predecessors.

Nonetheless reported ongoing rise in inequality, the aggravating unemployment and the still unsolved pension problem have to be judged in a long-term perspective. The impact of the government programs that have been brought on their way to fight inequality of individuals by investing in structural programs to boost local economic development is lower than expected and it will take time for the effects to materialize.

In respect of Chinese politics the full implications of the reforms brought on their way by Hu have to be judged after the second term in office of the Presidents, since it is characterized by a stronger political influence of the man in office - one of the underlying reasons is the appointment of followers to important positions, which are useful for the implementation of the respective policy (cf. Kleining 2007). In his first term Hu appointed a number of his followers of the so-called fifth generation on positions formerly filled by members of the so called Shanghai Clique - the group around Jiang Zemin who followed a neo-liberal strategy.

For some critics the paradigm is not taken as a new one, but merely a reference back to the historical preoccupation with stability and social harmony derived from Confucianism and practiced in the Chinese Empire or even go as far as establishing parallels to the ideology in the former Soviet Union (cf. Miller 2007: 9). Furthermore the critique goes that the rural population is left behind whereas the educated urban population is favoured. For the openness to foreign practice they also draw parallels to the experience in the late Qing dynasty, where foreign techniques were adhered to, while other important aspects for the working of the system are left aside as for example a stronger role of trade unions (cf. Wang 2007: 21).

The paradigm shift calls for further opening-up to the outside world including deepening the cooperation with foreign actors in functional areas. In the third chapter of the empirical part the role of foreign expertise in social policy making in China will be put under research.

Opening – up to ideas for Welfare State innovation

In the third chapter of the empirical part the role and relevance of foreign expertise for the development of the Welfare state and social policy making in China will be studied. In the first

paragraph the different cooperation partners of China over time will be identified, the second paragraph deals in detail with the cooperation in the field of Social and Employment Policy between China and the EU.

1. Overview international cooperation in social policy

Since the economic reform era China gradually extended its international commitment same as its openness for foreign expertise and norms. A popular Chinese slogan in this respect is to “link up with the international track” (yu guoji jiegui 与国际接轨), according to Wang Hongying who made a study of the meaning and the application of this term came to the conclusion, “that Chinese thinking about international norms varies across time, sectors and issue areas” (Wang 2007: 1). Government policies of whatever kind are definitely sensitive areas.

China and its cooperation partners

The first phase of the PRC was signified by a close cooperation with the Soviet Union. From the 1950s until the break of ties with Soviet Russia the PRC was importing policy experience from latter in order to build up a socialist society. The Labour Insurance Regulations in the early 1950s were patterned according to the Soviet Model, same applies to the nationalization and collectivization of the economy. Next to it, the official visits of Party officials in Russia for studying the system in the early 1960s underscores the close relationship and the common efforts to build systems of Socialist Welfare as antipode to the Capitalist Welfare states. Nonetheless an ambiguity between learning from the Russians and building a unique Chinese system was prevalent from the very beginning. At the end of the 1960s the ties between the two socialist countries were broken over a geopolitical issue. After the start of the GPCR, the Chinese government was strongly constrained in its policy making by the anarchic rule of the masses until the early 1970s.

The opening-up and reform era can be seen as a shift of orientation towards the West for policy learning. Western concepts of liberalization and marketization stood model for the economic reforms. After not being committed to any mainstream international organizations for the first decades after its foundation, the PRC took China’s seat in the Security Council and became a member of the UN and its specialized agencies in the mid-1970s. China left its path of stressing self-reliance and turned towards international agencies such as the UN Development Program in order to receive economic and technical assistance. “By the second half of the 1980s, China's participation in international organizations reflected the two primary goals of its independent foreign policy: furthering domestic economic development through cooperation with the outside world and promoting peace and stability by cultivating ties with other nations on an equal basis.”(Country Studies 2008)

China's application for a seat in the GATT in 1986 and the later membership in its successor organization - the World Trade Organisation (WTO) – had a strong influence on the domestic employment and social policy. Due to the strict entry regulations of the organization China has been making a huge progress in its labour market liberalization which is a key requirement for membership. Furthermore White (1998) speaks of an involvement of experts from the World Bank and the IMF in the drafting of the Social Insurance Law proposed in China during 1994-95 and the Adecco Institute speaks of globally inspired labour law when referring to the latest Labour Market reforms in 2007 (cf. Adecco 2007).

By the early 1990s China was enjoying high economic growth, but it also became clear that importing Western economic models had its negative consequences: the old enterprise welfare system was no longer viable, the unemployment figures and welfare costs were rising tremendously, and inequality was on its way ahead. The search of the Chinese government for answers to these challenges did meet with a number of potential models established in countries that industrialized at an earlier moment in time.

The models for borrowing can be grouped in three: the *liberal US American Model* which can be set equal with the Washington Consensus under the motto of freer markets for greater returns same as the strong role of individual responsibility; the *European Model* combining the free market idea with both equality and growth; the *productivist model* adhered to by the Japan and the other newly industrializing countries in East Asia putting economic development first and only making well directed commitments to functions as education and health care.

Since the paradigm shift for the socio-economic development in China at the beginning of the new millennium brought along a convergence of the objectives with the ones of the EU and leading scholars in the government think tank speak in favor of an adherence to the European model (cf. Zhou 2007), the cooperation activities between these two entities in the field of Employment and Social Policy shall be studied in detail.

2. The EU China cooperation in the field of social and employment policy

The EU and the PRC find themselves in the fourth decade of official relations. While at first sight, the two entities seem not to share any common features – the political and institutional settings are completely dissimilar, a different ideology and different cultural background - on closer examination this perception does not hold. “China and Europe have more shared understandings and expectations than usually taken for granted” (Geeraerts 2007:3). It is the content of this paragraph to shed light on the question what the reasons are for the two entities to cooperate in the field of employment and

social policy and to outline the structure and content of the cooperation and as far as possible also its impact.

The EU same as the PRC are highly concerned with policy issues of sustainable development, economic growth, the equal distribution of the fruits of economic success and guaranteeing access to social protection in order to maintain a broad social cohesion.

Two official dialogues exist at present in the field of Employment and Social Policy: one between the European Commission and the Chinese Ministry of Employment and Social Security (MoLSS) and the second between the European Commission and the Chinese Academy of Social Science (CASS). A third dialogue in the field of health and safety at the work place will most probably be concluded on the next EU China Summit in December 2008. Additionally there is the EU-China Social Security Reform Project in which several DGs same as the EU Delegation in Beijing are involved.

The initiative for cooperation in the field of social and employment policy between the two entities came from the Chinese who approached the European Commission. A visit of the Chinese Minister for Labour and Social Security to the European Commission in November 2001 was the first official step towards the set-up of cooperation (cf. Tricart 2008). On this occasion the issue areas for cooperation have already been framed. Due to a constraint in human resources and bureaucratic burdens to be overcome the first cooperation project was officially started in 2005. The background of the different components of the cooperation- their history, structure and content- will follow in the third part of this chapter after a short introduction in the EU employment and social policy.

EU employment and social policy

After the Chinese Welfare State and its challenges had been the subject of the first two chapters of the empirical part, a short introduction in the EU employment and social policy is a necessary step at this moment for a better understanding of the further cooperation arguments.

Starting out from the project of economic coordination of six founding countries, the EU and its institutions in 2008 are representatives for a project that is more than a common market but an ever closer form of political union of 27 European countries. Whereas perceived by many as a neoliberal project centering on economic policies, liberalization of markets and deregulation, it developed into a key actor in a number of other policy fields as well. More than 500 million persons are living in this economic area that shows big interregional disparities in respects of income, economic development same as the systems of social provisioning.

In most areas of economic, employment and social policy the member states of the EU have to meet reform challenges that are similar throughout Europe: namely figures of low economic growth, high unemployment rates, rising welfare costs due to the effects of an ageing labour force and maturing welfare entitlements that make the strive for more sustainability in the funding of national pension systems necessary (cf. Europa 2008). The convergence of challenges has been driven by the creation of the common market, the effects of the fast changing global economy, technological innovation and demographic change.

The harmonization of social policies has been an issue of European Integration ever since the negotiations leading up to the Treaty of Rome (cf. Begg 2004: 250), yet each enlargement raised new barriers to this objective. Harmonization remained constrained on the fields of *Security and Health at the work place* and some other minor issues in order to prevent market distortions in the newly establishing common market. With an ever greater diversity of member states' welfare systems, harmonization came to be seen as impossible as well as unnecessary (cf. Chassard 2002) and coordination seemed a more appropriate approach.

In the Amsterdam Treaty in 1997 a chapter on employment was included, outlining the “Community objectives in the social area, namely, to promote employment, improve living and working conditions, ensure social protection and a more active dialogue between employers and employees association” (Follesdal et al. 2007:79). In the same Treaty the so-called ‘convergence strategy’ was laid down, which foresaw that common objectives would be used to guide national policies while taking into account national practices and the principle of subsidiarity – a strategy that should be transformed into the Open Method of Coordination (OMC) (cf. *ibid.* 2007: 79). It needed the extraordinary Luxembourg Summit in November 1997 to bring along the implementation of the new treaty provisions centering on the *Luxembourg Process*, formally known as the European Employment Strategy (EES). The process stood for the development of a new iterative process of benchmarking national progress towards common European objectives, supported by organized mutual learning. This governance structure built on the experience with earlier methods⁴ developed for the coordination of Member states policies during the 1990s.

The central aim of the EES was to raise the level of employment participation throughout the EU, allowing for different national strategies to contribute to this aim. Every member state agreed to develop an annual national action plan for employment (NAPempl) in order to translate the common guidelines into clear cut national policy measures, supplemented by policy goals (Hemerijck 2004: 30).

⁴ The Broad Economic Policy Guidelines (BEPGs) and the Essen procedure of annual reporting on national progress towards the EU common employment priorities.

All these efforts culminated in the proclamation of the Lisbon Strategy. Adopted at the Lisbon Summit in 2000, it calls for a coordinated commitment of the member states to make the EU the most competitive, knowledge driven economy by 2010, characterized by strong social cohesion (cf. EurActiv 2004). Whereas the economic competitiveness and the 3 % of GDP investment in R&D are the most prominent parts of the Lisbon Strategy social renewal is the second integral part of it (cf. EC 2000). The first evaluation report of the Lisbon Strategy was made public in 2004. Based on its results and the overall change of the environment conditions, the European Council and Commission decided in 2005 “that the Lisbon Strategy needed to be amended and centered on growth and jobs” (Spidla 2007:3). The re-launch of the Lisbon Strategy in 2005 features a stronger ownership of the national action plans by the member states themselves.

Although common objectives for the improvement of competitiveness have been agreed upon in Lisbon and other occasions that also refer to the welfare state provisions and social policies in general, no country within the EU wants social uniformity. The developments to date have shown a “limited tendency towards convergence in spending levels and the broad structure of provisions” (Pestieau 2006: 148). A transfer of additional competences to the EU seems therefore highly unlikely and the soft governance using the OMC, guaranteeing subsidiarity and national sovereignty in the social policy-making can be regarded as the best way of coordinating social and employment policy within the EU being fit for international competition (cf. Pestieau 2006: 60).

The Chinese interest in cooperation

China is concerned with the objectives of setting-up a national labour market and strives for the establishment of a social system that can guarantee growth and stability, since the old institutions developed under the planned economy have become obsolete (cf. Zhou 2007:12). The framework conditions of an ageing society, rising unemployment rates, the problem of labour migration and the rising inequality between individuals and regions makes the task all the more difficult. Furthermore the central government of the PRC has lost part of its power for steering the country with its integration in the international economy and its decentralization efforts; the need for new instruments to influence the social development of the country effectively is more than obvious.

When the Chinese approached the EU in 2001 their main issue was to learn more about the problem of the ageing society (cf. Tricart 2008) but soon the interest was extended to unique features of the EU social and employment policy. With a paradigm shift in the socio-economic development strategy in 2002-2003 that shares some objectives with the Lisbon Strategy- as for example sustainable development, regional development and social cohesion- the interest in the EU policy instruments used for coordination of employment and social policies increased. In a Memo of the

DG EMPL China's interest in "EU's integrated approach to competition, employment and social cohesion" (EC 2005:1) is underscored and set in relation to the harmonious development concept of the Chinese government.

European Studies in China endorse the research on the European Welfare states, articles and books on country comparisons are translated in Chinese in order to make it accessible to a broader public. China is keen to learn from the experience of EU member countries in dealing with the challenges of the post-industrial society, welfare state reform and the role played by the EU in coordinating policies and facilitating policy transfer between the member states (cf. Zheng 2008).

Ever since the EU acts as an active policy promoter within the EU member countries and a facilitator of exchange between experts in government and academia this policy experience is equally relevant for China. The *Open Method of Coordination* (OMC)- the central instrument of the Lisbon Strategy is therefore of great interest for the Chinese, by making use of *soft law* in the coordination of social and employment policies in an economic area with high income disparities and different stages of economic development has been made possible (cf. Zhou 2007; Zheng 2008). Same can be assumed for information on the role played by the EU in establishing a common market with a free flow of goods, persons and services in order to prevent market distortions since the Chinese want to establish a truly national labour market in face of rising labour mobility.

Still paralyzed by the dissolution of Soviet Russia, China is interested how the transition to a market economy and the reform of the social security system could go as smoothly as in the CEEC (cf. Tricart 2008).

The EU has established platforms to bring together national experts in the respective issue areas for Social Policy as for example pensions, labour market or health insurance. A cooperation that includes the exchange with distinguished experts on employment and social policy from different countries offers far more room for discussion and learning than the experience of a single country. When Zheng (2008) who participates in the EC-CASS cooperation on the Chinese side, might name the *Third way model* of Great Britain as the most interesting and relevant model (cf. *ibid.* 2008) colleagues of him will have a contradicting view favoring the Scandinavian models and so forth. The EU can offer the presentation of the different existing models with their evaluation against an EU internal benchmark.

Besides from the above mentioned rationales, the Chinese side might also like the idea to achieve legitimacy for its homemade reforms by cooperating with the frontrunners in employment and social policy-making that stood example for many models around the world. Both - domestic same as international critics of Chinese social policy-making - could be silenced.

European Interest in the cooperation

The interest of the EU is consistently reported from the EU's interest in stability and the improvement of living and working conditions in China (cf. Tricart 2008; Hughes 2008; Vazquez-Garrido 2008; Wissenbach 2008; Filon 2007). From the Chinese side the opinion on the cooperation is rather diverse. Whereas the participants as for example Zheng (2008) do not perceive any different interest of the EU, there are critics who "express concern over the "hidden agenda" of the Europeans" (Ting Wai n.d.:14). This hidden agenda comprises for them the attempt "to transform China basing on the value system of the Europeans" (ibid. 14).

Although the EU acts as a promoter of its various social security models it does not claim to be the superior in the cooperation, merely the cooperation is described to have entered a phase of "joint interest cooperation" (Filon 2007). The joint interest can be perceived in global social policy making, a China with a social system developing along the improved record is merely seen as a reliable partner for the future in social policy governance on global stage. Tricart refers to the decision on a recent ILO protocol in which a coalition of China, the EU countries and some G77 countries could bring along decisive changes in the text against the liberal opposition (cf. Tricart 2008).

The notion of economic interests behind the actions, as for example the increasing non-wage labour costs in face of a deteriorating trade balance for Europe has been taken as irrelevant. For the EU these considerations are less of an interest as for national governments (cf. Vazquez-Garrido 2008, Hughes 2008).

Another feature might be the prestige for the Lisbon Strategy in domestic same as international respect. The learning from this strategy could underscore the domestic and international perception of the EU as not only a neoliberal project but a project towards sustainable future oriented development in which social and economic development are on equal footing. Hughes (2008) states this might be a by-product although he would like to see a more active promotion of the European model.

3. The four current components of the cooperation

The four components of the cooperation in the field of employment and social policy will be analyzed in terms of the indicators established in the chapter on the operationalization of the variables.

Structured Dialogue between the European Commission and the Chinese Ministry of Labour and Social Security⁵ (MoLSS)

The agreement on areas and a possible basis for future cooperation dates back to November 2001 when the Chinese Minister for Labour and Social Security at that time paid a visit to the European Commission. Due to a lack of human resources⁶ on the side of the EU Commission the cooperation could not be pursued directly (cf. Tricart 2008).

During the eighth China-EU summit that was held in Beijing on 5 September 2005 the two sides endorsed a memorandum of understanding on labour, employment and social affairs (EC 2008d). This memorandum is used as a framework for the so called “structured dialogue on labour, employment, and social affairs of labour, employment, human resources development, social protection, labour legislation, labour relations and social dialogue”(EC & MoLSS 2005).

The dialogue is structured into horizontal and sectoral items, whereas horizontal means the exchange on cross-cutting issues like institutions, legislation and implementation. Sectoral discussions will relate to special issues that are found in the field of employment and social policy, e.g. migration.

Delegations can be relevant stakeholders, civil servants same as workers and employers representatives (cf. EC& MoLSS 2005).

As part of this cooperation the following events have taken place so far that center on labour market reform and employment policies.

Beijing 2005:	Vocational training and Human resources
Brussels November 2006:	Labour Mobility in the EU and China
Beijing November 2007:	Labour law/Dispute settlement

Structured Dialogue between the European Commission and the Chinese Academy of Social Science (CASS)

CASS is the highest academic research organization in the fields of social sciences in the PRC. As think tank it plays an important and active role in the reform process taking place in China, since the researchers have high quality expertise and political influence. Again the initiative was lying on the Chinese side; the DG EMPL took over the initiative on the side of the EU and the negotiations were

⁵ In 2008 the Ministry was renamed Ministry of Social Security and Human Resources

⁶ The staff was bound with the preparations for the EU Enlargement- the accession of the 10 new Central and Eastern European, former socialist countries (cf. Tricart 2008).

leading to a second partnership between China and the EU in the field of social and employment policy (cf. Tricart 2008).

The first jointly held seminar on employment and social policy between the DG EMPL and CASS took place in September 2006 in Brussels and the signature of a Memorandum of Understanding in January 2008 formalized this cooperation and laid the basis for to an intensification of the cooperation between the EU and China in the realm of social and employment policy.

The purpose of the cooperation is to bring independent scholars and members of think-tanks or government research institutes of China and the EU together to exchange on the following issues of employment and social policy: “employment; social security; demography; social dialogue and labour relations; governance; and other relevant issues jointly identified”. (EC 2008c)

A second seminar was hold in Shanghai in January 2008; headlined “Employment, Social security and Economic growth in the context of ageing” seventeen experts in the field took part on the EU side. Besides five participants working for the EU and a representative from the OECD, all others were from research and governmental institutions of the EU member states. In three sessions they discussed and exchanged their views on adapting social policies in the context of structural change, the issue of an ageing population and the labour market prospects and the modernization of the social security system in an ageing society with their Chinese counterparts (cf. EC 2007)

In the future seminars will be hold annually back to back with the EU-China Summit. Specific workshops and expert meetings are seen as appropriate floors for exchange; additionally both sides will organize regular internships and exchange programs for dialogue partners, including government officials, representatives from social partners and civil society and other relevant stakeholders. It is expected that these opportunities will help to improve the exchange of experience, best practice, views and information on topics of common interest.

The EU China social security reform co-operation project

The start of the project can again be traced back to a first Chinese initiative, this time the request had been addressed to the EU Delegation in Beijing. Besides the delegation in Beijing, the preparation and planning of the co-operation project on EU side was in the hands of DG RELEX and DG DEV. Formal agreement on the co-operation project was given on the EU – China Summit in 2004 in the Hague, during which the financing agreement was signed (cf. EU 2008a). Under the headline of Social security reform the project covers the issues of old age pensions, health and unemployment insurances policy (cf. EUCSS 2008a).

Project objective

“The overall objective of the project is to support the transition to a sustainable social security system in China which guarantees accessible, adequate and affordable social security benefits to all Chinese citizens” (EUCSS 2008a: 2). Therefore the co-operation project incorporates the support and the promotion of policy capacity building activities as well as the exchange of best-practice by using international know-how and expertise in forms of conferences, seminars, workshops, trainings and study tours.

Project Administration and set-up

The executive authority of the project is the Chinese Ministry of Commerce (MOFCOM). The DG EMPL participates in this project at the policy level (Project Steering Committee), since the project is an operational and focused complement to the cooperation with MoLSS that was established in 2005. In charge of the implementation of the project is an office in the Chinese Ministry of Human Resource and Social Security. This office is supported in its work by a technical assistance provider contracted by the European Commission.

The total amount of money available for the project is €40,000,000, whereas each side is contributing the amount of €20,000,000. The overall project duration is estimated 57 month, starting in 2006 and ending in 2010. Since the project offers a wide range of activities and services, it has been split up in two components.

Component I: Social Security Policy Development (SSP)

The first component is centered around activities on national level. Starting on April 1st 2006 it will last for 57 month. During this time period the following activities are envisaged:

- Capacity building for policy development and implementation, covering Social Security Laws, unified systems, the 3-pillar financing systems, medical insurance for disadvantaged groups, fund sustainability versus retirement age and retirement equality and rural social insurance coverage.
- Develop guidelines and Terms of Reference for the elaboration and support of PROMISS-Plans under the systems/administration development component (PROMISS-Plans: Pilot Provincial Modernisation Initiatives for Social Security).
- Organise of yearly EU-China High Level Round Table on Social Security.
- Organise high level Policy Advisory Group and dialogue.
- Capacity building related to establishment of the national Social Security Training Centre.

(EUCSS 2008d)

Achievements:

In terms of organizing EU China High level Round Tables on Social security, the project has proved to be successful. The first round table was held in Beijing, September 2006, High level policy makers and stakeholders in Social Security discussed the two themes of ‘cost containment in medical insurance’ and ‘social security for rural migrant workers’ (EUCSS 2008c). In 2007 the Round table took place in Berlin under the theme of ‘Ageing societies – the challenges to sustainable social security systems’. The headline topic was sub-divided into the three supporting sub-topics of Pensions, Health Care and Social Care’ (EUCSS 2008c). In September 2008 a Round table was held in Beijing. Another occasion for high level dialogue under the auspices of the EUCSS was given on the ‘Seminar on work injury’ held in Bonn, September 2007. In addition several study tours have been organized, so that Chinese practitioners and scholars could learn about the functioning of European systems at place. In 2007 there was a Pension study tour to Austria and Slovakia in November and Human Resource Management study tour to Romania and France in December (cf. EUCSS 2008b). In 2008 followed a Medical Insurance Study Tour to Netherlands and Germany.

Component II: Social Security Systems/Administration Development (SSS/A)

This part of the project aims to support the implementation and administrative oriented co-operation on local level– provincial, municipal government and provincial social security bureaus. After its launch on September 16th 2007 it will have an overall duration of 36 month.

For the implementation of 20 pilot projects the following six provinces and cities have been selected, with specific topics related to the challenges the entities are facing:

Name of the province/ city	Topics covered in pilot projects
Beijing	Employment Promotion, Unemployment Forecasting, Rural Migrants
Gansu	Medical Insurance, Work Injury, Social Security Administration
Hunan	Social Care, Social Security Administration
Jilin	Work Injury, Provincial Pooling, Medical Insurance, Social Security Administration
Shandong	Medical Insurance, Social Security Administration
Sichuan	Social Care, Farmers who have lost their land, Social Security Administration

(cf. EUCSS 2008d)

The lessons learned of these pilot projects will also serve as basis for possible replication of the improvements achieved to other provinces.

In 2008 the project went fully operational and the homepage of the project www.eucss.org.cn provides not only information on the project and its proceedings, but can be used as a portal for Chinese practitioners and scholars to retrieve research papers and training materials in English and Chinese that deal with the models in place in Europe, their basic functioning and principles. Besides there is also information and assessment of the current Social Security in China provided, presenting the state of the art and challenges lying ahead.

EU China cooperation in the field of “health and safety at work”

This last cooperation component is the first that is built on an initiative from the European side. Since the field of “Health and safety at work”- especially in the coal mining sector- has been left out of the dialogue between the MoLSS and the European Commission, starting in 2005 the European Parliament and the European Trade Unions invited DG EMPL to implement an additional dialogue in this field (cf. Hughes 2008, ETUC 2006).

The reason that this field could not be included in the dialogue at first place was a bureaucratic one: the MoU stipulated that only agencies directly under the supervision of the MoLSS would be included in the cooperation. The Chinese government agency in charge of this issue did not meet these criteria at the date the MoU was signed.

While it is one of the core competencies and issues of the DG EMPL and there was also an interest of the Chinese side, the issue found its way easily on the agenda. Especially the coal mining sector and its safety provisions are seen as a prospective and fruitful area of cooperation, since the pressure for improvement of regulations due to the rising number of reported mining accidents in China rises. The DG has still experts at hands that have participated in setting-up the legislation and technical stipulations within the EU (cf. Tricart 2008; Hughes 2008).

Discussions between the DG EMPL, DG RELEX, the European Commission Delegation in Beijing and the Chinese State administration of Work safety led to the official support statement by the EU China Summit in 2007. The signature of the MoU planned to be made during a visit to China by the President of the EU Commission Barroso and nine other Commissioners in February 2008 had to be postponed. Again it was a bureaucratic problem that stopped the cooperation, this time a shift of competencies between organizations that brought the signature to a hold at last moment (cf. Vazquez-Garrido 2008). The signature will most probably take place during the next EU-China Summit in December 2008 in France.

4. Judgment of the EU - China cooperation in the field of social and employment policy

The mutual interest in cooperation can be clearly traced: China has a clear interest in learning about the European solutions to the problems of the industrial and post-industrial society and the instruments for policy coordination within the EU; the EU expects to gain a deeper knowledge of the socio-economic developments and challenges in China. Supporting China to build a modern social security system the EU also pursues the objective of gaining a partner in future global social policy governance.

The four components of the EU China cooperation in the field of employment and social policy are showing that a number of channels have been established to facilitate exchange between the EU and China in this field. The different components of the cooperation bring together a number of actors from different backgrounds: Chinese civil servants on central and local level and civil servants from the EU and member state level; think tanks including leading experts from government research institutes and Higher Education institutions; experts from other International Organisations as for example the OECD; consultants. This lays the groundwork for the establishment of epistemic communities, whose influence on domestic policy making is uncontested but also hard to measure.

Although there are other sectoral dialogues that catch more attention it is a promising field of cooperation to deepen the EU China relations since it is free of political or ideological constraints.

The cooperation has a good resonance on the European same as the Chinese side (cf. Zheng 2008; Tricart 2008; Hughes 2008; Vazquez-Garrido 2008) and except for the bureaucratic burdens- as for example a constraint of managerial resources on both sides, and the still ad-hoc and to a lesser extent institutionalized form of exchange need to have attention in the future. Efforts on translating books and essays about the development and reform of Welfare states in Europe into Chinese should be taken as model for the European side to follow.

5. Conclusion on the role of Policy Transfer

The third chapter of the empirical part has shown that China- same as other countries- has a long tradition in making use of foreign experience in its social policy making. After a dominant influence of Soviet Russia at the beginning of the PRC, at the end of the 1970s China oriented itself gradually towards market economies for policy transfer. This development was only possible through a gradual change of ideas in the minds of the leading elites.

After the deterioration of the relations with Soviet Russia in the end of the 1960s and paralyzed by the GPCR for nearly a decade until the end of the 1970s, the economic reforms and opening-up to the

outside world could not simply be restricted to the economic realm. In the years after 1978 the PRC became a member of numerous International Organizations and established contacts with a number of Western countries. Departing on the way to establish a market economy came along with more pragmatism in policy making and leaving the path of ideological guidance. Turning its attention towards Western capitalist countries and the EU for policy transfer at the beginning of the new millennium can be traced back to a number of factors. First of all the Asian Economic Crisis at the end of the 1990s had shown that the productivist development paradigm adhered to by its neighboring countries could not guarantee sustainable economic development and high levels of employment the CCP was striving for in order to keep up social stability. Second the former communist countries in Eastern Europe were in most cases on their way to reform their welfare states with the help of the expertise of the EU and its member countries. The third and last reason can be found in the Lisbon Strategy that outlined a new development paradigm for the EU and centered on the objectives of sustainable economic development and social cohesion. Furthermore the EU had established new instruments to effectively coordinate policies across an area of highly diverse national economies that are for China of relevance which are highly relevant issues for China as well.

The gradual extension of the EU and China cooperation as stated in the last paragraph that improved the channels for policy exchange between experts and practitioners confirms this reorientation and openness for policy expertise from Western capitalist countries. It is another issue to what extent these new opportunities are taken and have an influence on the final policy making – this can only be estimated. A fact is that the Chinese government makes direct use of foreign expertise in order to achieve an informed view of the policies they are planning to introduce. The drafting of the Social Insurance Law preceded close consultation of foreign experts of national and international organizations. In the field of labour market policies the reform package brought on its way in 2008 shows according to experts also features of the European models.

EXPLORING THE FUTURE OF THE CHINESE WELFARE STATE

In the Analytical Part of the research project the results of the Empirical Part will be used to answer the questions that have been standing at the beginning of the research. The sub-questions will be dealt with in the first two chapters of this part, whereas the main research question building on the results of these chapters will be answered in a separate chapter.

The reform trajectory of the Welfare State till 2008

Along the economic reform and opening-up period at the end of the 1970s the Chinese government gradually developed a market economy, in this course it also had to reform its Welfare system. From a socialist model of work units providing welfare services and life long tenure in which enterprises played a central role, a Welfare state compatible with a market economy was established. The development trajectory the Chinese Welfare state took since 1978 will be assessed in comparison with the identified Welfare state models as presented in the theoretical part in order to answer the first sub-question on the characteristics of the Chinese Welfare State. The time from 1978 to 2008 shall be subdivided in the era under the leadership of Deng (1978-1992) and Jiang (1992-2002), whereas the third era remains as in the second chapter of the empirical part the period from 2002-2008..

1. Deng Xiaoping era (1978 – 1992)

Under the development paradigm of “let’s get some rich first” in the Deng Xiaoping era from 1978 to 1992 growth was given the number one priority for the economic development; emerging inequalities were tolerated as temporary negative by-product of the reforms. Thoughts of efficiency and not equality reined the actions of the politicians who were convinced that everyone would benefit of the economic growth in the long run.

An analysis of the set-up of the welfare mix, the enterprise remained the main provider of welfare services in urban areas; only in the early 1990s a turn towards a stronger role of the State can be perceived. Rural areas were still dominated by the family as main source of welfare provisions.

In regard to the market as source of welfare first experiments were launched in the field of pensions. Whereas separate schemes for old-age insurance systems in rural and urban areas were introduced- both including individual accounts the coverage was very low and same applied to the acceptance of these early schemes (cf. Fung 2001: 269). In terms of stratification, the majority of the Chinese people was benefiting of more economic freedom and growth and only from the early 1990s a change in the wealth/ resource distribution structure took place that paced up the speed of rising social inequality (cf. Zhou 2008: 119).

The labour market system was in its infancy and enterprises were given more managerial autonomy in the recruitment and lay-off of workers, the commodification of labour on the other hand was not yet completed. The State as direct and indirect provider of welfare services introduced laws that in the long run made the population more redundant on work in order to receive any welfare provisions.

Taken all the features together the Welfare state system of that era was clearly transitional and socialist in its orientation so it lacked the criteria to be compared to any model of capitalist welfare states.

2. Establishment of 'Socialist Market Economy' under Jiang (1992-2002)

In the years that lead up to the accession of China to the WTO the government put more efforts in the establishment of a market economy and the relief of enterprises of their role as welfare providers. The ideology underlying the social policy making could be classified as highly neo-liberal. The focus of the reforms of the economic same as the social security system was more than in the previous period put on efficiency.

Although the financial burden for financing the social security system remained at the enterprises, the State became the dominant provider of welfare services through a number of legislation. Marketization efforts in the field of social security faced major set-backs and the State became the most important provider of welfare provisions in urban areas, in rural areas the dominant role of families as source of welfare provisions remained unchanged.

In 1994 – an early moment in time of the period we are looking at- the new labour law meant a complete shift from the planned labour system to the labour market. Since the emergence of social security provisions and social assistance schemes were lacking behind this development the commodification of labour was the consequence. The introduction of social programmes took until the end of the 1990s, when in the run of the implementation of schemes for minimum living allowances a shift towards labour de-commodification was realized.

The social stratification was aggravating at fast pace due to the neo-liberal economic strategy lacking re-distributive policy schemes. Welfare provisions as for example health care and education were offered to a greater extent on market basis which intensified the stratification.

Summing-up these aspects, the Chinese system in urban areas resembled a lot the ones in its neighbouring countries Japan and South Korea in the 1990s. These two countries were known for following a developmentalist/ productivist approach. Ideologically economic development was put first and social policy was subordinated. Whereas the biggest part of government expenditure was used for large construction projects, a great share of the government budget bookmarked for the functional category *Social Services, Culture and Education* was spent on productive factors such as

education. “The Chinese government has taken strong measures to advance education development and reform and remarkable success has been achieved” (Hong/ Wang 2006: 33). The commitment of the government on public education can be measured in the share of Government expenditure on education as share of the Government expenditure total (cf. Hong/ Wang 2006). In respect of this feature China’s government spending patterns come close to the ones observed in other East Asian Welfare States studied by Gough (2000)⁷.

3. Towards the establishment of a harmonious socialist society (2002-2008)

At the beginning of the new millennium the CCP made a shift of the socio-economic development paradigm. The comprehensive well-being of the people was put on equal footstep with the goal of economic growth. Social security and social equality were made new strategic priorities in order to establish a *harmonious socialist society*. This sets a clear line of separation to the productivist models mirrored in the experience in Japan and Korea in the 1990s; but does it bring China closer to the European models or does it mark one of the last steps leading to the completion of a genuine Chinese welfare state model?

In respect of the underlying welfare ideology the development paradigm of Scientific Development and the objective of establishing a *Harmonious Socialist Society* shows more similarities with the paradigm of the EU social policy as presented in the *Lisbon Strategy* as unifying elements of European Social and Welfare State policy than with any of the established regime types: Sustainable economic growth, poverty alleviation and a broad social cohesion are features to be found in both paradigms.

With the maturing market economy enterprises had been relieved of their role in welfare provisioning and the State stepped in to fill the gap as main provider of Welfare provisions. Province governments and other local administrative bodies administer the funds and distribution of benefits. Although this was planned as a step towards a fully national system, there are already huge problems in guaranteeing an effective administration of these provincial funds.

The role of markets is still residual and in the field of health services it has lead to much unrest since it is broadly perceived as fuelling the process of increasing inequality. In the field of old-age insurance and unemployment insurance, the rate of non-compliance is high and the coverage insufficient. The State will have to make huge efforts in order to set-up regulation efforts in the future to make the markets a working alternative for State provisions.

The strong role of families in the rural welfare services was re-confirmed although measures as for example minimum living allowances give way for a residual role of the State in poverty alleviation. The State furthermore supports a stronger role of families and NGOs in welfare state provisioning, as

⁷ Countries in his sample are Korea, Malaysia, Thailand, Philippines, Indonesia.

can be seen in the offer of a policy stream taking care of elderly without family and more supportive regulations for setting-up an NGO.

The efforts for decommodification were intensified and besides the above mentioned rural poverty relief system also urban ones have been implemented. In respect of stratification, the government is following a clear line to narrow the gap of inequality. It broadens the coverage of social programs, implements policies that are designed to diminish the differences in the welfare service standards in urban and rural same as integrating migrant workers in the current urban social security systems. The campaign of building a new socialist countryside and huge structural programs to boost the development in regions in Western China are omnipresent. If this policy proves to be successful and the establishment of a more equal society is to be the outcome will the future bring.

Taken the general features of the Chinese Welfare State together it is without question that it cannot be grouped in one of the established groups of regime types, nor be conceptualized as a regime hybrid. The underlying philosophy comes close to the one promoted by the EU in respect of the equality features and the one adhered to by the governing elites in other North East Asian⁸ countries in respect of the preoccupation with stability but is yet distinct.

Regarding the welfare mix the position of State in urban areas has been extended, in rural areas there is a clear reliance on the Family as basic provider of Welfare provisions. Programs making decommodification a reality have been introduced and their coverage rate is constantly rising. Efforts to narrow down inequality have been so far ineffective and the degree of social stratification has been going up in recent years.

4. Conclusion

From the analysis of the characteristics of the Chinese Welfare State over time it can be concluded that the indicators show changes in nearly all aspects, except for the Welfare Dualism that is rooted in the early days of the PRC. This constant feature has to be taken into consideration regarding the Welfare State characteristics in China, therefore the arrangements in rural and urban areas can strongly deviate from each other. The answer to sub-question 1, the characteristics of the Chinese Welfare State will be featured at the end of this chapter in Table 3.

⁸ For a closer analysis of the mentioned ideologies see Aspalter (2006)

Table: Overview development Welfare State characteristics

Period		1978-1992	1992-2002	2002-2008
Welfare State Ideology	Relation economic and social development	Focus on economic development; social policy clearly subordinated	Focus on economic development; social policy clearly subordinated	Sustainable development: social and economic development on equal footstep
Welfare mix (dominant source)	urban	enterprise	transition enterprise-state	state
	rural	family	family	family
State of Decommodification		none	commodification	decommodification
Stratification		low	medium-high	medium-high

Source: own

Factors causing the welfare state changes

In the following it shall be analyzed to what extent the developments of the Chinese Welfare state and its employment and social policy from the end of the 1970s to present can be explained by the variables identified in the theoretical part. These are the evolving functional necessities in form of functional pressure and the mechanism of policy transfer as independent variables, same as the context variables of the domestic political-institutional system, Culture and historical/ epochal context. Herewith it is directed towards answering the sub-questions 2-4.

1. Functional Pressure

China at the end of 1970s has only little in common with China that presents itself the world as global economic power in 2008. From a mainly rural society with 80% of the population living on the countryside and with 70% of the employed population working in the primary sector, China made its step into modernity. Within a period of less than thirty years China developed from an agricultural into an industrial and to some extent post-industrial society, from a relatively young into an ageing society, from one of the countries with most equality into a country with one of the highest GINI-Index.

The pressure these transitions caused to modernize the former welfare state arrangements is unquestioned. Aspalter (2001) traces the welfare state extension in China back to the “economic and demographic transitions in combination with pro-welfare ideologies” (ibid.8) agreeing on this point the transition processes can be seen as necessary condition for the set-up of modern welfare state institutions but they cannot sufficiently explain the development trajectory of the Chinese Welfare State. The decisive impulses to the developments were given by the CCP who prior to the economic reform era hold back the developments of urbanisation and industrialization by restricting economic freedom and labour mobility by more than party ideology.

2. Policy Transfer

The opportunities for drawing lessons from the experience of other countries in setting-up welfare provisions were much better than in the time of the set-up of the Welfare States in the Western industrialized countries. Without question the availability, the use of this experience and application of instruments and policies developed in foreign countries had an impact on the development trajectory. The Chinese government could introduce programs at an earlier point of economic development than the Western counterparts did in their reform trajectory. A special role was played by the experiments run in different provinces. Shanghai must be mentioned as frontrunner in the introduction of modern social policies (cf. Zhu/ Nyland 2005).

Again the variable can be classified as merely necessary but not sufficiently explaining the developments in Chinese social policy making. Same as in the case of the variable of functional pressure the political-institutional setting and cultural context framed the opportunity structures. A key example of the role of the government ideology for the use of foreign expertise is the GPCR. During this period all Western expertise and support were banned and people supporting Western ideas were persecuted. China's self reliance was underlined and foreign support was deemed unnecessary and traitorous. The start of the reform and opening-up period can only be understood from the perspective of evolutionary change through social learning. It was an ideational change that made the gradual shift to openness towards foreign expertise possible; from the ban of everything foreign China policy learning from the West was even supported via slogans of e.g. "keeping up with the international track".

Taken the results and achievements of the reform to date, the experience of policy transfer made within Europe holds true. Policies concerning regulatory measures are more easily accepted and implemented than re-distributive policies. Whereas in the field of labour law a huge progress can be perceived and the latest laws from 2008 already incorporating provisions close to the ones in Europe, there is huge set-back in the establishment of a social security system. This is only partly due to the more serious conditions the system has to deal with; a much bigger problem is compliance. The compliance in China is pretty low, similar to the one in developing countries. The reasons for it can be found in a lack of trust in the system and its administration, but also in the unfamiliarity with such re-distributive mechanisms due to the underlying cultural values and customs (cf. Ramia/ Davies/ Nyland 2008: 10). Without question China can make use of policy transfer from the West in building-up welfare states, but it is selective in its choice.

3. Contextual Variables

After the analysis of the two identified independent variables has shown in both cases a strong role of the contextual variables, the role of the political-institutional system, Culture and the historical/epochal context of the development shall be studied.

Political Institutions

Since formal establishment of the PRC in 1949 the CCP is the single ruling party and key factor in Chinese politics. According to the Marxist ideology the CCP as a proletarian political party “determines the nature of the socialist state of the People’s Republic of China” (Yang 2004: 4), representing the fundamental and common interests and demands of the entire society no other political forces are accepted.

These conditions are all that different from the situation in Western pluralistic countries. Since the trade unions in China were also close to the CCP they could not represent an influential institution in social policy making. After the collectivization of the economy there was no basis to establish institutions as for example industrial dialogue or any other form of corporate structures. In this quasi-authoritarian system the CCP has the monopoly to decide on any new policy lines.

In the run of the GPCR the CCP lost its influence completely to the masses and a state of anarchy ruled politics in the darkest chapter of modern Chinese history. The aftermath of the GPCR was not only signified by the economic reform era; in the CCP a transition from a leadership guided by ideology to one guided by economic pragmatism could be perceived. Whereas Deng made first steps towards the reform of the CCP it was Jiang Zemin who brought forward the idea to open the party to the productive forces of the country, namely the enterprise managers. His discourse of the “Three Represents” that incorporated this idea was made part of the official Party ideology but found reinterpretation in its use, since the conservative parts of the CCP strongly opposed the idea of giving enterprise managers the opportunity to fill positions in the Party.

The General Secretary of the CCP is the most influential person in the CCP. Jiang Zemin and Hu Jintao assumed besides this party position also the position of the President of the PRC. By the combination of these two offices they were made the most powerful person in the PRC, nonetheless the power is clearly restricted and does not mark a return to an unquestioned leadership cult. Both Jiang Zemin and Hu Jintao had to mediate between the different camps in the CCP and arrange with the respective inter-party opposition.

Chinese political parties not affiliated to the CCP can practice nowadays more consultative rights than ever before and even non-CCP members have been members of recent governments. Although China is said to miss a Civil Society the growing number of civil movements concerned with for example

social problems and environmental degradation constitute – although if not permanent - an institution of growing influence on government politics. While the CCP traces its authority back on the broad support of the masses, it has an utmost interest in social stability and needs to be responsive to the public concerns in order not to lose its legitimacy as sole governing party.

The role of party ideology has been mentioned in the last paragraph. The power of party ideology should not be underestimated since it represents the respective ideas underlying politics and governance. A conclusion drawn from the experience of GPCR is to conduct reforms in a cautious way and to prevent any contradictions that could lead to political instability and frictions within the Party. The party ideology constitutes an instrument to guarantee the unity of the CCP and is a guiding principle applied in Public Administration.

Administrative System

An efficient modern administrative system is by many scholars in Welfare State research taken as necessary condition for the set-up of a Welfare State system. Although China's leaders are aware of the requirement of a "systematic construction and management of a whole body of distributional and regulatory social protection institutions" (Zhu/ Nyland 2005:65) and strongly promote institutional reform, so far the lack of institutional capacities in the field of monitoring and enforcement remain one of the reasons for the failure of a number of initiatives. Regulations set-up by the central government do miss a proper transposition on local level due to conflicting incentive structures for the local officials. While enterprises were the central actor in the old welfare system providing the majority of provisions, the State and its administrative bodies on central and local level had only been indirectly involved; with the shift towards more government responsibility and the decentralization efforts new institutions for managing social programs and social security funds had to be established and administrative capacity has yet to be built up. Missing a domestic benchmark the look at foreign systems for drawing lessons was therefore a logical step.

The new system requires more coordination between the administrative bodies and to deal with questions of regional adjustment in the field of social policy making - the central-local relations are nowadays a central factor influencing the development of the Chinese Welfare state. The responsibility for education, health and most of the social safety net lies primarily with the local governments (cf. Ahmad et al. 2000: 10). On the first echelon of the sub-national units more than thirty independent entities are found. The differences of these entities are not only in name and administrative status – there are 23 statutory provinces, five autonomous regions, three cities and two

special administrative regions⁹- but also in terms of landscape, population density, and level of socio-economic development, same as infrastructure. Below there are at least two more levels involved as for example county and district level.

Since the provinces find themselves also in a competition for foreign investment and economic growth, policies that are detrimental to these ambitions are reluctantly adhered to (cf. Heberer 2008:48). With the decentralization of financial responsibility and decision-making power local actors decide on the measures “to balance the need to pre-empt labour unrest with the interests of local enterprises” (Duckett 2003:227). Due to the institutional lack of means to efficiently monitor the compliance on all policy issues on the local level in the whole country, the central government concentrates on evaluating the factors of stability (wending 稳定) and economic growth (jingji fazhan 经济发展) (cf. Heberer 2008: 50). In this institutional environment non-compliance with social policy regulations is a common phenomenon that goes in most cases unnoticed and unsanctioned, as long as there is no attention by domestic or international media – as for example mining fatalities (cf. *ibid.*:50).

Culture

Culture is identified as one of the main impediments to the reform efforts in the direction of the Western welfare states. It is the re-distributive policies and the turn away of the traditional family welfare arrangements that meet open opposition.

Different scholars have done research on the question of the influence of Culture in East Asia and its influence on the Welfare State development. The native Chinese Lin Ka (1999) has published a book named the “Confucian Welfare Cluster” where he studies the development of Welfare Statism in East Asian countries in respect of the cultural and historical background of this world region, Rieger and Leibfried (2004) follow a similar approach putting a stronger focus on the issues Culture vs. Globalisation and Confucianism vs. Christianity in order to explain the role of Culture and Religion on Welfare State development.

“In the Confucian Culture, the main contributors to thoughts on charity are Buddhism and Confucianism” (Lin 1999: 38), under these influences welfare relief has conceptualized as paternalistic grant and assistance does not originate from an institutional mechanism but from personal willingness. One of the basic elements of East Asian Welfare States is the family as primary source of welfare (cf. Rieger/ Leibfried 2004: 28, 143). The foundation of Confucian familialism lies in the notion of ‘filial piety’ one of the five cardinal relations in Confucianism that guarantee social order and stability (cf. Lin 1999).

⁹ Hong Kong and Macao, which do have a separate administrative and political system, a feature that made way to the „one country, two system“ approach in China have not been included in the research.

Unifying features of East Asian Welfare States are de-emphasis of public re-distribution and stress of workfare welfare and “the role of the welfare state as a welfare regulator” (Aspalter 2001:1). These features can also be traced back on the cultural background. Ordered re-distribution beyond the extended family is no common feature in the Confucian-Buddhist and furthermore any recipients of social assistance are stigmatised (cf. Lin 1999; Rieger/ Leibfried 2004). Furthermore the Confucian principles oppose the idea of guaranteeing for example generous welfare provisions without return, as practiced in the socio-democratic model of Welfare. The role of the State is to be residual and the individual most strive for self-reliance, as a consequence the benefits can only be means tested and low as in the liberal model.

A cultural historical feature more centred on China that has another detrimental effect on the effective use of policy transfer is an attitude that is deeply rooted in the Chinese self-perception- China wants to learn from the Western Experience, but this willingness to learn meets the strain not learning beyond the functional level (cf. Wang 2007). There is still a big opposition to learning about and taking into consideration basic arrangement that differ from the ones in China as for example the understanding other role of the government or the civil society.

The Welfare State and path dependency

The last factor influencing the Welfare State development is the long established routines and basic features of the Welfare State system that are supporting the reproduction of the system. Representative for such factors is the Hukou system that not only excluded rural dweller to come to urban areas for work and social provisions but equally was to the benefit of the urban population enjoying a higher level of social provisioning and job security. The welfare dualism that has existed for such a long time has furthermore diminished the interest of the people to actively support a redistributive policy to equalize the formally independent systems.

4. Conclusion

Functional Pressure stemming from the fast industrialization process and Policy Transfer played a central role for the development of the Welfare State and key social policies in China. Nonetheless it must be stated that they are only necessary conditions for these developments; the decisive variables are the context variables of the political, historical and cultural context of the PRC. It is the approach of the historical institutionalists accounting for the role of ideas in policy change and departing from a solely determinant-approach that prevails whereas the functionalist one is falling short in explaining the development of the Welfare State in the PRC since it does by far not follow the sequences observed in the development of the Western Welfare States.

The decisive moments in the history of the modern Welfare States in the West that stood model for the development of approaches explaining Welfare State development and change and China are different. First of all the modern political system and the roots in culture and history are completely different. In Europe the systems with their basic arrangements were built after the experience of the vast destruction of the Second World War and the need for stability and social cohesion to realize the reconstruction. China on the other hand established a one-party rule and called for construction efforts under the premise of an ideology of equality. Neither authoritarian orientation nor the cultural background can be found as sources for the different development trajectories to its closest neighbours Japan and South Korea¹⁰. It was the era of the planned economy under socialist ideology - the establishment and practice of welfare dualism of thirty years - that gave the Chinese system a different imprint that prevails to date.

The GPCR could be identified as critical juncture in the newer history of China; institutions in social and employment policy as they had been built up from the beginning of the PRC had been simply swept away and the country was ruled by anarchy of the masses. The CCP took the lessons of this experience and the reform brought forward and the development of new institutions was taken on a very cautious basis. Economic growth and Social Stability were made the new key objectives of the CCP. The fear of the discontent of the masses which could turn again in anarchy explains the reluctance of Chinese politicians to bring along major changes in the social policies, trusting more in incremental steps, experimentations on trial and error basis and adhering to the decisive role of Party ideology as unifying and progressive element.

¹⁰ In South Korea the introduction of democracy dates to 1987

The Future of the Chinese Welfare State

At the beginning of the research project stood the question on the development the Chinese Welfare State would take in face of the challenges that other countries had faced at an earlier point of time. The research question of “does China set-up a genuine Welfare State or establish one close to a system in place?” is building on the answers on the sub-questions that have already been given in the in the two previous chapters.

Within a period of thirty years signified by unprecedented economic growth China had to set-up welfare state institutions while dealing with the overlapping challenges of an industrializing, an industrialized and post-industrial society- challenges that materialized in the Western Welfare States in a time frame of more than a century. As a result the PRC meets the ‘triple transition’¹¹- challenge the post-industrialist countries are currently going through in a development stage in which the welfare State arrangements are far from being mature and show ambiguous results in terms of functionality and acceptance. Although China is nowadays more open to learn from foreign experience in social policy making and actively participates in bilateral and multilateral cooperation the country is still constrained in its choice for policies by contextual variables as its political-institutional system, culture, political history and lock-in effects in social policy making dating back to the founding of the PRC. The central challenges for the PRC in the years to come are to guarantee the funding of the social security system and compliance to common standards in social and employment policy across the provinces in order to narrow down the inequality that is threatening the stability of the whole system.

While there are several pilot programs running in parallel that are directed towards establishing a future oriented social security system a stronger role for redistributive measures is without question the only viable option. Since direct redistribution efforts have so far not been successful and contradict the underlying cultural settings in China, the CCP will have to think of a stronger indirect redistribution mechanism via taxation. According to a CASS reported quoted by McNally (2008) there are intensifying appeals for economic redistribution in the population and the “workers urge the government to increase taxes upon the rich and increase welfare benefits for the poor” (ibid. 158). Li, Feng and Gizelis (2008) also regard the taxation system as effective means to accumulate the revenues used to finance the rising costs of social welfare programs and make redistribution a reality. In order to establish the foundation of the system, the central government will have to initiate major public

¹¹ Pierson (1998) lists the following elements of the ‘triple transition’: “slowdown of the economic growth of productivity (...) associated with a massive shift from manufacturing to service employment; the gradual expansion, maturation and ‘growth to limits’ of governmental commitments; and the demographic shift to an older population.” (ibid: 141)

investments in the Welfare State infrastructure, mainly in a nation wide social security system. Under the current demographic trends any delay of the launch of a nationwide partly funded pension system can only have negative consequences for the future, making the financial burdens for the younger generation even higher and it will be them to bear the costs of a complete transition from a PAYGO to a partially funded pension system.

The implementation and compliance challenge originates from the characteristics of this huge country incorporating a magnitude of regions. Due to the great internal variety in respect of the socio-economic development stage, industrial composition and infrastructure the individual needs and available countermeasures differ from one province to another it is difficult to set-up nationwide policies that meet with the conditions on local level and monitor their proper compliance. A pragmatic approach following the principle 'Do the best according to the local conditions' (cf. Goodman 1994: 13), shifting administrative competences to the local levels and moving ahead with fiscal decentralization was followed in the 1990s. Depriving the central government of its steering abilities and financial means worsened the situation of interregional inequality even more.

Given these conditions the most promising way to establish a functioning Welfare State system in the future is to take account of the diversity and leave room for individual arrangements on local level that have to meet national standards – especially in respect of the welfare mix. Depending on the local conditions the diversity in welfare state arrangements could be similar to the one within the EU. In such a scenario the role of the Central government in social policy making could be equal to the role of the European Commission as agenda setter and guarantor of standards in social and employment policy that are key requirements for social cohesion across regional entities and the functioning of an internal market - for example labour mobility and the transferability of welfare entitlements between the different provinces¹². In a first phase the PRC would have to refine its administrative capacities and develop innovative tools for social policy making same as policy coordination, this will include definitely making use of the EU experience. An instrument inspired by the Open Method of Coordination (OMC) could be adapted to the Chinese conditions and implemented. A real harmonization of the different systems would be envisaged in a long term perspective taking the learning capabilities and socio-economic development trends within the various Chinese provinces into account. Such an approach would be highly compatible with the development paradigm of the so called Scientific Development Concept established by the current Chinese leadership that has the objectives of social cohesion and sustainable economic growth.

¹² “unemployment insurance as portable right available to all workers under clearly specified conditions does not exist in China” (Fleisher/Tang 2004: 25)

The success of the outlined scenario will be most dependent on two factors: first the capability of the central government and CCP to establish a viable system of social security, an effective administration and a functioning system to make regulations and monitor compliance across all provinces and actively promote the trust in government action; second the confidence in and acceptance of the new system by the people. Only a decisive reform in its Welfare State arrangements can help to reverse the trend of rising inequality that is the major threat for sustainable economic development and social stability in the PRC.

The report that was quoted to commence the introduction has predicted the year 2049 to be the birth date of the Chinese Welfare State (cf. China Daily 2008). No doubt the next decades will bring a lot of innovation in the field and equally influence the final appearance of the Chinese Welfare, nonetheless it can already be stated, that the mature Chinese Welfare State to emerge will be a genuine one due to the unique characteristics of the country and its welfare state legacy. Openness for policy exchange and the role China will assume in the promotion of a certain social policy model on the international stage will be factors to influence the final form of the Chinese Welfare State decisively. Whereas China can currently benefit from the Cooperation with the EU, in the future the EU might learn from the Chinese experience in some issue areas. The fact that the form of the mature Chinese Welfare State will have consequences on the welfare states systems of other countries as well is a convincing argument in favour of including China better in future international comparative welfare state research.

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