

**WELFARE DEVELOPMENT IN CHINA UNDER  
PRESIDENT XI: BEYOND THE INFORMAL  
SECURITY REGIME?**

Binrui ZHENG

PhD

University of York  
Social Policy and Social Work

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# ABSTRACT

This thesis examines the dynamics of welfare state change in China since 2012. The following questions are addressed: what is the nature of China's welfare regime? Where is China now in relation to welfare state development? In order to answer these questions, the notion of an informal security regime (ISR) proposed by Gough *et al.* (2004) is used as an ideal typical model against which to understand changes in China's welfare system. Going further, the respective concepts of path dependency and political legitimacy are deployed to develop an in-depth understanding of the 'welfare challenges' that confront contemporary China. Drawing on qualitative elite interviews with a wide range of social policy actors and leading academics, this thesis provides answers to these questions using a combination of secondary literature analysis, documentary analysis, and the analysis of interviewees' understandings and interpretations of the major reforms in the core areas of health-care, pension provision and social assistance.

The findings show that, after decades of consistent efforts of improving welfare arrangements in key areas of social policy, there are signs that China is beginning to move *beyond* the ISR – though incrementally and inconsistently – towards a welfare system more in keeping with Gough's understanding of a 'security regime'. For the purpose of serving the CCP's legitimacy, social policy has been identified as a new economic growth point and consequently not subordinate to economic policy so much as the 'other side of that coin'. There are nevertheless some significant additional challenges such as China's demographic problem, especially aging issues, that pose unique difficulties for policy makers. Above all, however, the fragmented nature of Chinese governance institutions and the country's regulatory framework makes finding solutions to fragmentation *the* major governmental objective. Therefore, the direction of China's welfare development depends on President Xi's ability successfully to reform the welfare system, although success is not assured because of the inevitable complexity of domestic and international challenges.

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## **DECLARATION**

I declare that this thesis is a presentation of original work and I am the sole author. This work has not previously been presented for an award at this, or any other, University. All sources are acknowledged as References.

# INTRODUCTION

## Background to the research

‘Welfare state’ is an umbrella term and there is no consensus about what it actually means (Takegawa, 2005a; Deng, 2013; Ngok and Deng, 2016). Having a welfare state is a synonym for being a developed country (Gough *et al.*, 2004; Castles *et al.*, 2010) because almost all developed countries have been classified in the welfare state category (Gough *et al.*, 2004). A welfare state can refer to a particular set of state institutions or, differently, to specific socio-economic arrangements designed to mitigate identified ‘social ills’ (Xiong, 2008; Pierson and Castles, 2014). Alternatively, a welfare state can be described as a tool, particularly for capitalist countries, to reduce social conflict and legitimise the existing social and economic system (Gough, 1979; Peng, 2009). In reality, the fact that different countries show different patterns in their welfare system increases the difficulty of defining what constitutes a welfare state (Cochrane *et al.*, 2001; Wang, 2010).

In recent years, because of the economic success of East Asian countries such as Japan, South Korea and Singapore, there has been increasing interest in the East Asian welfare regimes (Jones, 1993; Goodman *et al.*, 1998; Holliday, 2000; Aspalter, 2001; Walker and Wong, 2005; Hudson and Kuhner, 2012; Yu *et al.*, 2015). However, whether the welfare arrangements of these countries can be classified as welfare states remains a hotly debated issue, and this problem especially occurs in the case of China (Walker and Wong, 2013, Wang, 2013; Huan, 2014; Ngok and Liu, 2016; Zheng, 2016). Similar to other East Asian countries, the increasing number of studies about China have also been triggered by China’s economic success. Interestingly, there is no consensus about whether China is a welfare state and the majority of the existing research has avoided discussing the rapid changes in China’s welfare system that have taken place over the past four decades. The main preoccupation of scholars such as Esping-Andersen (1990) and Gough (2004; 2013) has shifted from a focus on the nature of a ‘welfare state’ to a focus on the wider issues related to a ‘welfare regime’. While regime-level analysis is important, it does not help to achieve a better understanding of China’s welfare arrangements. For example, if China *is* a welfare

state, what are the key drivers of its development, and what are the similarities between China and other existing welfare states? If China is *not* a welfare state, why not? In addition, can the contemporary Chinese welfare regime be explained by any existing welfare theories?

Very rarely have researchers concluded that China is or will be a welfare state (Sander *et al.*, 2012; Deng, 2015) because the country's unique political system (authoritarianism) and the state capitalism/Market-Leninism economic model (Ren, 2011; Walker and Howie, 2012; London, 2013; 2014; Mok *et al.*, 2017) make it difficult to correlate China with western welfare state models largely because the emergence of welfare systems in the West is closely associated with the development of forms of liberal democratic capitalism (Walker and Wong, 2004; 2014). More importantly, the majority of welfare states are high-income countries (Takegawa, 2007). Despite the fact that China has achieved remarkable economic progress in the past few decades, it had only just emerged as an upper middle-income country by 2010 (Zhuang *et al.*, 2012; Leung and Xu, 2015). Undeniably the Chinese economic model is eye-catching, but despite its economic progress, it is difficult to conclude that China has yet managed to translate economic success into a sustained and well-funded social policy.

Indeed, China's social construction is notorious for lagging behind its economic development (Ngok, 2014). The wide range of social inequalities among regions and classes, and between genders, has frequently been criticised by many researchers and organizations (World Bank, 2009; 2011; Zhuang *et al.*, 2012; CDRF, 2012; Leung and Xu, 2015; Mok *et al.*, 2017). These social problems have also undermined the country's welfare outcomes and led to the conclusion that China still needs to put more effort into welfare construction (Zheng, 2013; 2016; Huan, 2014; Guan, 2017).

What makes welfare research in China more crucial is that since Hu Jintao's presidency (2002-2012), the Chinese government has undoubtedly accelerated the rate of improving people's welfare (Mok and Ngok, 2012; Mok *et al.*, 2014; 2017). Social policy programs such as rural social health insurance, urban residents' health insurance and urban residents' pension schemes have been established and expanded nationwide in a short time (see Chapter One and Chapter Three). Many scholars have begun to reconsider the question of whether China is on its way to becoming a welfare state (Ngok and Liu, 2016).

Debates about China focus on two core questions. The first is whether or not it is possible for China to move towards becoming a welfare state and the second is whether or not China is an exceptional case in terms of its welfare system. These debates have been divided into two schools among Chinese academics (Ngok and Liu, 2016) – the optimists and the pessimists. Both perspectives have praised the former President Hu and his government's efforts in constructing a 'harmonious society' (CCP, 2006; Ngok, 2013b). For instance, Ngok (2013b; 2015a) and Mok *et al.* (2014) claim that China has moved into a 'golden era' of social policy development. Ngok (2015a) has further pointed out that Hu's social policy legacy has provided a good foundation for his successor Xi Jinping to stimulate social construction further. However, the optimist school has paid more attention to the government's intentions in both policy design (reports, documents) and implementation (programs) related to social welfare expansion (Jing, 2009; 2013; 2015). Nevertheless, this school needs more empirical data to support its conclusions rather than basing opinions on a series of normative research studies. As Ngok and Deng (2016) have pointed out, the optimists need to find evidence of 'sufficient conditions' to prove that China really is on the way to becoming a welfare state.

Compared with the optimist school, the pessimist school seems more convincing on the grounds that, using statistical data, commentators have paid more attention to the challenges of further welfare construction in China (Wang, 2010; Peng, 2010b; Ngok, 2013; Rigen and Ngok, 2013). Unfortunately, using orthodox welfare research methods such as the social expenditure approach to assessing welfare outcomes risks causing some misunderstanding over China's progress in this regard. Notably, China does not have an official standard for calculating social spending so it is difficult to establish precisely how many resources are devoted to this area (Lin, 2013; Guan, 2017). More importantly, the rate of China's policy reform has been extremely rapid and the pessimists struggle to grasp the speed of the changes to the country's welfare arrangements – which suggests that they may be underestimating the progress being made in social policy. Debates between the two schools and general discussions about issues surrounding China's welfare state development have continued and become more fruitful since President Xi Jinping has been in power.

## **The Xi Jinping era: a new phase of Chinese welfare?**

Xi Jinping is the most powerful Chinese leader since 1978. His power stems not only from his family background – Xi is one of the children of the first generation Chinese communist leaders (*Hong Er Dai*, also known as *princelings*) – but also from president Xi's anti-corruption campaign that has seen hundreds of thousands punished, 440 at ministerial rank and above, including many politburo rivals; as well as his strategy for China to become a global leader such as 'belt and road' strategy (*The Economist*, 2014; *The Financial Times*, 2015). The Xi era marks an important turning point for China's development (Leung and Xu, 2015) and he has many crucial tasks to address, for instance leading China to become a moderately prosperous society (*xiaokang shehui*). Under Xi's leadership, the Chinese Communist Party (CCP) will reach its 100th anniversary and this symbolic moment is a useful marker for the achievement of targets that Xi needs in order to ensure both the survival of the Chinese Communist Party and China's continuing development.

If by 2020 the Chinese government achieves the goal of becoming *xiaokang shehui*, the country will reach the category of a high-income country (World Bank, 2013; Leung and Xu, 2015:6). However, whether Xi will be able to lead China towards establishing a welfare state as part of this ambition is a crucial and exciting question. To achieve *xiaokang shehui*, there are a number of tasks that Xi will have to address: the first of these is economic reform. China's economic growth is slowing down for a variety of reasons such as demographic transition and increasing labour costs (Zhuang *et al.*, 2012). China has to find a new economic engine, known as the 'new economic growth point' (*Xin jinji zengzhang dian*). In other words, China needs to find an emerging industry that can drive the entire national economy to a new level in the process of economic growth and the evolution of the industrial structure. Social policy has become one of the new economic growth points as Chapters Five, Six and Seven discuss. The second task for Xi is political reform, China needs more sustainable political arrangements, on the one hand maintaining the CCP's legitimacy while, on the other, being suitable for the creation of a new economic development model (Zhuang *et al.*, 2012; Guan, 2017). Within the necessary political reform, anti-corruption measures and improvements to governmental organizations have been given priority. The third crucial task for Xi is to undertake comprehensive social reform, particularly designed to respond to increasing social needs (Ngok and Deng, 2016). To fulfil this target, a more systematic social protection system is needed. All three of these

tasks have been identified as core elements of a process of ‘deepening reform’ (*shenhua gaige*) (Xi, 2014).

At the time of writing, Xi’s second presidential term was still in its early stages, so it is appropriate to discuss and evaluate the contributions that he made during his first term in office. Chief among Xi’s contribution from the social policy perspective is that he raised social policy issues to an unprecedentedly important position. First, Xi and his government emphasised that social policy should work as the foundation of China’s market-oriented economy. Clearly, to achieve the *economic* goal of deepening reform in China, a more coherent market-oriented economic system will be needed for the country’s further development. However, without a strong social protection floor, it will be difficult for the Chinese government to establish a sustainable economic model for its further development. (Ngok and Deng, 2016)

Learning from the two severe global financial crises in 1998 and 2008, Xi and his team have realized that although a mature and systematic competitive market offers an effective means of distributing social wealth and resources (Ngok, 2014; Zhuang *et al.*, 2015; Zheng Y, 2016), without a social policy, the tendency of markets to produce wide-ranging social and economic inequalities will never be eliminated. There is every reason for the government to use social policy as a tool for managing spiraling social risks. More importantly, former president Hu Jintao had demonstrated that social policy is a useful tool for the CCP and its government to achieve social harmony and maintain political legitimacy (Ngok, 2014; Leung and Xu, 2015; Mok *et al.*, 2017). Continuing in this vein, Xi and his government place special emphasis on ‘improving the people’s satisfaction’ (*huode gan*) in national policies and particularly in social policies (Xi, 2013). In other words, the Chinese government seeks to use social policy to improve people’s wellbeing, but also to maintain the party’s legitimacy as the key vehicle for achieving further national progress (Ngok and Deng, 2016; Qian and Mok, 2016). In short, the government still needs to balance domestic stability and economic development and Xi and his government perceive social policy and social construction as a key means of realising this goal (Wang, 2015).

The ability to strike a balance between economy and society is particularly important in light of the reactions to economic globalization, which include emerging forms of protectionism and populism across the world (Mok *et al.*, 2017). China in the future is likely to have to confront increasingly fierce global competition (Zheng, 2018). In addition,



the country's complexity – its huge population and vast territory – means that governments will always have to strike a workable balance between the people's needs and the government's financial capabilities. Finding a more suitable and sustainable welfare model is crucial to this task (Ngok and Deng, 2016:13; Zheng, 2017:6).

Another important contribution that President Xi has made is the introduction of anti-corruption measures. This is a positive sign that China's social welfare system is moving towards a more institutionalized set of arrangements based more on the rule of law (Zheng, 2018). For instance, the urban and rural social health insurance systems have been integrated, poverty reduction has been set up as a national mechanism to continue helping the worst off, and numerous policy documents have been issued to signal new approaches to state welfare construction.

Although Xi's efforts seem to be leading China towards a more universal, sustainable, institutionalized welfare system, there are still a number of challenges that make the future destination of the welfare regime uncertain. Corruption is one and many social policies, particularly in the areas of poverty reduction and pension fund management have become notorious for their misuse of funds. Elsewhere significant problems remain. For example, 'fragmentation', much discussed in this thesis, is one of the most thorny and complicated problems facing welfare reform. Eliminating fragmentation – essentially shorthand for the multiplicity of historical institutions and assumptions associated with multiple and overlapping levels of administration and governance – in the welfare system is not simply a matter of integrating or reforming existing institutions, complex though this task is likely to be, but also a matter of coordinating a wide variety of established political interests (Gu, 2016; Mok *et al.*, 2017; Shi, 2017). For instance, in order to reduce the fragmentation problem, the government will have to pay more attention to dealing with the *hukou* system and the *danwei* system, especially the former, which is widely accepted to be the root of regional inequalities and is specifically associated with the problems of migrant workers (Chan *et al.*, 2008; Ngok, 2014). Additionally, solving fragmentation problems will mean reforming the current welfare management systems, which will in turn inevitably lead to tensions among ministries and departments.

The political power in China must never be neglected (Saich, 2017). Birney (2014) pointed out that China has a 'rule of mandate' rather than 'the rule of law' or 'rule by the people'. It is uncertain whether the structure and concentration of political power in China can shift

the country's entire welfare structure towards something that looks like a developed welfare state. Whether President Xi can resolve all these challenges comprehensively within the relatively short period of the next ten years or so is, of course, equally uncertain.

## **Research purposes and arguments in brief**

### **Research purposes**

This study is designed to achieve three key goals. First, it aims to provide an in-depth understanding of China's welfare regime – something that the existing literature has largely avoided (Sander *et al.*, 2012; Leung and Xu, 2015; Mok *et al.*, 2017). In particular, this study takes a top-down approach to change in an effort to understand China's recent phase of welfare construction under Xi's governance – this approach taking the form of a careful exploration of the thinking of key policy-makers, policy advisors and other elites associated with policy development in the three selected areas of social policy that best reflect the nature of China's welfare construction. The second purpose is to discover 'where China is now' by making use of Gough *et al.*'s (2004) concept of the 'informal security regime (ISR)' as a baseline, or default position, against which to 'measure' China's contemporary progress. The third, and related, purpose of the thesis is to explore whether China's current progress in welfare development is likely to result in the comprehensive approach to social protection that is associated with the welfare systems of many economically developed western countries.

Conceptualising the Chinese welfare system is by no means an easy task, and it is intended that the findings of this current study will provide a foundation for researchers to clarify the nature of China's emerging welfare regime. Of particular importance are the issues mentioned above relating to why the government needs an enhanced social protection system, and the nature of the forces driving the country's welfare expansion. Going further, it is important to understand the critical targets identified by the government as necessary for the development of a more comprehensive welfare system. What are the key challenges which the government will have to overcome in attempting to develop such a system? What are the key reform strategies that the government is adopting in order to meet these challenges and achieve its targets for social policy?

Of course, the political dimension itself is significant here – particularly the issue of President Xi’s leadership. Can Xi lead China towards ‘welfare statehood’? Xi has ambitions to carry out unprecedented reforms, for instance, he has proposed a plan to move the entire population out of poverty by the end of 2020, which would be ten years earlier than many international organizations have predicted (Zhuang *et al.*, 2012; World Bank, 2013). Additionally, China is continuing to reform its health-care system, for example by creating a hierarchical system similar in certain respects to the UK’s NHS. Equally significant is the claim made by Xi and his government that a more sustainable and universal pension system will be established in the short term.

### **Key Arguments**

There are four major arguments in this study:

1. China’s welfare regime has been identified as a successful Informal Security Regime (ISR) (Gough *et al.*, 2004; Wood and Gough, 2006; Sharkh and Gough, 2010; Gough, 2013), and because Xi and his government made consistent efforts to improve the country’s welfare arrangements during his first term as President, it is safe to conclude that China has not ‘gone backwards’ and, at the very least, remains in the ISR category. The argument in this thesis, however, is that in certain areas of social policy there are signs that China is beginning to move *beyond* informal security towards a welfare system that would be more in keeping with Gough’s understanding of a ‘security regime’.

2. To ensure that this direction of travel is sustained, it is necessary that policy makers consider social policy to be as significant as economic policy and the argument here is that Chinese elites – the government, the CCP and other public organizations such as enterprises and universities – have indeed identified social policy as a new economic growth point and consequently have begun to embark on wide-ranging reforms in core areas of social policy such as health-care, security for the elderly and poverty reduction. However, as discussed above, ‘balance’ is all and while economic development clearly remains a crucial task for the government, it would be inaccurate to conclude that China is simply a ‘productivist regime’ (Holliday, 2000; Kim, 2016; Mok and Kuhner, 2017). Social policy is not regarded as subordinate to economic policy but very much an equal partner with it.

3. Despite the undoubted stress on welfare reform, particularly in the three selected areas (health-care, pensions and poverty alleviation) that are the subjects of this thesis, there are nevertheless some significant challenges facing the government, of which ‘fragmentation’, in its various guises, is the most important. Other issues such as China’s demographic problem – specifically the country’s aging population – also pose unique difficulties for policy makers, but the fragmented nature of Chinese governance institutions and regulatory framework make finding solutions to fragmentation *the* major governmental objective.

4. A rather different argument, but one which nevertheless infuses this thesis, is the ‘status’ of social policy within the Chinese governmental framework. Pursuing greater social equality has come to be regarded as of equal importance to pursuing economic development. However, it is also the case that during Xi’s first term as President social policy became a particular vehicle for sustaining political legitimacy and there is little doubt that ‘welfare’ has in effect become a significant component of Xi’s charismatic leadership. In short, much hangs on Xi ‘s ability successfully to reform welfare, although success is not assured because of the inevitable complexity of domestic and international challenges.

## **Theories and Method of Analysis**

### **Core theories**

China is an interesting case not only in terms of economic theories but also for welfare research. The country attracts the attention of researchers because of its complexity and the unique features of its social, economic and political arrangements. In addition, its vast territory and huge population add to the overall complexity of the study of Chinese social policy. In particular, state capitalism and the communist regime make China’s welfare construction full of uncertainty and, as Ren (2011) argues, it is impossible to find another case in the world that has employed the same development strategy.

After reviewing all the existing welfare theories in the light of the Chinese case, Gough *et al.*’s (2004) method stood out among other approaches to welfare state development. There are several reasons why Gough *et al.*’s theory is the most suitable. First, the methods adopted by Gough *et al* were specifically designed to examine approaches to welfare in developing countries. Second, both Gough *et al.* (2004) and London (2013) are not convinced about the appropriateness of classifying China as a productivist welfare regime

because China differs from other East Asian countries, particularly because of its dual-track of urban-rural welfare arrangements (see Chapter Two). Third, Gough et al's category of ISR provides a coherent model of welfare and therefore it can be used as an 'ideal type' against which to explore the success, or otherwise, with which China is engaging with welfare reforms that may be moving the country away from the sorts of arrangements that could be associated with the ISR. The concept of ISR is consequently treated in this thesis more as a 'heuristic device' than a vehicle for 'measuring' welfare change.

In addition to this use of the ISR, two further theories have also been used in the current study. Institutionalist thinking, specifically path dependency, and theories of political legitimacy. Path dependency is an integral part of historical institutionalism (Pierson, 1996, 2000, 2001) and has been adopted for this current study as a tool for understanding the institutional barriers facing the Chinese welfare system. Pierson (2001) has stated that social policy and its related institutions are constrained by previous welfare arrangements. China is notorious for the unevenness of its reforms and previous institutional legacies – the *hukou* system in particular – continue to a crucial role in China's welfare system. Further, as noted, fragmentation is a significant feature of the Chinese system and path dependency theory, including its account of 'veto points', aids our understanding of the complexities associated with any attempt to effect social policy change.

Legitimacy theory shows that this study not only seeks to understand the issue from the political economy perspective but also wants to consider the underlying 'logic of politics' in China. The country's unique political system is a significant factor and consequently a series of theoretical discussions about legitimacy in the Chinese case of China – for example, the fragmented authoritarian theory proposed by Lieberthal and Oksenberg (1988) and the dual decentralisation framework proposed by Mok and Wu (2013) – have been used as complementary theories to help to understand China's welfare regime.

In order to provide a clear structure for the research, three key social policy areas in China were identified: health-care reform, old-age pension schemes and poverty reduction mechanisms. These three areas were the subjects of the most eye-catching reforms in President Xi's first term in office, attracting the highest media attention and the most financial resources. In the government's reports, these three policies are listed as the top three policies on the social policy agenda.

## **Research Methods**

The analytical methods used in this current study are based on data from qualitative elite interviews and a number of key government documents. The majority of the previous studies of China's welfare regime have been dominated by quantitative analysis (Hudson and Kuhner, 2012; Gough, 2013; Gao *et al*, 2013). However, quantitative methods fail to catch the finer details of the rapid changes in China's social policy development (Ngok and Deng, 2016; Guan, 2017). More importantly, there is a risk that the statistical data provided by the Chinese government could have been manipulated. In this regard, there was recently a significant scandal concerning incorrect data involving a number of local authorities (*People's Daily*, 2016). All of these factors suggest that qualitative empirical research is more likely to grasp the nature of contemporary welfare development in China. Specifically, the current researcher was able to engage with a large number of officials in Chinese central government, along with several key academic commentators, in a series of elite interviews designed to discover both the purposes of, and the approaches to, the complex task of Chinese welfare reform. In sum, thirty-four key policy-makers, advisors and academics were identified as appropriate interviewees for this study. Their attitudes to the welfare state and their comments about how to establish a better welfare system helped to answer the research questions. All of the interviews were conducted face-to-face in China between October 2016 and February 2017.

### **The structure of the thesis**

Followed by this Introduction, Chapter One provides an account of China's welfare development since the beginning of Chairman Mao's rule (1949-1978). The chapter concentrates on the three key social policy areas that are the focal point of the thesis: health-care, pensions and anti-poverty measures. Various core elements of the dual-track welfare arrangements in China, such as the *hukou* system and the work-units arrangements, will be reviewed. This discussion is followed by an account of the welfare initiatives taken by other Chinese rulers, starting with the Deng Xiaoping era and concluding with a brief initial assessment of developments since President Xi has been in office. Since 2013, Xi has been engaged in a process of what was called 'deepening reform' in all areas of social policy – and this process is of course the central focus of the thesis.

Chapter Two reviews a range of literature on the development welfare states. Three schools of thought regarding types of welfare regime are discussed in particular. In addition, institutionalism, and particularly path dependency theory and its implications for welfare state research, are evaluated. The chapter also addresses existing work on Chinese welfare development, assessing key contributions, examining their limitations and considering their implications in regard to the case of China.

Chapter Three includes an account of the development of the three selected welfare areas, namely healthcare, pension and anti-poverty. In the healthcare sections, the chapter reviews the key arrangements of Chinese social health insurance, and the health provision system as well as the country's medical managements. Turning to pensions, the chapter reviews three key public pension system arrangements and identifies the core challenges that face the existing pension system. Concerning the anti-poverty sections, the narrative explores the social assistance program, particularly the Dibao program and the poverty alleviation system in rural areas.

Chapter Four concentrates on research methods. Key issues such as the rationale for the specific research methods selected, data collection and the data analysis process will be discussed and justified. This chapter is based on the researcher's experience during the fieldwork stage in China from the fourth quarter of 2016 to the first quarter of 2017. Explanations will be given for why the elite interview technique was used, how the researcher treated the concept of 'elites', what sampling strategy was employed, how the necessary data were collected, and what key limitations and key issues arose from the specific methodology used.

Chapters Five, Six and Seven then present the findings based on the core analysis of social policy developments under President Xi. They reflect the way in which the data were collected and interpreted and show how the empirical data acquired demonstrate what is currently going on in China's welfare development. Chapter Five focuses on the core issues relating to the health-care reforms conducted in China in recent years. Crucial questions will be addressed in detail. What does the Chinese government want to achieve in the health sector? What is the key target of the health reform? What are the key challenges facing such widespread health reform? How does the government intend to deal with the risks?

Chapter Six focuses on pension reform in China. Reform of the pension system is one of the government's key priority tasks. In reality, however, the specific plan for how to reform the pension system is still a matter of debate. It will take time for politicians and researchers to determine the best plan for providing security for Chinese people's later life.

Chapter Seven contains a detailed discussion of the measures taken by Xi's government to eliminate poverty. President Xi has frequently emphasised that eradicating poverty is one of the areas that is being given the highest attention by leading politicians. Based on interview and documentary data, this chapter demonstrates what is new in the battle against poverty in China, what has been done in the past few years, the problems faced by the government in the drive to reduce poverty, and, finally, whether it is in fact feasible for China to protect all members of society from the experience of poverty.

Chapter Eight – the Discussion Chapter – summarizes the core arguments of the study and draws lessons from the empirical data that are intended to help future research into Chinese welfare reform. It will be shown that a core aim of China's social policy is to boost Chinese economic development and that this is closely related to the government's political legitimacy. More importantly, it will show that the aging issue, institutional barriers, increasing social needs are the key driving forces, and also the inhibitors, of welfare development in China. Because of path dependency and institutional stickiness, China still has a long way to go before finally achieving a more comprehensive and equitable welfare regime. As a result, the greater part of China's welfare system continues to exhibit clear features of an ISR – although it is important to be clear that there are signs of a capacity to move beyond the ISR in certain areas. In sum. the future remains uncertain, but it does appear that China is on the path towards a more regulated, systematic and unified welfare system.



# **CHAPTER ONE: WELFARE DEVELOPMENT IN CHINA: A BRIEF HISTORY**

The welfare system in China is a uniquely complex because it is a mixture of traditional philosophy and western values (Du, 2008; Dubios, 2017). The first step to achieving a better understanding of the Chinese case is to explore briefly the country's long history. The main function of this chapter is therefore to review the long history of welfare arrangements in China in order to enable an understanding of the country's historical institutions, legacies and their implications for China's current welfare development.

To achieve these targets, the chapter is divided into six sections. First, a brief assessment of traditional Chinese society from 2146 BC to 1840 AD with the aim of clarifying the meaning of Confucianism and its implications for China's welfare development. Second, the transition period in China (1840-1949), where attention will be paid to the legacy of the final period of the Qing Dynasty and the welfare thinking proposed by Sun Yat-sen. Sections three to six will then discuss China's welfare development between the establishment of the People's Republic of China in 1949 and the first term of President Xi's government with the aim of reviewing the development of China's current welfare systems. More specifically, each of these three sections will be structured around welfare developments under the leaders of the CCP: Chairman Mao and Deng Xiao-ping (1978-1992), President Jiang Ze-min (1989-2002), and President Hu Jin-Tao (2002-2013). The key changes that are currently being made to Chinese social policy under President Xi Jin-ping, who came to office in 2013, are the main subject of this thesis and will be dealt with in detail in the main empirical chapters of the thesis. The key reason for using this chronological, 'personality-led' approach is that each of these leaders implemented different welfare strategies during their tenure of office.

## **1.1 The legacy of Confucianism: the foundation of Chinese familism welfare arrangement**

A brief exploration of early welfare provision in China will contribute to a better understanding of the country's current approach to welfare provision. Among all the Chinese historical legacy for thought, the Confucianism is one of the most crucial part for the China's welfare construction (Du, 2008; Song, 2017). Confucianism has played a significant role in all of the East Asian countries, as has been noted by many commentators (Jones, 1993; Lin, 1999; Papadopoulos and Roumpakis, 2017), but these scholars have seldom provided a comprehensive definition of Confucianism. It is not easy to clarify the Confucianism in one or two words because Confucianism is an umbrella term which contains various meanings in different contexts (Du, 2008). For instance, Confucianism was a dominant school of thought that taught people how to obey the government dictates and remain loyal to their emperor (Du, 2008:5) – but, equally, Confucianism can also be understood as a kind of Chinese traditional philosophy or worldview—‘ren’—the underpin principles of which are quite similar to western humanist values (Chan and Tsui, 1997; Gardner, 2014).

Specifically, Confucianism has had several key impacts on Chinese welfare arrangements. First, it requires all social groups to be loyal to the king or to China's rulers. This overarching principle leads to the Chinese people being more likely to accept authoritarian governance in the context of a relatively weak civil society (Zheng, 2007; Mok and Ngok, 2012; Mok *et al*, 2017). This may explain why increasing numbers of the middle class have not contributed to a vibrant civil society in China (Goodman, 2014; Lu, 2016). Both Jiang and Hu adopted some Confucianism beliefs to help them maintain their political legitimacy (Mok *et al*, 2017). Second, Confucian society is depicted as an ideal one in which vulnerable groups such as orphans, widows and disabled people could be cared for by the state (Chan and Tsui, 1997; Walker and Wong, 2005). This approach can be regarded as a

rough blueprint for China's welfare state because it has had a far-reaching impact on both the country's traditional welfare arrangements and the structure of modern welfare provision (Chan and Tsui, 1997). For instance, the ideal society depicted by Confucius was believed as a crucial reference for Sun Yatsen's 'three principles of people (see section 1.2 below)' and the Hu Jintao's 'Harmonious society' (Xu, 2007; He, 2012). Moreover, vulnerable groups have always been considered as priorities for government assistance (Gao, 2017).

Third, Confucianism emphasises the role of family on the welfare provision (Jones, 1993; Lin, 1997; Chan and Tsui, 1997; Papadopoulos and Roumpakis, 2017). Confucian thinking gradually led China to establish a family-based welfare structure that required people to play different roles and take on various responsibilities according to their position in the family. For instance, parents are expected to take care of their children before they become adults (normally at the age of twelve to fourteen) and sons and daughters should take care of their parents and other senior family members. To support these family-based welfare arrangements, five important hierarchical relationships became an essential part of China's traditional society: the relationship between ruler and people; between father (parents) and sons; between teachers and students; between husband and wife (or wives); and between friends (Gardner, 2014). These relationships essentially meant that Chinese society became a vast social network, the welfare of individuals depending on the close relationships within their part of the network. As Table 1 summarizes, in Confucian thinking, there were four major welfare providers in China's traditional society: the family, the clan community, voluntary organizations and the government (Chan and Tsui, 1997; Huang, 2008; Yang, 2010). The family was the main welfare provider and provided a wide range of welfare benefits for individuals, such as education, protection from poverty, care of the elderly and care of children (Yue, 2010). The standard of welfare provision in ancient China was largely determined by the family's wealth (Huang, 2008; Yang, 2010). If a family failed to provide sufficient welfare to an individual member, then the clan community would provide limited support to enable individuals to overcome their economic and financial problems.

If both the family and the clan community failed to provide welfare benefits, then voluntary organizations such as temples would provide help for people. The most typical example

were Buddhist temples, which would sometimes adopt orphans and take care of single elderly people. Also, in bad years, the temples would provide some essentials such as food and clothes for vulnerable groups (Huang, 2008; Yang, 2010). In traditional society, the Chinese people frequently suffered from the effects of civil wars and natural disasters, and temples often provided temporary shelter for people suffering from such contingencies. In addition, after the first Opium War (1840-1842), some western churches also played a significant role in providing welfare benefits (Huang, 2008).

Unlike in modern China, traditional Chinese society saw the government bearing very limited welfare responsibilities, although a few dynasties did establish some institutional welfare mechanisms such as granary storage systems – a traditional ‘food bank’ which existed at all governmental levels (Huang, 2008). However, these institutions were not really intended to help people to survive events such as natural disasters (Huang, 2008; Yang, 2010); the real intention of these institutions was to demonstrate the rulers’ generosity, kindness and mercy to ordinary people (Yang, 2010). It was the family-based welfare system that remained the effective foundation of ‘welfare’ in China until well into the Nineteenth Century.

**Table 1 Confucian welfare arrangements**

<b>Actors</b>	<b>Underlying Principle</b>	<b>Function</b>	<b>Importance</b>
<b>Family</b>	Ren, Loyalty,	Education, Elderly care, child care, income support	Major welfare provider
<b>Clan Community</b>	Ren	Education, caring, income support (when family is not available)	Secondary major provider
<b>Society</b>	Ren	Social assistance	Third important welfare provider
<b>Government</b>	Ren	Disaster assistance, and grant	Limited role of welfare providers

*Source:* author’s summary of Chan and Tsui, 1997; Huang, 2008; Xu, 2007; Yang, 2010

Fourth, Confucianism encourages Chinese people to accept low welfare expenditure (Asplater, 2006a; 2011; 2013). For instance, it encourages people to work hard and not depend on external support. As a result, after the People Republic of China (PRC) was

founded, the workfare arrangement—working related to the welfare standard became quite popular (Ngok *et al.*, 2011). People think that the extent of hard working should be related to people's welfare standard. More important, even China's vulnerable populations were trying hard to survive rather than simply relying on the government's assistance.

## **1.2 The legacy of late Qing Dynasty and the Sun Yat Sen's welfare thought**

This section focuses on the legacy left by the Qing Dynasty and the Sun Yat sen's welfare thought. For China, the Qing Dynasty is the last feudal dynasty in Chinese history. Due to misguided governance strategies such as the banning of overseas trade and the prohibition of scientific research, China had lost economic potential by the late nineteenth century (Bai and Aglietta, 2014; Dubios, 2010; 2016; Wong, 1998). Nevertheless, the final period of the Qing Dynasty was particularly important because China experienced a transformation of its traditional welfare arrangements into a relatively 'modern' welfare system (Yue, 2006; Du, 2008). The invasion by the British in 1840 was one of the motivations for the leader of the Qing Dynasty Cixi to consider learning from western countries (Yue, 2006; 2010b). With new technology and new thinking flooding into China, it became clear that the traditional welfare arrangements of the family-based welfare provision system were not enough to support people to overcome some of the new risks such as work injuries that were brought by increasing industrialisation (Yue, 2006; 2010a). As a result, the Qing Dynasty decided to enact a series of social, political and economic reforms such as basic social insurance on Bismarckian lines (Yue, 2006). However, despite this initiative, the Qing Dynasty failed to deal with newly emerging welfare needs such as poverty alleviation in a coherent manner and, as in the case of Bismarck's Germany, it became clear that the aim of these policies was not so much to solve social problems as to reduce the risk of social and political unrest (Yue, 2010a). Unfortunately, because of the 1911 Revolution, these laws were not implemented at all (Zheng, 2002; 2008). Some underlying thoughts and arrangements of these unimplemented laws inspired later welfare system design such

as the PRC's welfare design (1949-) (Yue, 2006).

Another important welfare legacy left by the late Qing empire is the charity organizations: Buddhist charity organizations (*shantang*) and increasing numbers of Christian charities (Wong, 1998; Dubios, 2017). The Shantang was mainly supported by private funds from local retired officials, businessman and other local elites (Dubios, 2017), and cooperated with Confucianism state arrangements such as the provision of public granaries, which was as one of the crucial tools relied upon by government to relief vulnerable people in bad years (see Dubios, 2017). Where Christianity was concerned, following the loss of wars against imperialist ventures from the UK and the US, the Chinese empire was forced to provide certain cities and areas for the expansion of the Christian church (Yue, 2006; 2008). Although this was one of the strategies used by western countries to better manage their colonial settlements, the church played some positive role in helping vulnerable people in China.

After the 1911 Revolution, the Republic of China (RoC) was established. The RoC government made some progress in terms of constructing a social welfare system, but the government of the day did not control the whole country. China was divided into territories ruled by different warlords and their supporters (Dubios, 2017). During the RoC period, Sun Yat-sen's thinking about welfare became influential (Yue, 2010a). Sun Yat-sen was the founder and the leader of the Kuomintang (KMT). He was the first temporary president of the RoC and he left a considerable political legacy named as 'three principles': government of the people, by the people and for the people (Wong, 1998; Dubios, 2017). These three principles concentrated on addressing the issues of inequality, poverty and injustice. Sun also insisted that his government should be systematically concerned about human well-being and should gradually establish a universal welfare system (Yue, 2010a; Sun and Dong, 2012). In Sun's thinking, it was the people's right to receive welfare benefits from their nation and, to this end, the welfare system should be constructed in ways that

would lead to better welfare outcomes (Xiong, 2010). Unfortunately, due to social instability, civil wars and other factors such as the Japanese invasion in 1937, these thoughts were not turned into tangible policies (Yue, 2010). It is still worth noting, however, that the legacy left by Sun Yat-sen had a significant impact on China's subsequent welfare construction, for instance, all the PRC's leaders have praised the contributions made by Sun.

### **1.3 Chairman Mao and the Socialist State: (1949-1978)**

In this section, I shall examine Chairman Mao's institutional legacy, especially the *hukou* system, and the ramifications of Maoist welfare arrangements in both urban and rural areas. Since 1949, the *hukou* system has been a core institution in Chinese life. It cannot simply be regarded as a normal household registration system, as Chan (2009) pointed out the '*hukou*' system was not instituted for statistical purposes. The *hukou* is used as a tool to control population flows and it *de facto* affects all the political-economic aspects of life in China (Chan, 2009). In terms of social policy, the *hukou* system effectively determines the welfare level of every Chinese individual and household, so the institutional impact of *hukou* on China's welfare system is central to an understanding of Chinese welfare arrangements. Based on the *hukou* system, the government established dual-track welfare arrangements – urban work-unit systems and rural collective organizations – that came to define the character of Chinese welfare in the Mao era and beyond. In urban areas, the work-unit welfare system was quite generous and well-organized, and was in some ways comparable with welfare state arrangements in western countries such as the Nordic nations (Guan, 2001; Mok and Ngok, 2012; Kongshoj, 2013). Similar to its urban counterpart, the rural collective system played a significant role in the era of Chairman Mao but was always weaker largely because the Chinese government paid more attention to the urban areas due to the urgent need for heavy industrial development (Wong, 1998; Zhang and Navarro, 2014; Nundy, 2014).

### 1.3.1 The *hukou* system

The *hukou* system was established in 1950. It was a household registration system which worked as a combination of the former Soviet Union's internal passport system and some legacies of China's traditional society (Chan, 1999; 2008). As indicated, there are two categories of *hukou*, agricultural (rural) and non-agricultural (urban) (Chan and Zhang, 1999; Chan and Buckingham, 2008: 587; Chan *et al.*, 2008). The types of *hukou* originated from occupational divisions in the 1950s, initially, the occupation in China divided into two categories: rural peasantry and urban employees, but after a few years the system could no longer accurately display the real occupations of any individuals because of population flows created by the pursuit of educational opportunities, employment or marriage (Chan, 2009). For example, a rural resident who held an agricultural *hukou* might work in an urban enterprise, but the *hukou* could not identify this position because it only revealed a person's family background or their parents' occupation (it is important to note that an individual's *hukou* status is inherited from the parents). Additionally, the *hukou* status also related to the welfare level of individuals or showed their relationship with the state and their eligibility for different types of welfare benefit (Chan and Buckingham, 2008: 587). Because of the urban priority in the economic strategies of the Mao era, the possession of an urban *hukou* provides greater access to more generous welfare benefits than does rural *hukou* status (Nundy, 2014).

Further, the *hukou* status provides an additional piece of information about a person's residence – the place of *hukou* registration, which is an individual's official or permanent residence. The *hukou* regulation allows people to register in only one place as their permanent residence, but, this location might not be the actual address of the residents. So, in addition to the agricultural and non-agricultural *hukou*, there is also a distinction over whether or not a person had a local resident identity. For example, internal migrants working away from home where they have their *hukou* registration can obtain local resident identity in the cities where they work and live, but this kind of identity is different from local residents who have a local *hukou*. In consequence, types of *hukou* types can also be divided into local and non-local varieties, and this division can also determine whether or not a person can access local public welfare benefits such as health care, pension



entitlements and education (Chan and Buckingham, 2008; Mok and Lau, 2014). It should further be noted that the local *hukou* can have a better welfare standard than the non-local one.

Because of the *hukou* system, it was difficult for rural citizens to find a job in urban enterprises. Ideally, if someone wished to change their *hukou* status, he/she could get married to a person with a different status, or find a job in government work units. In reality, it is an extremely time-consuming process to change one's *hukou* status (Chan and Zhang, 1999; Leung and Xu, 2015). As a household registration system, the *hukou* system did not simply act as a recording or statistical system. On the contrary, it was intended to function more as a state institution to restrict and regulate the mobility of the domestic population (Chan *et al.*, 2008; Lu, 2016). Initially, the *hukou* system was designed to boost the process of China's industrialization because it was able to contribute to manpower planning by directing labour into China's industrialized workplaces. The *hukou* system can therefore be described as the gate-keeper for China's planned economy (Chan and Zhang, 1999; Chan, 2009).

When China began to embrace the market economy from the late 1970s, the legacy of the planned economy typical of the *hukou* system did not immediately cease. It still continued to operate as a core institution in China. In recent years there has been mounting criticism of the *hukou* system with critics claiming that it is one of the main institutional barriers to China achieving better welfare outcomes (Chan, 2009; Zheng, 2011; Ngok, 2013; Leung and Xu, 2015). To be more specific, first, the *hukou* system effectively blocked the rural labour force from moving to the industrialized coastal provinces to find work, thus harming China's economic progress (Wu and Li, 2016). Second, the system became a barrier to the process of Chinese urbanization because the labour force could not flow freely to the urban areas, which fragments the Chinese labour market (Chen, 2012; Wang, 2013). Third, the *hukou* system increased both geographic inequality and rural/urban inequality because the

dual-track arrangement caused China's welfare system to operate with considerable inequality in different regions (Zhuang *et al*, 2012; Leung and Xu, 2015; Kim, 2016). It is for these reasons that some scholars, such as Lin (2001) and Zheng (2008a), have claimed that the *hukou* system has caused China's welfare system to develop strongly fragmented characteristics. Other scholars, such as Chan (2009: 587), have pointed out that the *hukou* system was clearly biased against rural citizens, who have consistently had worse welfare benefits than their urban counterparts. In essence, rural citizens have been deliberately excluded from urban welfare systems (Zheng, 2008a; 2011a; Mok and Lau, 2014). All these issues have led to instability and inequality in the Chinese welfare system. In effect, the *hukou* system has separated Chinese citizens into four categories, which means that citizenship understood in the western terms of a status of inclusive belonging does not yet exist in China (Lu, 2003; Hu, 2015).

Since the 1980s, Chinese governments have regularly tried to reform *hukou*, but no truly radical reforms have ever been achieved (Chan and Zhang, 1999; Leung and Xu, 2015). In 2015, however, the government proposed a new plan that was intended to end *hukou division*, but more time is still required to eliminate the negative impacts the system has caused.

### **1.3.2 Dual track welfare arrangements – the work-unit welfare system and its rural counterparts**

Similar to other socialist countries, China implemented a generous full-employment policy in urban areas (Guan, 2000; Gu, 2001; Seldon and You, 1997; Chan and Tsui, 1997; Wong, 1998; Chen, 2012; Mok and Ngok, 2012; Leung and Xu, 2015). All citizens except for those who lacked the capability to work were allocated into work units, called *danwei*, which had three categories: profit-making state- or collective-owned enterprises (SOEs or COEs); non-profit organizations, such as universities and scientific institutions; and government and quasi-government organizations (Guan, 2000; Gu, 2001; Leung, 2003; Wong, 1998; see table 2 below). These work units displayed strong 'planned-economy

characteristics’, the most typical sign of which was that all workers were assigned work tasks by the government rather than exercising choice over their employment.

It should be noted that the work units provided a comprehensive welfare package for urban workers (Ngok *et al.*, 2011). This package covered more or less all of the welfare benefits, such as education, pension provision, housing and medical care. This “mini-welfare state” (Gu, 2001; Mok and Ngok, 2012; Ngok, 2013) was comprised of three important elements: long-term job security (the ‘iron rice bowl’), low but egalitarian wages (the ‘big rice pot’) and a comprehensive package of benefits (Guan, 2000; Gu, 2001; Chan *et al.*, 2008; Li, 2012; Ringen and Ngok, 2013; Leung and Xu, 2015). The system once covered over 78% of Chinese urban workers (Seldon and You, 1997; Wong, 1999; Ringen and Ngok, 2013; Ngok, 2013); however, measured against the Chinese population as a whole, only a small proportion of citizens were covered by the urban work-unit welfare system (Seldon and You, 1997; Wong, 1998; Chan and Buckingham, 2008; Ngok, 2013). For those living in urban areas who had no access to work units, coverage was provided by various urban temporary social relief programs (Guan, 2000; Leung and Xu, 2015); typically included in these programs were ‘*three nos*’ people, or households, (for example, *no* source of income, *no* work capability and *no* family carer), victims of natural disasters and other people who required special treatment (Wong, 1998; Ngok, 2013).

**Table 2 Work Units Types and welfare standards**

Types	Identity	Welfare standard
<b>Governmental organizations</b>	Governmental staff status/Civil servant (gongwu yuan bian)	Determined by the areas <sup>1</sup> , specific organizations and administrative ranks; Non-contribution to social security systems
<b>SOEs</b>	staffing of government affiliated institutions (shiye bian)	Determined by the areas, specific organizations and administrative ranks; relatively low contributions or non-contributions

<sup>1</sup> For instance, province, cities, and counties

Types	Identity	Welfare standard
<b>Public schools (Universities, research units)</b>	staffing of government affiliated institutions (shiye bian)	Determined by the areas, specific organizations and administrative ranks; relatively low contributions or non-contributions
<b>Public Hospitals</b>	staffing of government affiliated institutions (shiye bian)	Determined by the areas, specific organizations and administrative ranks; relatively low contributions or non-contributions

*Source: author adapted from Wong (1998), Gu (2001) and Leung and Xu (2015)*

Rural areas were covered by a residual welfare system based on communes – a highly centralized and extremely egalitarian distribution system. The communes organized work for peasants who possessed the same type of *hukou* and also distributed all the necessities of living, such as food and clothes, to farmers, and these essential handouts were supplemented financially through a work-credit system (Wong, 1998; Zheng, 2008; Li, 2013). In addition, for vulnerable groups in rural areas, the ‘five protections program’ or ‘five guarantees system’ (guaranteed food, guaranteed clothing, guaranteed medical care, guaranteed housing and a guaranteed funeral) provided limited help against contingencies (Chan *et al.*, 2008; Chen, 2012; Li, 2012; Ringen and Ngok, 2013; Ngok, 2013; Leung and Xu, 2015).

Despite these seemingly comprehensive arrangements, it should be noted that the dual-track welfare systems of the Mao era provided only low levels of welfare provision. Even so, the dual-track welfare system did provide basic social protection for both urban citizens and rural vulnerable groups. As a few Chinese scholars have suggested, the urban work-unit welfare system can be compared to some European welfare states such as Sweden’s universalist welfare regime but with goods and services provided at a lower welfare standard (Guan, 2000; Gu, 2001). Guan (2000) has also observed that although the Chinese urban social welfare system did not achieve welfare protection from ‘cradle to grave’, it did achieve protection from ‘work-unit to grave’ for those who got into a work unit.

However, this nascent welfare system did not survive the Cultural Revolution (1966-76), during which time the work-unit protection suffered severe damage, especially to the pension system (Seldon and You, 1997; Zheng, 2009; Zheng, 2017; Wang, 2017). However, as Zheng (2009) has pointed out, even without the Cultural Revolution, Mao's dual-track welfare institutions were probably not a sustainable way of supporting the people's welfare (Wong, 1994; Gu, 2001) largely because the government had not fully considered how to finance the system. The work unit welfare system did not rely on taxation or fees but on the profits made by State Owned Enterprises (SOEs). Adverse economic conditions and extremely low productivity amongst SOEs meant that they could not support such demanding welfare arrangements.

Wong (1998) summarized the key feature of the Maoist welfare system as follows: chasing egalitarianism led to less attention being paid to efficiency and sustainability; more attention being paid to the state's responsibilities and forms of intervention rather than to alternative welfare providers; and more attention being paid to certain social groups rather than to the needs of the overall population. After Mao's death in 1976, China started to embrace a market economy and launched the 'open-up' reforms, which transformed Chinese whole political and economic system including welfare arrangements. In the following section, Deng Xiao-ping's reforms and their implications for China's welfare development will be discussed and evaluated. Because as Deng's successor, President Jiang Zemin, carried on most of the work initiated by Deng, these two eras will be considered together in the next section.

#### **1.4 'Opening up' reform: China's welfare development, 1978-2002**

The shift from a planned economy to a market-oriented economy meant that the Maoist system of social welfare had to be radically reformed because it was too inflexible to accommodate the rapid changes, particularly in the labour market, demanded by market forces (Dong, 2011). Compared with Mao, Deng and Jiang's welfare reform strategies

moved China in a different direction. As Wong (1998) has pointed out, Deng's strategy was to stress the demands of economic efficiency over equality and gradually to move welfare responsibilities from state to society. Jiang's welfare strategies were similar but more radical and display clear neo-liberal characteristics (Zhang and Navarro, 2014; Hu, 2015).

Deng's reform started from the Household Responsibility System (HRS), which is generally thought to have contributed to stimulating Chinese farmers' work incentives (Ngok, 2013). The HRS was first invented by a few farmers in a village in Anhui province, who began leasing land from their collective team to farm on an individual household basis (Wong, 1998:64). The government required farmers to hand in agreed quota of production, the rest of the surplus could be kept by farmers themselves. With the HRS being widely accepted by the peasants, the old rural collective welfare system was melting away by the middle of the 1980s (Nundy, 2014; Zhang and Navarro, 2014). Unlike the previous commune system, the HRS aimed to maximise the motivation of rural residents to develop the rural economy. The success of this reform greatly encouraged policy makers to expand it to all rural areas with the aim of boosting rural economic development (Peng, 2003; Ngok, 2007; 2010). By the mid-1980s, the HRS had been extended to urban areas, where SOEs were the main targets (Leung, 2003; 2006; Leung and Xu, 2015). The purpose of the SOEs' reform was to improve their competitiveness within the new market context. The reform was also intended to remove the welfare burden from the government and leave responsibility for welfare to the enterprises themselves.

To achieve these aims, in 1986 the government first reformed its previous permanent (life-long) employment policies and wage systems within SOEs by introducing employment contracts (Leung, 2003; Ngok, 2010a), which meant that the maintenance of full employment as one of the key features of the work-unit system, was effectively removed (Chan *et al.*, 2008; Li, 2012; Ngok, 2013). These new employment policies resulted in

higher unemployment, which became a significant issue in the Jiang period (Li, 2012; Ngok, 2013).

Because of his failing health, Deng Xiaoping stepped down in 1989 and was replaced by President Jiang Zemin (1989-2002). On the macro level, Jiang followed the same policy direction as Deng and pursued the further marketization of the Chinese economy. Unlike Deng, however, Jiang adopted more radical reform strategies. Jiang's government introduced a wide range of welfare reforms in health, housing, pensions, rural policies and urban welfare policies. Furthermore, in order to support the development of SOEs and further reduce the government's burden of social welfare benefits, a series of remedial measures was implemented to reduce social welfare expenditure, minimize the welfare responsibilities of SOEs and socialize public services (Guan, 2000; He, 2012; Li, 2012; Ngok, 2013; Leung and Xu, 2015).

In the health-care sector, the government dramatically reduced public expenditure, for example, the rural collective medical program (CMS) was withdrawn without any replacement programs (He, 2012; Chen, 2012). The impact of this reform – unsurprisingly – was the triggering of new social risks created by the increased health-care burden for people especially for those in the rural population (Ngok *et al.*, 2011; Yip and Hsiao, 2008; 2014). At the same time, because of China's geographic inequalities (for example, the coastal provinces are richer than inland provinces), increasing numbers of peasants began to leave their rural hometowns in search of higher paid urban jobs (Peng, 2003; 2004; 2008; Shi, 2015). These rural residents were officially labelled as migrant workers (*nongmin gong*). Because they did not have a local *hukou*, all these workers were excluded from urban welfare services (Peng, 2003; 2006; 2008) with the result that risks such as mounting health care pressures, the issue of the education of migrant children, and related housing problems accompanied these new migrant flows (Leung and Xu, 2015). Because all levels of the Chinese government (central and local) agenda were preoccupied with economic development projects, only the promotion of economic growth was considered, with the old Maoist social policy agenda marginalized (Nie, 2011; Peng, 2013). In fact, the open-up market reforms actually dismantled the socialist planned-welfare system while failing to replace it with new arrangements to deal with the risks caused by marketization (Zheng, 2008a; 2011a). According to Harvey (2005) and Zhang and Navarro (2014), the new

Chinese ideology was a *de facto* shift from socialism-communism to a neo-liberal market ideology under Jiang.

Another important issue that increased the difficulty of making sense of the Chinese welfare system is the combination of political centralization and fiscal decentralization (Zheng, 2008b; Guan, 2012; Binary, 2014; Gu and Meng, 2015). The root of this arrangement was tax reform, which was known as the tax-sharing reform. The reform altered the central-local relationship by changing the system of provision between central and local governments. This tax-sharing reform contributed to enhancing the power of the central government, the most typical example being that, after the taxation reform, 70% of local government tax revenues were handed to the central authority with only 30% being retained for all levels of local government (Gu, 2016). Even so, the responsibility for welfare provision still remained with the local governments – so this reform indirectly increased the burden on local governments and constrained their financial capabilities.

Compared with the previous situation, local governments now had reduced taxation revenue for local use (Zheng, 2005; Nie, 2011). So to win the economic development competition, they now had only limited government funding for issues related to social policy (Peng, 2013). Furthermore, as stated above, governments at all levels were over-enthusiastic about economic growth and ignored the emerging social risks which led to increased insecurity (Peng, 2003; 2006; 2008; He, 2012). For instance, Nie (2011; 2013) has reported that local governments made the development of commercial housing a priority in order to boost Gross Domestic Product (GDP) growth and levy more taxes. This is one of the key reasons why the Chinese government became rich but the social expenditures remained low (Peng, 2013).

Although Deng and Jiang boosted Chinese economic development, too much attention to economic development caused Chinese people to feel that they are living under great pressure particularly in many social policy areas such as health, housing, and education. In 2003, when President Hu Jing-tao took office, the Chinese government was confronted with unprecedented social and political pressures. In particular, the earlier radical market reforms had led to a number of problems in all areas of social policy with the consequence that President Hu and his colleagues had to find ways of reorienting China's social policy to make it fit for the task of developing better and more comprehensive forms of social protection (Ngok, 2013; Leung and Xu, 2015). Increasing social risks particularly



concerning inequality led the government to reform its welfare arrangements. In the following section, the Hu Jing-tao government's welfare construction policies will be considered.

### **1.5 The Hu Jiang-tao era, 2003-2012**

When Hu Jing-tao took power in 2003, the Chinese government was confronted by unprecedented political pressures, particularly over social inequality and poverty (Jing, 2009; 2013; Leung and Xu, 2015; Mok et al, 2017). The Gini index at the time was estimated to be 0.5, which suggested very high levels of inequality (Bai and Agelita, 2014). In order to achieve social and political stability, the central government issued a series of reforms for both rural areas and urban areas.

In rural areas, one of the most impressive reforms was the central government's abolition of agriculture-related taxes for the purpose of relieving the financial burdens on rural residents and increasing their income (Ngok, 2013). In previous times, farmers had to shoulder taxes, levies, fines and other kinds of fees as a kind of 'personal responsibility' to the country. Once these taxes and fees had been paid, farmers did not have spare resources to deal with other uncertainties (Zheng, 2008a; He, 2012). For example, the abolition of the CMS had led to millions of rural residents having to use a large proportion of their income to pay for health-related expenses (Ngok, 2013; 2015a). According to Mok and Ngok (2012), rural residents spent on average 40% or more of their household income on health. However, the new rural tax policy meant that rural taxes and fees could not exceed 5% of household income, which clearly left families with a greater margin for other expenses (Chen, 2012; He, 2012; Li, 2012; Ngok, 2013).

Also, in order to improve the health benefits for rural residents, in 2003, the government gradually established a new rural medical insurance scheme known as the New Rural Cooperative Medical Scheme (NRCMS). In fact, 2003 proved to be something of a turning point in China's welfare development (Chan *et al.*, 2008; Ngok, 2013) because the NRCMS ended a decade-long vacuum in rural health provision (Zhang and Navarro, 2014). Also in this year, President Hu proposed a new principle for China's development known as the 'Scientific Development Perspective' (SDP) (Chen, 2012; He, 2012; Leung and Xu, 2015). This initiative was a people-centred development intended to balance five relationships: between rural and urban development; between the development of richer regions and

poorer regions; between economic and social development; between human and natural development; and constructing a harmonious relationship between China and other neighbour countries (CDRF, 2012; Leung and Xu, 2015: 33). This was the first time that a Chinese government had proposed a concept designed to balance efficiency and equity, and to ensure sustainable development.

In 2006, the central government started to draw up a new blueprint for China's development known as 'Constructing a harmonious society'. This blueprint made it clear that a harmonious society should be characterized by democracy, the rule of law, equity, justice, sincerity, amity and vitality (Mok and Ngok, 2012; Leung and Xu, 2015:34). In social policy terms, within the harmonious society all citizens should expect equal rights to education, employment, medical care, a pension and housing. Some scholars such as Xu (2007) and Jing (2013b) have claimed that this blueprint not only relied on certain Confucian values, but was also intended to implement developmental strategies ---- economic development has been set up as a core national strategy by stimulating industrialisation and modernization.

It is certainly clear that under the principle of SDP and the blueprint for a harmonious society, China's government started to pay more attention to the welfare needs of its people (Mok *et al.*, 2017; Ngok, 2014; Ngok and Deng, 2017). For instance, in 2007, the government established the Urban Residents' Basic Medical Insurance (URBMI) program and the Urban Residents' Basic Pension Scheme (URBPS). These two schemes were designed to provide welfare protection for residents who were not in employment (Chen, 2012; Mok and Ngok, 2012; CDRF, 2012; Leung and Xu, 2015; Burns and Liu, 2017) and they also played a complementary role to the previous medical and pension scheme for urban employees (Frasier, 2010; 2015; Li, 2012). Chapter Three, will discuss these policies in greater detail.

In 2008, China's continuing economic development was affected by the global economic crisis (Farnsworth and Irving, 2011). Many thousands of people lost their jobs and thousands of industries were bankrupted and it became clear that, in order to secure itself against the fluctuations of the global economy, China needed to shift its economic planning from an export-oriented to a domestic demand-oriented strategy (Zheng, 2011b; Bai and Agelita, 2014). In order to tackle key social risks (such as unemployment and poverty), the government rolled out a four trillion yuan spending package to stimulate economic growth,

enhance welfare provision and create jobs (see table 3 Below). It should be noted that this package was principally directed at rural areas and in fact it did contribute to improving living conditions (Cook and Lam, 2011; Farnsworth and Irving, 2011; Leung and Xu, 2015). For instance, rural residents were able to obtain very generous subsidies if they intended to purchase any essential living materials. The total expenditure on social protection floor construction have increased dramatically.

**Table 3 The Hu Jiang Tao government’s strategies for the 2008 financial crisis**

Strategic goals	Key measures	Expected outcomes
Maintain economic stability and growth through investment and social spending	4 Trillion yuan stimulus package	Create 22 million jobs 2009-11 Contribute 1% GDP growth per year in 2009 and 2010
Reduce the economic burden on enterprises	Five delays and four reduction programs	Retain 20 million jobs Delay or alleviate a total of 2000 billion yuan financial burden of hard hit enterprises
Prevent job losses and promote employment: through support to enterprises (above) and through employment training or other support	Subsidizes enterprises in difficulties to retain employees and provide retraining program to workers  Retraining program for migrant workers or unemployed  Fund to assists migrant or other workers/ graduates to establish small businesses	15 million people to receive social vocational training
Boost domestic consumption	Improve the social security system; Increase investment in social protection; Consumption vouchers (mainly by local governments)	29 billion yuan for social spending  New Rural old age insurance in 11% of rural village, to cover 130 million rural residents  Universal medical insurance Increase urban basic old age pension

Strategic goals	Key measures	Expected outcomes
Maintain social stability through improved social protection	Increase <i>dibao</i> standard and subsidy Specific one-off subsidies for specific groups Raise unemployment insurance subsidy introduce unemployment benefits for new graduates	N/A

Source: Cook and Lam (2011)

Summing up the Hu Jing-tao era, the Chinese government not only focused on urban problems, but also paid greater attention to the needs of rural areas (see table 4 below). Significant success in relieving rural poverty was achieved, with nearly five hundred million people moving from absolute poverty to relative poverty (Wang, 2013). As a result, under President Hu’s leadership, China started to move towards a ‘golden era’ of welfare development (Mok and Ngok, 2012; Ngok, 2015a; Wang, 2013). Even so, housing and health-care problems still remained – so although the government had started to rethink the negative consequences caused by previous reforms and welfare development received more attention, it nevertheless remained the case that a better balance between economic and social policies still needed to be achieved (Zheng, 2011; He, 2012; Wang, 2013).

**Table 4 Chinese Welfare arrangements in Hu Jintao regime**

Welfare programs	Urban areas	Rural areas
<b>Pension</b>	UEBPI +URBPI (first pillar) Enterprises annuity (second pillar)	NRBPS (2010)
<b>Education</b>	Nine years free compulsory education	Nine years free compulsory education; Two exemption and one subsidy program for poor students
<b>Healthcare</b>	UEBMI; URBMI	NRCMS
<b>Employment</b>	Unemployment insurance; Work injuries insurance; maternity insurance	None
<b>Housing</b>	Public Housing fund Affordable housing; Low-Rent Housing	None; in some areas local governments help poverty population moving to better settlement

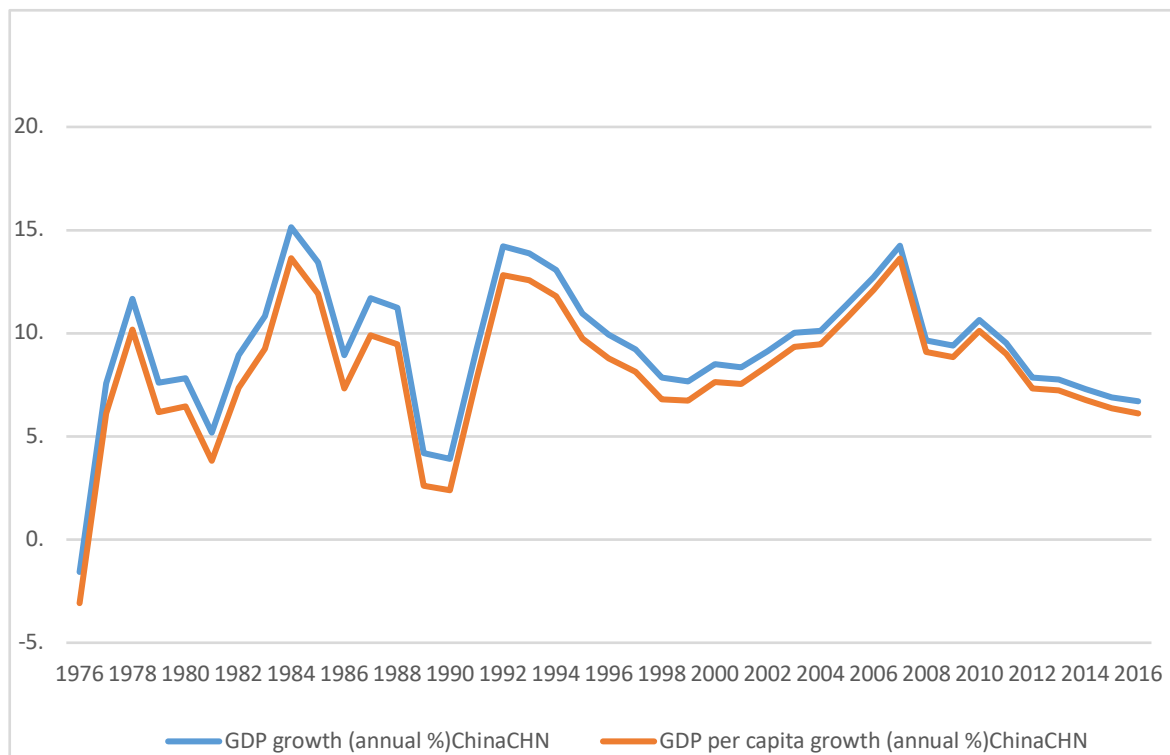
<b>Welfare programs</b>	<b>Urban areas</b>	<b>Rural areas</b>
<b>Anti-poverty</b>	Social assistance (Dibao); Medical aids, education aids, poverty alleviation;	Poverty alleviation; ‘Dibao’; ‘Wubao’
<b>Social welfare</b>	Disable assistance; Children welfare (e.g. health breakfast)	None
<b>Social relief (youfu)</b>	Military veteran assistance (re- employment); poverty; disable soldiers welfare	None

*Source: Author adapted from Cook and Lam (2011) and Ringen and Ngok (2013)*

### **1.6 The Xi Jin-ping era: 2013-the present**

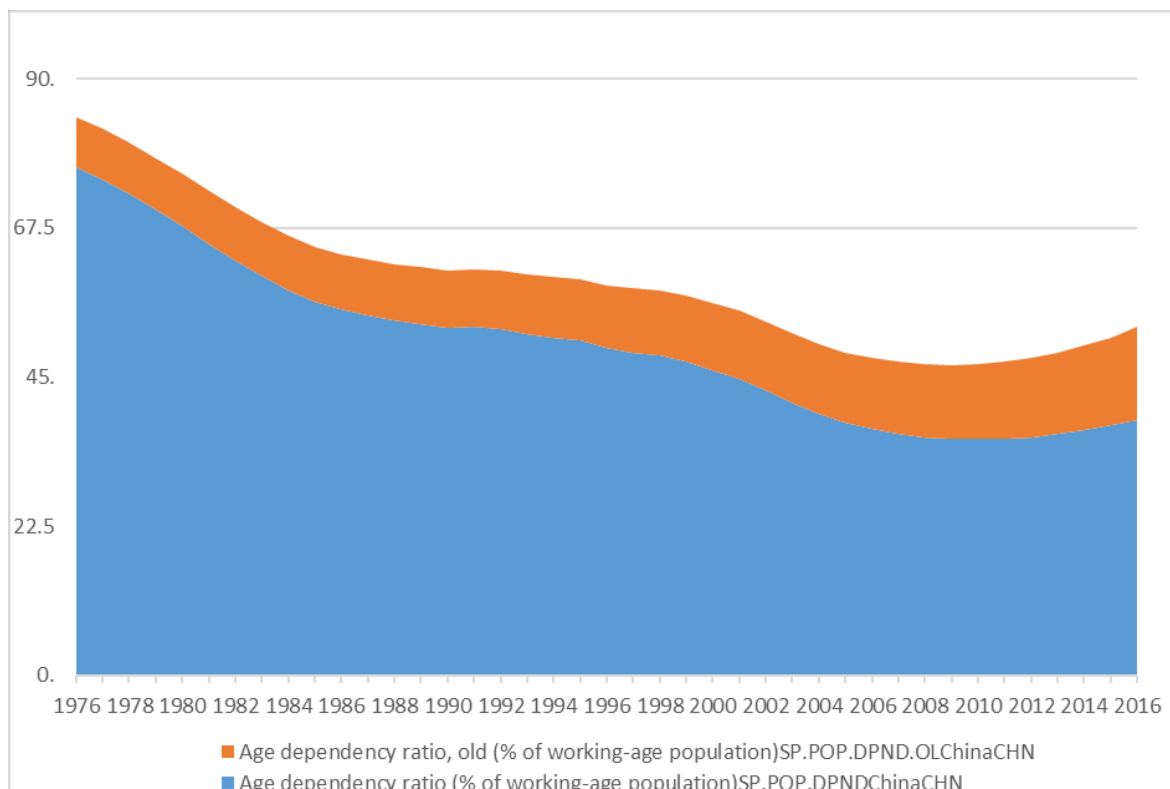
On assuming office in 2013, President Xi Jin-ping was confronted by a number of challenges to the achievement of better welfare outcomes of which three are particularly important. The first relates to economic development. The Chinese economy had experienced a downturn in the wake of the 2008 crisis and worsening economic performance had generated many social problems, particularly rising unemployment and increasing poverty rates (Peng, 2013; Ngok, 2015) A second challenge concerns the problem of population aging. In 2016, there were 220 million Chinese citizens over the age of sixty and the welfare of these people needed considerable attention. The third challenge for Xi was how to deal with legacy of the GDPism approach (Peng, 2013).

**Figure 1 GDP annual growth rates and GDP per capita annual growth rate in China**



Source: data from the World bank (2017)

**Figure 2 Chinese age dependency ration, 1976-2018**



*Source:* data from the World Bank (2017)

To address these problems, Xi proposed a plan to create a ‘Chinese dream’. This term has various meanings, but its underlying vision looks towards a China that is more prosperous, more democratic, more transparent, more equal and more just (Xi, 2013). On the social aspect, Xi (2013:2) stated that “China should use social policy as the foundation for economic development”, therefore demonstrating that the new generation of leaders intended to pay unprecedented attention to developing social welfare (Ngok, 2015). To achieve the ‘dream’, Xi has given priority to health-care reform, pension reform, and ending poverty. In terms of health-care reform, the government is addressing the need for reform at the very roots of the problem (Xi, 2013; Ngok, 2015) and, for example, has begun to integrate the urban and rural health systems in an attempt to resolve the problem of ‘fragmentation’ and eliminate the welfare gap between rural and urban areas (see Chapter Five to Seven). To increase the usage rate of primary health-care, the government has provided greater subsidies, while it has also introduced the Severe Illness Health Insurance scheme in order to boost the development of commercial health insurance programs.

Similar to these health-care reforms, the government has also made great efforts to improve care for older people, for instance by merging the government pension into social pension schemes and improving the coverage rate of the existing pension schemes. Gradually delaying the pensionable age is another strategy that has been adopted by Xi’s government (see Chapter Six). Because the Chinese economy suffered a significant downturn in 2012, income protection became an important task in order to ensure social stability. Income protection programs, especially the *dibao* program, began to play a significant role and, looking ahead, it appears that China, with many more years of the Xi Presidency remaining, will need to develop more comprehensive social policies that could result in a more coherent and integrated welfare state.

## **1.7 Conclusion**

After 1949, China gradually established an identity-based, dual-track welfare system (Ngok, 2007; 2013). The welfare benefits were strongly related to an individual’s social identity known as *hukou*. Based on *hukou*, residents in rural and urban areas received different standards of welfare benefit. Compared with rural areas, the urban areas of China enjoyed more generous and better-organized welfare arrangements. However, the *hukou* system

combined with top-down policy-making, which could not hope to resolve the inherent difficulties associated with China's complex social, political and economic structures, meant that the country's welfare system was highly fragmented (Lin, 2001; Zheng, 2005). Matters were exacerbated in the late 1980s owing to the decision to develop a market-oriented economy and the shift towards the market combined with existing geographical inequalities – rural versus urban areas, coastal versus hinterland provinces – in ways which intensified social problems.

The situation was not helped by policies like the tax-sharing reform, which stripped local governments of the tax revenues necessary to manage local development. Because of the single-minded pursuit of economic growth, local government leaders were more likely to use the limited local government budget to develop the local economy rather than to provide better welfare. Consequently, minimizing investment in social policies and concentrating attention on economic development best describe the course of Chinese policy in the 1980s and 1990s. After 2003, when President Hu came to power, his government made considerable efforts to address these problems. Some of these reforms, however, failed for a variety of reasons (see Chapter Three). When Xi Jinping became president in 2012, he inherited unprecedented social pressures: he was confronted by many social problems, some of which had been left by his predecessors and others that were relatively new. In summary, it is necessary to examine closely the social policy of the Xi government and evaluate these policies outcomes in order to determine whether China is moving towards a developed welfare state.



## **CHAPTER TWO: UNDERSTANDING THE WELFARE STATE AND EXISTING WELFARE REGIME THEORIES**

In the early literature on the welfare state, discussion of how and why welfare states develop was characterized by a strong Euro-centrism (Walker and Wong, 1996; 2013; Hudson and Hwang, 2013). In the past few decades, however, there has been growing interest in the welfare system of East Asian societies, and with China becoming the second-largest economy in the world, China's welfare arrangements have attracted increasing attention from scholars (for example, Goodman *et al.*, 1998; Jones, 2003; Walker and Wong, 2005; Chan *et al.*, 2008; Sander *et al.*, 2012; Hudson and Kuhner, 2012; London, 2013; 2014; Kongshoj, 2013; 2014). Even so, whether existing welfare theories can explain the Chinese case continues to be a hotly debated issue. This chapter will examine the meaning of the term 'welfare state' and explore key criteria for judging whether or not particular sets of social policy arrangements can be understood as contributing towards a 'welfare state'. To this end, the most relevant approaches to welfare regime theory will be discussed and their implications for the case of China subsequently considered.

### **2.1 Understanding the welfare state**

The term 'welfare state' is frequently used in the context of the intervention of the state and public institutions in people's daily lives, but the word 'welfare' has consistently been misused (Takegawa, 2007) because it has a variety of meanings. For instance, according to the Oxford English Dictionary, 'welfare' refers to "well-being" or "the resources and social preconditions for well-being" (Pierson, 2006: 9; Spicker, 2014). To be more specific, the word 'welfare' has three distinct meanings: 1. *social welfare* (the collective provision or receipt of welfare); 2. *economic welfare* (welfare benefits secured through the market, particularly the formal economy); 3. and *state welfare* (social welfare benefits provided by the state) (Pierson, 2006: 9-10; Xiong, 2008). Initially, however, welfare state studies were focused more on the development of state welfare in conditions of increasing 'modernization' and industrialization (Flora, 1981; Baldwin, 1990; Pierson, 2006). So, to give meaning to the term 'welfare state', from a narrower perspective, it is best to refer to

state policies designed to achieve the provision of major goods and services for the purpose of meeting a population's social welfare needs. From a broader perspective, the term refers to a particular form of state or a distinctive form of polity; a specific type of society (Pierson, 2006: 10; Spicker, 2014; Xiong, 2008).

From these definitions, it can be seen that defining a welfare state precisely is by no means an easy task. Furthermore, the term is not static, and its meaning inevitably changes over time. Another barrier to defining a welfare state in any comprehensive manner is that it has been defined differently in different countries. For some scholars (see Mishra, 1990), a fundamental characteristic of a welfare state is the willingness of a government to use all means to achieve full employment. In reality, however, no country in the world can achieve full employment (Cochrane *et al.*, 2001). To better define a welfare state, Garland (2016: 3) has suggested that welfare states are not primarily about 'welfare' and certainly not primarily about welfare for the poor. Instead, the welfare state is, and should be, about social insurance, social rights, social provision and economic governance. Although for some commentators, the welfare state should exist to benefit the middle class and those in employment (Garland, 2014), others provide a range of perspectives from which to understand the key features of a welfare state. One perspective insists, for example, that a welfare state provides welfare for the poor and for other vulnerable groups (Briggs, 1960; Xiong, 2008; Spicker, 2014), but this definition might be thought to narrow the function of a welfare state too much. Arguably a welfare state is more than merely a tool for protecting the vulnerable (Garland, 2014; Hill, 2015). A second perspective has paid great attention to particular configurations of social insurance, social rights and social services (Marshall, 1950; Spicker, 2014; Garland, 2014). For others, the welfare state is a system of economic governance, which means that the aims of a welfare state are to resolve social conflicts and achieve better social and economic outcomes (Gough, 1979; Alcock *et al.*, 2012).

In this thesis, the term ‘welfare state’ is used to refer to a systematic mode of institutionalized ‘social government’ rather than an approach to any particular area of social policy. On the contrary, the term denotes a system through which people can obtain specific levels of welfare benefit and gain rights of access to specific good and services to support them across the lifecourse. The state, the family, the market and the community are all implicated in the delivery of key welfare goods – but social government is inevitably characterized either by the direct delivery of services through public institutions (central or local), or by the public regulation of private or third sector bodies that deliver services on behalf of the state.

## **2.2 First-generation welfare state studies**

The earliest welfare state literature can be traced back to the eighteenth century. Thomas Paine’s *Rights of Man* (1791) may have been the first work to have described the welfare state (Xiong, 2008; Pierson and Castles, 2014). In recent years, and certainly since the Second World War, many studies have attempted to classify and categorize countries’ welfare arrangements (for example, Esping-Andersen, 1990). Initially, the first-generation studies were based on the assumptions that levels of social expenditure could explain the ‘welfare effort’ of a particular country (Cutright, 1965; Ellison, 2006: 10). These studies showed strong connections with the functionalist approach (Hudson and Hwang, 2013: 15), which posited a causal relationship between the welfare state and either economic growth (capitalism), industrialization or democracy. Based on this logic, there were three typical perspectives within these studies. First, the economic development perspective argued that the driving force of a welfare state was economic development or modern capitalism itself (Pierson and Castles, 2014). Supporters of this approach interpreted welfare state expansion as “a functional requisite for the reproduction of society and economy” (Esping Andersen, 1990: 13). Some scholars, such as Wilensky and Lebeaux (1965), suggested that economic development has a specific relationship with the standard of welfare, and that better

economic performance will bring better welfare services. Also, with better economic conditions, states would have more capacity to enhance the quality of public services. According to the economic development perspective, increased economic wealth clearly contributes to a stronger capability to expand the coverage of the welfare services (Wilensky and Lebeaux, 1965; Xiong, 2008; Hudson and Hwang, 2013).

The second perspective — the industrialization approach — argues that processes of industrialization, and associated processes of urbanization, changed traditional social mechanisms. Welfare provision, particularly via demands from an expanding working class, is a significant response to these social transformations (Kopri, 1983; Pierson, 2006; Hudson and Hwang, 2013). The third viewpoint, the neo-Marxist perspective, argues that social policies act as a tool that protects the interests of the ruling (capitalist) class (Gough, 1979, Peng, 2009; Chen, 2014). From this perspective, the welfare state is a response by political elites to class conflicts that arose as a result of industrialization that arose as a result of industrialization (Gough, 1979; Korpi, 1989; Hudson and Hwang, 2013). Welfare development is understood as a strategy that the ruling elite use principally to control the working class (Gough, 1979; Peng, 2008; Chen, 2014; Miliband, 1963). Therefore, from the neo-Marxist perspective, the key driver of the western welfare state is the need to mask the essential contradictions within the capitalism itself by providing sufficient amounts of ‘welfare’ to legitimate the system (Offe, 1984).

Even though there were several different perspectives within first-generation studies, there were also some common points. For instance, these studies claimed that countries with different socio-economic conditions will ultimately develop welfare provision in the same economic-industrialization-democracy sequence (Hudson and Hwang, 2013; Walker and Wong, 2013). Subsequent scholars have therefore frequently classified first-generation studies as a form of ‘convergence theory’. However, this approach over-emphasized the similarities among different countries and neglected obvious differences. The clearest

example of this tendency can be seen in early studies' lack of attention to the nature and impact of differently configured power structures and social and political institutions in different countries (see Liu, 2009; Hudson and Hwang, 2013). Also, convergence theory did not clarify why a specific country would choose to take a particular path. In this context, the class mobilization perspective attracted great attention. For instance, Walter Korpi (1989) analyzed the development of the welfare state from the standpoint of class mobilization. According to Korpi (1989), the welfare state is the outcome of a protracted political struggle among different class fractions – an emerging working class, the farming or 'peasant' class and the capitalist bourgeoisie. This class mobilization perspective traced the impact of the shift in political power within a state. So, in the case of Sweden for example, working class political power was certainly one – but only one - driver of welfare state development. Additionally, compared with earlier studies that relied on industrialization to explain welfare state development, this perspective provided greater insights by encouraging researchers to consider the balance of class forces, and class differences in different countries (Hudson and Hwang, 2013; Flora and Heidenheimer, 1981; Baldwin, 1990).

Even so, the class mobilization perspective has its drawbacks. According to Hudson and Hwang (2013: 16), this perspective risks placing too much emphasis on the ability of left-wing political parties to influence welfare state development, while neglecting the role that non-leftist parties played in the process. Building on the contributions and weaknesses of the first-generation studies, Esping-Andersen (1990) then produced his classic study, *The Three Worlds of Welfare Capitalism*, which crucially concentrated on the idea of welfare regimes as opposed purely to the emergence, development and institutionalization of particular areas of social policy. In the following section, Esping-Andersen's work will be considered.

### 2.3 The second generation: Esping-Andersen (1990)

Undoubtedly, The Three Worlds of Welfare Capitalism has been one of the most influential studies in this field. Esping-Andersen divided the existing western welfare systems into three types, Liberal, Social Democratic and Conservative (see Table 5), according to his index of decommodification.

**Table 5 Three welfare regimes**

	<b>Liberal</b>	<b>Social Democratic</b>	<b>Conservative</b>
<i>Key welfare provider</i>	Market	State	Family, workplace, church
<i>Degree of decommodification</i>	Minimal	Maximum	Relatively high
<i>Model examples</i>	UK and US	Nordic Countries	Germany, France, Italy

*Source:* Esping-Andersen (1990)

This analysis adopted certain aspects of the class mobilization perspective and together with some of the advantages of other first-generation studies. For example, Esping-Andersen suggested that the historical legacy of previous institutions in addition to specific patterns of class mobilization contribute to the particular path a country will select. In general, he proposed that attitudes to the commodified market, which resulted from the ‘politics’ of class struggle in different countries, largely determined the subsequent shape of a welfare state (Esping-Andersen, 1990; Morel *et al*, 2012). Esping-Andersen clearly believed that the three worlds of welfare capitalism provided a comprehensive theoretical framework and that all of the economically developed nations could be classified into one of his three regime categories (Esping-Andersen, 1999). The approach has some obvious merits. For instance, as mentioned, it situates the notion of a ‘welfare state’ within the wider context of a regime, which permits the analysis of factors that go beyond what is typically understood as ‘social policy’. Patterns of wage-bargaining and industrial relations – the ingredients of institutionalized class struggle – the role and composition of the state and, of

course, the particular ways in which these phenomena interact with economic institutions combine to produce particular types of economy and specific forms of welfare. The framework that Esping-Andersen devised also pays attention to welfare outcomes, focusing on attitudes to human security, need satisfaction and well-being (Sharkh and Gough, 2010).

Esping-Andersen's work is nevertheless flawed in some respects and has attracted many criticisms both from the qualitative and the quantitative perspectives (for example, Jones, 1993; Holliday, 2000; Arts and Gelisen, 2002; Gough *et al.*, 2004; Ellison, 2006; Bochel *et al.*, 2009; Hudson and Kuhner, 2009; 2010). There are some common critiques, such as that Esping-Andersen's work has too few regimes and that it neglected gender factors (Bambra, 2004; Lewis, 1994). These problems can also be detected in some Chinese scholars' research. It should be noted that some Chinese scholars once attempted to fit China into Esping-Andersen's framework, but failed to get a satisfactory result due to the fact that China's welfare outcomes, political systems and socio-economic arrangements differ from those of western countries in many respects (Zhu, 1997; Guan, 2000; Gu, 2001; Huang, 2008; Bi, 2010; Zheng, 2009; Jing, 2009; Peng, 2009; Gao, 2010; Shi, 2012a; Gao *et al.*, 2013; Ringen and Ngok, 2013).

Esping-Andersen's work might not be appropriate for explaining the Chinese case but, even so, the de-commodification index and the stratification index are still important indicators for welfare state research. The limitations of Esping-Andersen's work has triggered responses from a number of scholars, including several who specialized in East Asian countries (for example, Jones, 1990; 1993; Goodman *et al.*, 1998; Holliday, 2000; Gough, 2004; Walker and Wong, 2005; Hudson and Hwang, 2013). In the following section, this literature review will consider East Asian welfare theories and evaluate their implications for China.

## **2.4 From the Confucian welfare state to the productivist (developmental) state**

Many of the criticisms of Esping-Andersen's (1990) work focused on the key problem that the three-fold typology paid too little attention to East Asian cases. These critics suggested that a fourth world should be added for East Asian countries (Jones, 1993; Goodman *et al.*, 1998), the main suggestion being that the key characteristic of the East Asian cases is the place accorded to economic development as the central feature of East Asian countries' policy making (Jones (1990; 1993). The unique historical legacy of Confucianism is important here. According to Jones, the East Asian cases can be understood in the following terms:

Conservative corporatism without (western-style) worker participation, subsidiarity without the Church; solidarity without equality; laissez-faire without liberalism; an alternative expression of all this might be 'household economy'; welfare states run in the style of a would-be traditional, Confucian extended family. (Jones, 1993: 214; see also in Walker and Wong, 2005)

However, although Jones (1993) coined the term 'Confucian welfare state' to describe East Asian countries her work was also flawed, and many subsequent scholars have claimed that the term 'Confucian welfare state' is meaningless or that it over-estimates the influence of Confucian thinking on current East Asian societies (Takegawa, 2005; 2009; Walker and Wong, 2005; Hudson and Kuhner, 2009; Hudson and Hwang, 2013:18). Even Esping-Andersen (1999) suggested that the East Asian cases are not so much exceptions model as hybrid cases, so arguing that East Asian countries could fit into three welfare capitalism framework, known as liberal, conservative and Social Democratic categories respectively (Esping-Andersen, 1990).

With interest growing in the economic success of the 'Asian Tigers' throughout the 1990s, the debate about the nature of welfare in countries such as Singapore, Japan, South Korea



and Taiwan did not stop. The term ‘productivist welfare state’, coined by Holliday (2000; 2005) became popular and triggered much new debate. Both Holliday (2000; 2005) and Gough *et al.* (2004) adopted this notion. According to Holliday (2000), the main strategy of East Asian countries is to subordinate social policies to economic policies in the belief that weak social rights and low generosity in social benefits strengthen the market and therefore productive activity (see Pierson, 2004). Additionally, Holliday (2000) argued that “Within the Productivist welfare states, it is therefore possible to identify distinct clusters, namely, Facilitative, Developmental-Universalist, and Developmental-Particularist” (see Table 6). However, scholars have, paid little attention to the differences between the developmental and productivist perspectives (Choi, 2013). Instead, the majority have preferred to treat these two terms in the same way (Gough, 2004; Kongshoj, 2013; 2014). To be more specific, East Asian developmentalism, understood as state oversight and regulation of the market, labour and civic society, is regarded as the key reason why certain East Asian economies achieved such eye-catching economic performance in the 1980s and 1990s (Gough, 2004).

**Table 6 The productivist welfare clusters**

	<b>Facilitative</b>	<b>Developmental-Universalist</b>	<b>Developmental-Particularist</b>
<b><i>Social Policy</i></b>	Subordinate to economic policy	Subordinate to economic policy	Subordinate to economic policy
<b><i>Social Rights</i></b>	Minimal	Limited; extension linked to productive activity	Minimal; forced individual provision linked to productive activity
<b><i>Stratification effects</i></b>	Limited	Reinforcement of the position of productive element	Reinforcement of the position of productive elements

<b><i>State-market-family Relationship</i></b>	Market-prioritised	State underpins Market and families with some universal program	The state directs social welfare activities of families
<b><i>Model examples</i></b>	Hong Kong	Japan, Taiwan, South Korea	Singapore

Source: Holliday (2000)

Despite its merits, Holliday’s (2000) framework has some obvious limitations. First, he failed to distinguish between the terms liberal and productivist (Horsfall and Chai, 2012; Choi, 2013). Second, he failed to explain how his model was unique to East Asian countries (other scholars such as Hudson and Kuhner, 2009; 2012 found that the productive element can also be found elsewhere). Third, his work had a dated quality because it had focused on the pre-1997 situation in East Asia. Fourth, Holliday failed to trace new tendencies in East Asian countries towards greater welfare provision. Choi (2013) has stated, for example, that some countries such as South Korea and China were starting to expand their welfare benefits. Finally, Holliday’s research design excluded the Chinese case at an early stage, which is arguably problematic because China is, after all, the largest country in East Asia, and with China absent it becomes difficult to label the productivist approach a specifically East Asian model (London, 2013; 2014).

Turning briefly to the theme of the ‘developmental’ state, this concept refers to the state policies and institutional arrangements that have underpinned the unprecedented economic achievements of the East Asian countries since the 1970s (Bolsta, 2015: 7). The term identifies various key elements of the ‘East Asian Tiger Countries (Singapore, South Korea, Taiwan and Hong Kong)’ – for example, historical legacies, ideological issues and other necessary preconditions of state development, including institutional arrangements governing state policy formation across society, politics and economy, and external conditions such as the state of the global economy (Bolsta, 2015: 8). However, scholars

differ over their understandings of the nature and importance of the developmental state. For instance, Weiss (2000: 23) proposed three criteria for a developmental state: economic policy in the priority place among policy agenda, organizational arrangements support for industrialisation and economic actors as the most crucial component of national strategy. Stubbs (2009: 5-6) also suggested three key descriptors define the developmental state: essential institutions; key developmental state actors; and the ideational aspects of political, economic and social dimensions. Howell (2006: 275) suggested that there are two main characteristics of a developmental state: first, that political and policy elites are focused on economic development and transformation, in the context of enjoying legitimate power and authority; and second, that a developmental state has an authoritative administrative state mechanism, which leads to the technical and managerial capacity to guide economic and social development (also see Bolsta, 2015: 8). It should be noted that contributors to the existing developmental state literature tend to focus on a specific nation - Johnson (1982), for instance, concentrated on Japan.

The notion of the developmental state also has further limitations even though an increasing number of studies have classified China into this model (Kongshoj, 2013; 2014). It clearly shares much in common with the industrialization thesis, discussed above, not least because the term can be traced back to Bismarck's Prussia, to Japan's Meiji restoration, and also to the America of the 1920s and 1930s (Bolsta, 2015: 9). Importantly, then, the developmental state is not unique to East Asian countries – but is the concept relevant to an understanding of Chinese economic and social development. China has set up economic development via industrialization as the most priority task (Zheng, 2005). Interestingly, China has usually been excluded from debates about productivism and the developmentalism, which is understandable because it is difficult to decide whether China can be classified as a capitalist country (Naughton and Tsai, 2015). Partly no doubt due to its size, but also because of its unique history, particularly since 1949, China is a more complex economic, social and political entity than its East Asian counterparts. This complexity makes it

difficult to classify the Chinese regime easily and although some scholars have argued that productivist theory can explain much of China's welfare development (Lin and Zhao, 2007; Choi, 2012), especially during the Jiang Zemin era (1989-2002), others disagree (London, 2013; 2014). China's economic development has of course continued apace, so it remains as necessary as ever to consider whether either of the two models discussed here can explain the Chinese case

## **2.5 Other studies related to the case of China**

### **2.5.1 The characteristics of China's welfare society**

In this section, the focus of this literature review will be on the works of other Chinese scholars who have contributed to the debate about the nature of the Chinese welfare state. Chinese scholars have made many contributions but the usefulness of these interventions has been much debated. These academics have sought to address the following three questions: First, Does China fit into any of Esping-Andersen's welfare models? Second, is China still a socialist country? Third, if it is, is it a socialist welfare state? Can China's 'welfare society' be explained by Confucian, productivist or developmental theories?

These questions have divided Chinese scholars into two groups. One group suggests that Esping-Andersen's welfare model can be applied to Asian countries, so therefore China can be classified into one of his three models (Gu, 2001; Walker and Wong, 2005; Ringen and Ngok, 2013). This group has received support from the Asian Development Bank, which suggests that China is quite close to being a conservative welfare state (ADB, 2001). By contrast, a second group customarily adds the prefix 'western' to Esping-Andersen's welfare typologies (Walker and Wong, 2005; Bi, 2010; Jing, 2009; Jing and Bi, 2009a; Jing, 2013b; Lei, 2014). Its proponents believe that China does not fit into any of his welfare models because China is a socialist country and Esping-Andersen's theory was based on

welfare developments in capitalist countries (Bi, 2010; Jing, 2009; 2013b). This second group of scholars has been labelled here as the ‘sceptics’.

Members of this latter group have qualitatively analyzed China and western countries and suggested that China cannot be labelled as a welfare state (Zhu, 1997; Huang, 2008). Interestingly, some scholars in this group have claimed that China has moved noticeably towards an era of ‘big welfare’ (Jing and Bi, 2009d: 96). However, it is not always clear what these scholars mean by a ‘welfare state’, particularly as they detect an emerging Chinese literature that refers to China as a “welfare society with Chinese characteristics”, (Jing and Bi, 2009a: 96). This label is disputed (Ngok, 2015), with some scholars in the group (for example, Zheng, 2008b) preferring to label China’s welfare system as ‘China’s socialist welfare society’ on the grounds that the current three-pillar welfare system (social insurances, social assistance and social welfare) will see China gradually achieve universal but low-level welfare protection institutions (Zheng, 2008b; also see Ringen and Ngok, 2013: 9). The differences between the two labels are in fact minimal, but the main point is that the idea of China as a ‘welfare society with Chinese characteristics’ allows a certain recognition of the fact that China has absorbed some elements of western models of welfare, while nevertheless emphasizing the country’s position as a special case.

There are several reasons why Chinese scholars prefer to use the term ‘welfare society with Chinese characteristics’ rather than any other welfare regime label. First, they argue that ‘welfare society’ is a more active term than ‘welfare state’ (Jing 2013: 5). Jing clearly believes that more social resources can be mobilized in a welfare society and that in such a society the government will not act as the sole welfare provider but share welfare responsibilities with state, family, community, individuals and other social organizations. Second, a welfare society can cope with both market failure and state failure because government is in a position to make use of the distributive benefits of market mechanisms as well as benefiting from state intervention. Additionally, it is argued that, in the Chinese

context, a welfare society would only seek to ensure a basic social safety net rather than maximize welfare benefits. As a result, social problems associated with welfare dependency are less likely to occur. Third, the term ‘welfare society’ has adopted Giddens’ (1997) idea of an active social policy, which favours a different relationship between welfare and economic development to that which existed in many western nations during the post-war period. Of course, the reason why Chinese researchers add ‘Chinese characteristics’ to the mix is because they believe that no identical welfare provision system exists elsewhere (Bi, 2010: 108; Jing, 2013b: 5). According to this logic, China’s welfare system needs to be understood in its particular historical, political and socio-economic context as a unique system of welfare provision. Comparing with those scholars who simply want to fit China into Esping-Andersen’s framework, the group of scholars who support the welfare society with Chinese characteristics focuses more on the differences between China and other countries in terms of its socio-political context. Furthermore, these scholars have realized that the framework proposed by Esping-Andersen (1990) has its drawbacks, and more importantly, it is not suitable to use a framework designed for developed countries to make sense of the challenges that face a developing country.

The differences between the western welfare state model and the welfare society with Chinese characteristics can be summarized as follows (Jing, 2013, see table 7 below):

**Table 7 The differences between a welfare state and a welfare society with Chinese characteristics.**

	<b>Welfare State</b>	<b>Welfare society with Chinese characteristics</b>
<i>Essential attributes</i>	Market-oriented Private mean of production Capitalist	Public mean of production It is not an independent strategy but a crucial part of the Chinese characteristics of socialism
<i>Ideology</i>	Capitalism	Socialism

<b><i>Purpose</i></b>	Maintain capitalist leadership and maintain various forms of liberal or social democracy	To serve the real needs of people
<b><i>Welfare Provision Level</i></b>	Some low, some high	Low but equitable

Source: Bi, 2010

In some ways, these Chinese sceptics are correct. China does indeed have a unique social, economic and political environment, which inevitably holds implications for its model of welfare. However, the term ‘Chinese-style welfare society’ raises several problems. For example, it displays a fundamental misunderstanding about the term ‘welfare state’, tending to assume that those who use it over-emphasize problems such as welfare dependency. However, as Wang (2010) points out, the ‘welfare society with Chinese characteristics’ accords too much attention to active welfare, which risks welfare provision becoming residual and employment-oriented. The further risk is that policy-makers could be tempted to concentrate on reducing public expenditure rather than promoting the higher levels of welfare provision and better social protection. The concern among many scholars (e.g. Zheng, 2013) is that China does not provide enough welfare benefits for its people and, as Huan (2014) has suggested, now is a good moment for China to promote welfare construction.

Beyond these approaches to welfare regime theory, Gough *et al.* (2004) designed a comparative framework for understanding welfare regimes in both economically developed and developing countries. This framework will be considered in the following section.

## **2.6 The comparative welfare regime framework**

Gough *et al.* (2004) realized that there are limitations not only in Esping-Andersen’s framework, but also in other previous welfare state studies. Typically, they lack a global perspective. Gough *et al.* (2004) therefore devised a comparative welfare regime framework that not only focused on welfare states in western nations but also on welfare

arrangements in developing economies. As Surrender and Walker (2014) has noted, this framework has been of great significance to the development of research into welfare regimes across the globe (Surrender and Walker, 2014). As the largest developing country in the world, research into China's welfare regime must therefore not neglect the comparative welfare regime framework proposed by Gough *et al.* (2004).

The main idea of this comparative welfare regime framework is to divide all the countries around the world into four types: welfare state regimes (security regimes); proto-welfare state regimes; informal security regimes; and insecurity regimes (Gough *et al.*, 2004; Gough, 2004; Wood and Gough, 2006; Sharkh and Gough, 2010; Gough, 2013). This categorization is based on a methodology that shows that a welfare regime is the outcome of the aggregation of a welfare mix, welfare outcomes and a stratification effect (Gough, 2001:167, see details below).

*Welfare regime formula:* Welfare regime = welfare mix + welfare outcomes + stratification effect

As Gough *et al.* acknowledge, this formula owes much to the contribution of the decommodification and stratification index proposed by Esping-Andersen. Unlike Esping-Andersen and other previous studies, however, which simply focused on the liberal democracies, Gough *et al.* (2004) started to look at less developed regions. According to Gough *et al.* (2004), to understand the welfare regimes in the developing world, nine key factors should be considered: 1. the dominant mode of production; 2. the dominant set of social relationships; 3. the dominant source of livelihood; 4. the dominant form of political mobilization; 5. the state form; 6. the institutional landscape; 7. welfare outcomes; 8. path-dependent development; and 9. the nature of social policy (more detail can be seen in Figure 2.1).

In terms of East Asian countries, Gough *et al.* (2004) endorse Holliday (2000)'s



productivist welfare regime theories. Interestingly, however, from Gough *et al.*'s perspective, the Chinese case cannot be fully explained by productivist theory and is better classified as an 'informal security regime' – a term that describes a system of institutional arrangements characterized by heavy reliance on community and family relationships to meet security needs (Wood and Gough, 2006: 1699). Gough's (2013) most recent study used cluster analysis to further demonstrate that China fits into the 'successful informal security regime' category by measuring performance in three areas: health; education; and disability. However, Gough *et al* recognized that this framework might not reflect the rapid changes in China's welfare development. Indeed, the data that the researchers used were gathered during 2000-2008, meaning that they do not pertain to the Xi period (2012-) and, as this thesis discusses, considerable advances in social policy have been made over the past six years. Further, it is not clear that the three areas on which Gough *et al* focused are the most crucial ones so far as China is concerned. What is more, although Gough *et al.* have mapped out the different forms of welfare development around the world they do not provide a clear account of how an 'insecurity regime' might be transformed into an 'informal security regime', nor how an 'informal security regime' could be 'upgraded' to a developed welfare state. Nevertheless, of all the approaches taken to explanations of welfare state development and the classification of welfare regimes, Gough *et al* provide a rigorous theoretical framework. The ISR refers to immature welfare regimes that rely on families and communities' welfare rather than institutionalized welfare arrangements that are provided by the state and the market (Wood, 2004). There are no accurate descriptions of what the ISR looks like in the health-care sector (Wood; 2004; Wood and Gough, 2006; Sharkh and Gough, 2010; Gough, 2013). However, Sharkh and Gough (2010) suggest that Cluster A in table 8 below refers to proto-welfare state regimes, Cluster B relates to the "successful informal security regime", and Clusters C, D, E and F refer to a failing ISR. The remaining clusters mainly denote insecurity regimes.

Within Cluster B, Bolivia, Chile, Columbia, China, Iran, Kazakhstan, South Korea, Mexico, Malaysia, Moldavia, Paraguay, Peru, the Philippines, Tajikistan, Thailand and Turkey all have successful ISRs (*see* Table 8). Therefore, three countries from Cluster B are briefly discussed here as indicators to check whether China is still an ISR in terms of its health-care systems. South Korea is also an East Asian country which is profoundly influenced by Confucian values (Jones, 1990; 1993; Goodman *et al.*, 1998). Malaysia is a South East Asian country and is a former British colony. Both China and Malaysia are currently developing countries. Mexico is a Latin American country and is also a developing country with the largest population among Spanish-speaking countries. These three countries share some similarities with China.

According to the existing literature, South Korea, Malaysia and Mexico are running different health-care systems; they are all members of the OECD and they have all achieved full coverage in their health insurance. However, there are some common problems that can be found in all three of these countries (*see* Table 9). All the countries have to a greater or lesser extent experienced individual constraints on the aspects of efficiency and equity that have considerably restricted their performance in areas such as health care.

**Table 8 Cluster Membership in the Comparative welfare regime framework**

Clusters/ Countries	Cluster A	Cluster B	Cluster C	Cluster D	Cluster E	Cluster F	Cluster G	Cluster H
	Argentina	Bolivia	Dominican Republic	Botswana	Cameroon	Bangladesh	Benin	Mozambique
	Belarus	Chile	Ecuador	Kenya	Congo.Rep	Cote d'Ivoire	Burundi	Guinea-Bissau
	Brazil	China	El Salvador	Namibia	Ghana	India	Ethiopia	Rwanda
	Costa Rica	Colombia	Jamaica	South Africa	Indonesia	Nepal	Mali	Zambia
	Croatia	Iran	Morocco	Zimbabwe	Tanzania	Pakistan	Senegal	
	Estonia	Kazakhstan	Nicaragua			Papua New Guinea		

Clusters/ Countries	Cluster A	Cluster B	Cluster C	Cluster D	Cluster E	Cluster F	Cluster G	Cluster H
	Israel	South Korea	Sri Lanka			Togo		
	Lithuania	Malaysia						
	Poland	Mexico						
	Romania	Moldova						
	Tunisia	Paraguay						
	Ukraine	Peru						
	Uruguay	The Philippines						
		Tajikistan						
		Thailand						
		Turkey						

*Note:* Cluster A denotes proto-welfare state regimes and Cluster B denotes successful ISRs.  
*Sources:* Sharkh and Gough (2010) and Gough (2013)

**Table 9 Comparisons between China and the three selected countries in the ISR category**

Countries	China	Malaysia	Mexico	South Korea
<b>Key arrangements</b>	Three pillars: Social health insurance, Health-care services and Medicine	NHS	Three pillars: Social security, Public health services and Private health services	Health insurance

Countries	China	Malaysia	Mexico	South Korea
<b>Key actors</b>	Government plus immature market	Government plus more privatization	Mixed public and private	Government plus private actors
<b>Problems</b>	1.Fragmentation 2.Health inequality 3.High proportional costs 4.Poor accessibility and inefficiency	1.Poor accessibility and inefficiency 2.Health inequality	1. Fragmentation 2. Health inequality 3. High proportional costs 4. Inefficiency	. Unsustainable . Management failure . Inefficiency

Source: Zhou *et al* (2014); Meng *et al*, (2015).

In the previous literature (Zhou *et al.*, 2014; Meng *et al.*, 2015), each of the selected countries is reported as having experienced some kind of fragmentation problem. China and Mexico, in particular, have experienced some very similar characteristics in their highly fragmented health-care systems. Both of them have suffered many problems relating to fragmentation, as Table 9 shows: health inequality, high proportional costs and low efficiency of the health-care system. To solve the problems of the fragmented health system, since 2009, China has been undertaking a new phase of health-care reform. In the following sections, the governments' targets will be discussed with the aim of reflecting the nature of China's current welfare construction.

## 2.7 Concluding remarks: Reflection and Research Questions

In Chapter One, the long history of China's welfare development was reviewed. It is no doubt that China has its special socio-political system, understanding the China welfare system need clarify the historical trace of the system in advanced. The current chapter has reviewed both western and Chinese welfare theories and existing research related to the China's welfare system. From the review, it can be seen that both western and Chinese theories have advantages and disadvantages. Compared with western theories, Chinese theories seem more suitable for exploring the Chinese case largely because of China's unique position as a significant economy but one which nevertheless is facing important social policy challenges borne of the specific characteristics already noted – demographic

make-up, territorial size and institutional complexity. Unfortunately, Chinese theories such as the ‘Chinese socialist welfare society’ lack a systematic theoretical framework. Alternatively, some scholars have stayed in the trap of productivist theory (Holliday, 2000) or ‘three worlds’ capitalism (Esping-Andersen, 1990) by simply trying to fit China into these frameworks (Gu and Meng, 2015; Wang, 2010; Mok and Ngok, 2012). None of them emphasize that China is the largest developing country, meanwhile, existing welfare theories either focus too much on the differences between China and other countries or simply use China to claim the emergence of a new theoretical model. Among both western and Chinese theories, Gough *et al* (2004) coined three general welfare regime categories, two of them (informal security regime and insecurity regime) are designed for the developing countries. More important, Gough (2004) has realized that China has many different features from other countries but in some ways still shares certain features in common with other countries not just with East Asian counterparts also with also with some other countries such as Turkey and Chile.

As can be seen from the discussions in this current chapter, there are still only a few previous studies which have demonstrated an in-depth understanding of the nature of China’s current welfare development. Also, the welfare constructions undertaken by the Xi Jinping government still need to be examined and it is necessary to assess whether the existing welfare theories can explain the development of the welfare system in China. More important, whether the comparative welfare regime (Gough *et al*, 2004) can fully explain the China case still needs to be properly explored. In order to fill these gaps, this current study will focus on following research questions:

1. What is the nature of China’s welfare regime?
2. To what extent does the case of China as an informal security regime capture the nature of the country’s current welfare system?

In Chapter Four, more specific research questions will be set out.

## **CHAPTER THREE: AN HISTORICAL OVERVIEW OF THREE WELFARE POLICIES IN CHINA**

This chapter is focused on three principal welfare policies in China, health, pensions and social assistance. As discussed in Chapter Two, Gough *et al.* (2004) defined China as an informal security regime, which is a widely accepted regime model for those countries in the developing world that are considered to be making progress on welfare issues. Gough *et al.* (2004) selected health, education and support for disabled people as their research variables but in the Chinese context more appropriate indicators are required. Compared with education and care for the disabled, pension provision and social assistance are more important areas in China's current welfare system because, since 2012, the Chinese government has put health, pensions and social assistance on the agenda as the most crucial social policy arenas. This chapter will therefore offer a discussion of the key features of China's health policies, pension system and social assistance system in the period leading up to President Xi's presidency. Section 3.1 will discuss health policies in China, Section 3.2 will provide an overview of China's current pension arrangements and Section 3.3 will examine the provision of social assistance in today's China.

### **3.1 China's health policy: an overview**

Health care is one of the most crucial elements of the Chinese welfare system (Gu, 2012a; Li, 2012). It consists of three main elements: health insurance, health-care services and medicine (Zhao, 2015). In terms of health insurance, there are three public health insurance schemes operating in urban areas: The Urban Employees' Basic Health Insurance (UEBHI), the Urban Residents' Basic Medical Insurance (URBMI) and the Labour Insurance Scheme (see Table 10). Since the 1990s, the LIS has been gradually integrated into the UEBHI (Mok and Ngok, 2012; Leung and Xu, 2015). To protect the increasing number of migrant workers and their families, since 2006 the government has gradually integrated migrant

workers into the urban health insurance systems (Mok and Ngok, 2012; Lu, 2015). Furthermore, some health policies that are particularly targeted at urban migrant workers have gradually been established. To construct a comprehensive health-care system, some local authorities have established a Severe Illness Health Insurance (SIHI) scheme that is intended to integrate both the urban and the rural residents' health insurance systems (Tan, 2014; Lu, 2015). The SIHI is also intended to integrate urban migrant workers into the urban health-care system (Zhou et al., 2016). In rural areas, residents were initially covered by the Rural Cooperative Medical Scheme (RCMS), which was officially abolished in the 1980s (Duckett, 2009; 2011) because the open-up economic reforms meant that it was no longer suitable for the new market-oriented economy (Ngok, 2013). Rural residents remained trapped in a welfare vacuum with little or no health cover until 2003 when the New Rural Cooperative Medical Scheme was officially launched (Qian and Blomqvist, 2014). Leung and Xu (2015) found that by 2012, China had achieved almost full coverage – all the Chinese population are eligible for health insurance schemes, although unaffordable out-of-pocket health costs, health inequality and poor accessibility still remain the major challenges facing China's health policies. In the following sections, China's health policies in the period before President Xi took office will be discussed in more detail, starting with health insurance schemes.

**Table 10 China's three main health insurance schemes**

<b>Insurance</b>	<b>Financial Mechanism</b>	<b>Ministry</b>	<b>Reimbursement rate</b>	<b>Coverage rate</b>	<b>Benefit Package</b>
<b>UEBMI</b>	Employee, employer contribution (mandatory)	Ministry of Human Resource and Social security	of up to average 70 %	100%(since 2012)	varies from different enterprises and work units

<b>URBMI</b>	Household contribution and government subsidizes (Voluntary)	Ministry of Human Resource and Social security	of up to average 50%	100% (since 2012)	Varies from different provinces
<b>NRCMS</b>	Individual contributions and central and local government's subsidies	National Health and Family Plan Commission	Approximately 40%	98.8% in 2014	Varies from different provinces

Sources: Author adapted from Nundy (2014), the National Statistics Bureau (2015) and Chan et al. (2008)

### 3.1.1 Health insurance

#### 3.1.1.1 Urban employee's basic health insurance (UEBHI)

During the socialist era (1949-1978), China's health insurance systems were funded by the LIS (Gu, 2001), which was designed for urban work unit employees (Mok and Ngok, 2012). The LIS once covered 80% of the urban labour force in the country (Seldon and You, 1997). Together with the Public Free Medical Scheme, Chinese urban employees and their relatives enjoyed free medical services (or half-price medical service) and lifelong health insurance without having to make any contributions (Chan et al., 2008) – however, only a small proportion of the population was covered by the system with no more than 20% of the total population being covered by the insurance scheme (Sun and Dong, 2012). Because the LIS also caused unaffordable health costs – largely due to the increasing numbers of people eligible for LIS without contributions (see Chapter One; Leung, 2006; Mok and Ngok, 2012) – the government started to consider ways to reform health policy.

In 1998, the government issued 'Decisions on Establishing the UEBHI'. The intention was that the UEBHI would protect all urban employees' health benefits. 'Employees' included



all those in work units (but not government employees), all those in private enterprises and retirees (Li, 2012; Mok and Ngok, 2012). In the informal economy, employees such as migrant workers and the self-employed were not eligible to participate in this scheme (Wong, 1998). This created a severe problem for the future. For instance, the increasing numbers of migrant workers arriving in urban areas could not access urban health services (Goodman, 2014; Shi, 2015). The UEBHI combined individual accounts and social accounts (Mok and Ngok, 2012); the underlying operational rule was that the individual account covered the less severe illnesses whereas the social account was used to cope with catastrophic illnesses (Chen and Wang, 2006; Chen, 2012; Li, 2012).

The social pooling of the UEBHI was managed by city-level governments. In some regions, the county-level government also took responsibility for social pooling management (Chen, 2012; Li, 2012; Mok and Ngok, 2012; Nundy, 2014; Leung and Xu, 2015). The UEBHI was effectively the product of integrating the LIS and the government insurance scheme (Nundy, 2014), but the UEBHI had some design problems. To stimulate the development of enterprises, unlike previous schemes the UEBHI was a voluntary scheme (Leung, 2003; 2006; Chen, 2012; Zhang, 2012; Nundy, 2014; Leung and Xu, 2015; Wong, 2015) and because of this voluntary characteristic, some urban employees were disinclined to participate in it (Chen, 2012; Li, 2012). Employers and some employees regarded the UEBHI as a financial burden rather than a source of welfare or protection (Wong, 2015). Fortunately, there were also some merits in the UEBHI: it was better organized; it no longer required retirees to contribute to their account; and retirees' costs were borne by their former employers. Compared with the previous schemes such as the government insurance scheme and the LIS, the coverage rate of the UEBHI increased dramatically (Chen and Wang, 2006; Nundy, 2014). This increase was largely stimulated by government subsidies and by the increasing numbers of private enterprises which participated in it (Mok and Ngok, 2012).

To reduce the resistance from beneficiaries of previous LIS (various work units staff), a complementary medical allowance scheme was launched by the Department of Health, known as the Civil Servants' Medical Allowance (Nundy, 2014; Wong, 2015). This complementary scheme allowed civil servants to receive extra benefits because of their advantageous social position in urban China. Initially, the government had intended to use the UEBHI to cover all urban employees, including those in the informal sector and workers on flexible contracts (the majority of them were without any contract). However, because a number of employers were incapable of contributing to the UEBHI, many urban informal sector employees were still not covered by the scheme. In order to resolve this problem, the central government implemented another urban health insurance scheme in 2007, known as the Urban Residents' Basic Medical Insurance (URBMI), to protect those working in the informal economy (Goodman, 2014). In the following section, the URBMI scheme will be discussed in greater detail.

### **3.1.1.2 The urban residents' basic medical insurance (URBMI)**

Before 2007, there were no specific programs targeting all urban residents; as already explained, only employees of work units had formal protection. This led to some social groups having no protection at all (Zheng, 2009; Mok and Ngok, 2012), so in order to protect those urban residents who had no formal occupation, in 2007, the government implemented an urban pilot scheme intended to protect those working outside the formal economy, flexible employees and urban residents (He, 2012, p. 152). Two types of urban health insurance now existed: the UEBHI for urban employees and the URBMI for all citizens (Chen, 2012, He, 2012, Leung and Xu, 2015). The URBMI was intended to provide cover for basic medical treatment for all residents from health risks (Leung and Xu, 2015).

The URBMI is a low standard-wide coverage scheme (Zheng, 2011; Sun and Dong, 2012; Mok and Ngok, 2012; Leung and Xu, 2015). Although the core arrangement of URBMI is similar to the UEBMI, the URBMI is not mandatory; residents can decide whether or not

to join it. Under regulations issued in 2007, local governments were able to adjust the level of contribution (Zheng, 2011c; Chen, 2012; Mok and Ngok, 2012). Also, the URBMI is a household-based participant scheme that requires each city government to provide at least 40 yuan for each participant (Li, 2012). Furthermore, the central government provides 20 yuan per participant for less developed areas such as Tibet and Xinjiang. Senior citizens, low-income families and disabled people could receive 60 yuan annually as a subsidy to participate in the scheme, but 60 yuan per year per person (equal to £6 per year per person) is not generous. The URBMI was designed mainly to help urban residents cope with major illnesses or in-patient medical services.

In 2010, the government accelerated the expansion of the URBMI to all urban areas (Gu, 2012; Jing, 2013b) and to migrant workers and undergraduate students. Although, the increasing numbers of rural migrant workers arriving in urban areas brought better economic performance, they also created a number of social problems, especially in the area of health. The Hu Jintao government (2002-2012) started to pay more attention to the rights of these rural migrant workers and began to explore solutions by gradually integrating migrant workers into the urban health systems. To stimulate the coverage rate among migrant workers and undergraduates, the government doubled the annual subsidy for participants from 60 yuan to 120 yuan per year per person (Chen, 2012; Li, 2012; Mok and Ngok, 2012; Leung and Xu, 2015). In the central and western provinces, the central government increased the financial support three-fold, from 20 to 60 yuan a year. The URBMI was essentially a complementary program to the UEBHI and was intended to fill the gap between the employed and the non-employed population, and particularly to protect urban residents who had no formal occupation (Mok and Ngok, 2012; Li, 2012).

### **3.1.1.3 Barefoot doctors and the rural cooperative medical scheme (RCMS)**

Rural health problems have a long history and can be traced back to the early part of the twentieth century. During the socialist era, the government had made considerable efforts

to change the situation, chief among which was the decision to send private medical practitioners into rural areas. These people were known as ‘barefoot doctors’ (De *et al.*, 1992; Chan *et al.*, 2008; Zhang and Unschuld, 2008; Nundy, 2014). In the early 1960s, after Chairman Mao had criticized the urban-biased health-care system, the government started to send urban hospital doctors to rural areas and in 1968 the barefoot doctor policy was officially introduced. The barefoot doctors had graduated from secondary school and were given a quick medical training, normally just from three to six months, to meet the health-care demands in rural areas. As a result, rural health coverage expanded rapidly (De *et al.*, 1992; Zhang and Unschuld, 2008).

In fact, barefoot doctors were not a new idea. In 1949, there had been a few barefoot doctors practising in rural areas of China but the lack of sufficient resources meant that only a small proportion of the necessary health services were delivered (De *et al.*, 1992; Zhang and Unschuld, 2008). The government allowed barefoot doctors to use their medical treatment to generate work credits (*gongfen*), which could be used to obtain food and other necessities of life. This arrangement on the one hand motivated the barefoot doctors to focus on serving rural residents by reducing their levels of physical work and, on the other hand, it reduced the government’s expenditure on barefoot doctors. As a result, however, the doctors could only obtain half of the salaries earned by their urban counterparts. Despite the low standard of the rural health infrastructure and facilities, they still effectively reduced costs and provided a convenient service for rural residents (De *et al.*, 1992). They also provided a wide range of health services including immunization, child-birth and improvements in sanitation (Zhang and Unschuld, 2008) but were not authorized to undertake herbal or acupuncture treatment. They were only allowed to prescribe certain western medicines and to carry out simple, low-risk operations (Zhang and Unschuld, 2008; Wong, 2015). Evidence suggests that the barefoot doctor system contributed to modernizing China’s rural health care system with the World Health Organization (WHO) praising the system as an

example of how developing countries could ameliorate rural medical problems (Chen and Wang, 2006; Chan *et al.*, 2008).

Compared with their urban counterparts, the medical services provided by the barefoot doctors were not free of charge for rural citizens (Duckett, 2011) and no social insurance schemes existed for China's rural inhabitants (Nundy, 2014; Wong, 2015). In 1955, a few pilot rural medical schemes were carried out in several rural communes but they did not expand until the outbreak of the Cultural Revolution (Duckett, 2011; Sun and Dong, 2012). Although the Cultural Revolution had severe consequences for the whole country, bringing social chaos and endless political turmoil (Davin, 2013), it had some merits. For example, it was during the decade of the Cultural Revolution that the government started to pay more attention to the needs of rural areas (Duckett, 2011; Kraus, 2012; Davin, 2013; Nundy, 2014).

After barefoot doctors had achieved some success in the rural areas – using relatively small costs covering a considerable population, in the 1960s Chairman Mao and other Chinese leaders sought to further transform the previous urban-biased welfare development strategies and ordered a plan to encourage rural areas to learn from the urban experiences (Duckett, 2011; Chen, 2012; Nundy, 2014). A principal element of this plan was the establishment of the Cooperative Medical System (CMS), which was targeted at the entire rural population. The CMS on the one hand absorbed some good experiences from urban health-care systems and, on the other, also learned from the pilot rural medical schemes referred to above (Chan *et al.*, 2008; Duckett, 2011; Nundy, 2014).

The CMS was a unique pre-payment plan closely related to the rural collective communes, which required peasants to contribute approximately 0.5%-2% of their annual household income (Chen and Wang, 2006; Duckett, 2011; Nundy, 2014) and the rural collective communes, and higher levels of government (normally local governments), to subsidize the

scheme in order to ensure sufficient financing. As a consequence of this scheme, rural citizens obtained fixed health expenses (Chen and Wang, 2006). The CMS was a cost-sharing system that contributed to protecting the rural population by giving them access to basic health-care services (Chan *et al.*, 2008). The payment regulations were set down as follows: “within a commune, those who could not afford the cost were exempted from service fees at brigades’ health stations while others were reimbursed of the costs they incurred. While in some cases, those who can afford the cost made a nominal payment for outpatient services” (Nundy, 2014: 34). The CMS was not a rigid institution but had some flexibility. There were some informal regulations for subsidisation across communes. The CMS reached its peak in the 1970s, when it covered more than 95% of communes (brigades) (Duckett, 2011; 2012).

#### **3.1.1.4 The formal new rural cooperative medical scheme (NRCMS)**

After the open-up reforms, the socialist rural medical care arrangements were withdrawn without any replacement policies or arrangements because the government of the day deeply believed in the ‘trickle-down’ strategies in liberal market economy (Zheng, 2005; Sun and Yang, 2012; also see Chapter One). However, the health-care demands of the rural population continued to increase (Cai *et al.*, 2012). After the Rural Cooperative Medical Scheme was cancelled in the 1980s, owing to the foundation of the system Rural Commune system was bankrupted, there were 800 million Chinese rural residents who were living in a welfare vacuum (He, 2012). This situation led to government attempts to design a new rural medical scheme, with a few pilot programs initially being implemented in some local areas – but because of the unsatisfactory feedback they received, the new rural cooperative medical scheme (NRCMS) was not formally introduced until 2003.

In 2002, the State Council published a decision about enhancing rural health care, requiring all levels of Chinese local government gradually to establish a health-care system designed to cover catastrophic illness (Bai and Wu, 2014). Under the regulations issued in 2002 and

2003, key characteristics of the NRCMS were set down: it was to be a public health insurance scheme designed particularly for the rural population; and it would also be a voluntary scheme that integrated social pooling and personal accounts (Cai *et al.*, 2012; Bai *et al.*, 2014). To enhance the management of the NRCMS, township- or village-based pooling was replaced by county-based pooling and funding was shared by local authorities and individual participants (Sun and Dong, 2012; Ngok, 2013; Bai *et al.*, 2014; Leung and Xu, 2015: 121).

In 2003, the NRCMS was officially introduced. The health department, finance department and agricultural department jointly launched a regulation that detailed the target, principles, management and contribution level of the scheme and the NRCMS became a milestone in China's health-care reform specifically designed to help rural citizens cope with serious diseases (Chen, 2012; He, 2012; Li, 2012; Mok and Ngok, 2012). In 2004, the NRCMS program was rolled out to cover all of China's rural areas and by 2012, 95% of the rural areas were covered (Gu, 2012; Mok and Ngok, 2012). The rural residents who participated in the NRCMS had to contribute at least 10 yuan annually, but under the regulations of the NRCMS, rural citizens in richer areas were required to contribute more than this sum. Rural collective organizations with sufficient capacity had to provide subsidies at specific levels and local governments also had to provide financial support. In 2002, the State Council published a document known as the 'Decision on enhancing rural health-care arrangements' which proposed specific plans for the new health-care system in rural areas. By 2008, all rural areas in China had established NRCMS (Li, 2012; Mok and Ngok, 2012; Wong, 2015).

Some problems still remained in the health-care system. The health insurance schemes (NRCMS, UEBHI and URBMI) remained fragmented; in both rural and urban areas they operated independently and had not become a unified scheme. There were some overlaps in coverage, but, on the other hand, some Chinese citizens such as rural migrant workers still did not have any public insurance to protect their rights to health-care (Chen and Wang,

2006; Li, 2012). Also, the level of social pooling and subsidy levels remained at a low level, and government investment was still insufficient. The social pooling rate was 60-70% in 2010 (He, 2012; Leung and Xu, 2015). In 2009, in order to resolve these problems, China started a new phase of health-care reform by seeking to establish a more comprehensive and systematic medical system that would give every citizen access to the new services. Controlling costs to the individual was one of the most important tasks. The government therefore gradually started to establish the Severe Illness Health Insurance (SIHI) scheme with the intention of establishing a well-organized and comprehensive health system (Zheng, 2011; Gu, 2012; Jing, 2013; Mok and Ngok, 2012). In the following section, more details about the SIHI scheme will be presented.

#### **3.1.1.5 Severe illness health insurance (SIHI): the pilot stage**

By early of 2000s, the government had begun to look for ways of further reducing the health expenses borne by individual households and families (Li, 2001). Many cities, including Beijing and Chengdu, implemented SIHI pilot schemes in 2010 (Mok and Ngok, 2012). To a large extent, those pilot programs were targeted at helping migrant workers to have access to urban health resources (Yang, 2013). The SIHI (see Table 11) was a complementary scheme to the three basic health insurance schemes (UEBHI, URBMI and NCMS). The term ‘severe illness’ is not medical jargon; it refers to diseases which are high-cost, of long-duration and difficult to cure (Yang *et al.*, 2013). In some areas, more specific regulations were established. Participants who had joined NRCMS, UEBHI or URBMI schemes could automatically have access to SIHI. SIHI was not just designed to reduce the health costs for individual households and to integrate the urban and rural health insurance systems, it was also expected to stimulate the development of commercial health insurance schemes. In China, commercial-related insurance was not widely accepted by citizens (Zhou *et al.*, 2014; Lu, 2015).



The new SIHI scheme was managed at city level and did not primarily rely on social pooling and central government subsidies (Lu, 2015; Zhou *et al.*, 2014). It was quite different and used government purchasing services to buy from commercial insurance organizations. In other words, SIHI was a combined government and commercial (private) insurance cooperative scheme. This arrangement showed that the government wanted to ensure financial sustainability and boost the development of commercial health insurance provision. Under this arrangement, the government had to pay management fees to commercial insurance companies, normally 5% annually.

**Table 11 Different types of Chinese health insurance**

Types	Eligible population	Characterics	Standard
UEBHI	All urban employees	Public-Mandatory	Employers 6%; Employees 2% contributions
URBMI	Urban residents without jobs	Public-Voluntary	Average 360 yuan per capita annually, 75% reimbursed, different areas have different levels
NRCMS	Rural residents	Public voluntary	Different areas have different levels
SIHI	Participants in three basic public health insurance schemes	Public-private partnership	Different areas have different levels

*Source:* Burns and Liu (2017)

To satisfy the increasing demand for primary level public services and relieve the pressure on the highest level health services, the government adopted multiple approaches such as investing more in primary health-care systems to improve the health infrastructure (Yip and Hsiao, 2014). The plan also required public health services to establish electronic health

records for each citizen (Yang *et al.*, 2013). In order to improve the primary health-care services, the government is upgrading 2,200 county-level hospitals and rebuilding or strengthening 330,000 community health-care centres, and township-level and even village-level health clinics (Yip and Hsiao, 2014; Zhao, 2015a). To sum up, China has reformed its old health system, and has attempted to integrate health insurance systems with health care. Successive reforms have improved the health care infrastructure and access to services, but it is clear from the number of schemes that have been discussed here that the system remains fragmented not only across urban and rural areas but within those areas as well as among different regions. It is this challenge, above all, that confronted President Xi on his arrival in office in 2013.

### **3.2 Pensions**

The Chinese pension system is one of the most typical cases for people to understand the history and future tendency of Chinese welfare regime. In the Chinese context, social insurance is the most significant pillar (Ringen and Ngok, 2013) and the pension is one of the most crucial components of the Chinese welfare system.

Following a number of reform attempts (1993, 1995, 1997 , 2000 , 2006), the Chinese pension system is divided into three pillars. The first pillar comprises the urban employees' pension system and the urban-rural residents' basic pension system<sup>2</sup>. The second pillar comprises enterprise annuity schemes and occupational annuity schemes and the third pillar refers to commercial elderly insurances plus private savings (Hu, 2012; Peng, 2015; Feng and Chen, 2016). The first-pillar pension systems are mandatory public pension systems which include some specific programs for targeted populations such as civil servants and employees of SOEs and are funded by a combination of a social pool and individual

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<sup>2</sup> Before Xi, there were two residents public pension scheme: urban resident's basic pension scheme and rural resident basic pension scheme respectively. In 2014, both schemes have been merged together.

accounts. The second-pillar pension schemes are a complementary program to the first-pillar schemes. Within the second pillar, two different arrangements exist: the enterprise annuity scheme is mainly voluntary and requires defined contributions whereas the occupational annuity schemes are mandatory and also require defined contributions (Yuan, 2012). But how did this basic system, which will be discussed in detail in Chapter Six. Historically, people's participation in different pension systems has been based on their occupation and their hukou.<sup>3</sup> In 1951, the government established the first modern social security program which was known as the Labour Insurance Scheme (LIS). This was designed to meet the health and pension requirements of employees in the public sector or in work units and these work unit staff's relatives (Seldon and You, 1997; Oskansen, 2010; Alonso *et al.*, 2011). In the following section, the LIS will be discussed in greater detail.

### **3.2.1 The first-pillar pension scheme**

#### **3.2.1.1 The Labour Insurance Scheme (LIS)**

The LIS was a well-organized welfare scheme introduced during the Mao era (Seldon and You, 1997; Feslstein, 1999) to provide a wide range of welfare benefits such as health and pension provision for work-unit employees. In the early stage, the LIS was not only available to SOE and COE employees but also provided protection to private industries that had 100 or more workers (Seldon and You, 1997). Even so, the coverage rate of the LIS was quite small, with eligibility extending to no more than 20% of the total Chinese population (Sun and Dong, 2012). In 1953, the government revised the LIS and expanded the coverage so that the scheme covered workers and staff in capital construction units, the mineral and transportation industries, communication services and some other SOEs (Jin, 2004). The LIS did not require workers or staff to contribute to the scheme but required employers or work units to bear all the responsibility for contributions (Pozen, 2013). The

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<sup>3</sup> The unique household registration system in China, more details see chapter One

revised scheme guaranteed retirement benefits for male workers aged sixty and over who had worked in a work unit for twenty-five years or more and female workers aged fifty-five who had worked for at least 20 years. The pension replacement rate was 50-70% of the wage before retirement (Seldon and You, 1997; Dorfman *et al.*, 2013). The pension scheme was therefore quite generous and was not solely a male breadwinner-biased policy (Felstein, 1999). Details of the cost of this pension scheme are not available but it must have been substantial (Gu, 2001; Zheng, 2011).

The contribution regulation of the LIS was as follows: work units which participated in the LIS contributed 3% of the monthly payroll to the LIS fund. The LIS was jointly managed by the labour unions and the contributing work units (Seldon and You, 1997; Zheng, 2005). Furthermore, 70% of the fund was deposited in the work unit's or labour union's account. This money was intended for unforeseen contingencies affecting workers and for disabled or injured staff (Pozen, 2013). The remaining 30% was deposited in a central government account and was used to fund general labour insurances for all urban workers and employers. By the late 1960s, the LIS had paid approximately 400 million yuan to eligible recipients (Seldon and You, 1997; Felstein, 1999). Although the LIS did not require work units staff make certain contribution, it still displayed strong pay-as-you-go characteristics (Zheng, 2009; Wang *et al.*, 2014a).

The LIS pension benefits expanded greatly over time and, by the beginning of the 1970s, approximately 80% of China's urban employees were covered by this socialist welfare system (Seldon and You, 1997; Guan, 2000; Zheng, 2005). However, the pension replacement rate and other benefit levels were different in different social groups. For example, state work units such as government offices and SOEs enjoyed the highest pension level (approximately 84%-90%) and collective work units or organizations formed the second highest level (approximately 70-80%). Different cadre ranks or administrative levels of individuals were another crucial factor in determining the pension level (Seldon

and You, 1997; Pozen, 2013). Workers who did not have formal contracts were not eligible for pension benefits even though they always undertook the most dangerous and dirtiest jobs (Seldon and You, 1997).

In practice, the LIS had a number of limitations. First, compared with China's total labour force, and despite its expansion over time, only a small proportion of employees were able to obtain formal retirement protection (Oskensa, 2010; Sun and Dong, 2012). Second, the relatively generous level of benefit imposed a huge burden on the government and on SOEs (Gu, 2001; Chan *et al.*, 2008). Also, pension benefits could in certain instances be inherited from parents with the result that the system's sustainability and stability was compromised. Increasing numbers of aging people and a growing labour force eligible for the work-unit welfare system led to increasing financial austerity, which became a significant barrier to the achievement of a comprehensive pension system (Seldon and You, 1997; Felstein, 1999; Gu, 2001).

By 1966, when the Cultural Revolution broke out, the urban work unit pension system was abandoned (Seldon and You, 1997; Alonso *et al.*, 2011; Zheng, 2011). Millions of urban employees and university students were forced to work in rural areas. Because of the Cultural Revolution, the severe problems affecting the urban pension system were hidden because people focused on class conflicts, and only a small proportion of China's population became pensioners at that time (Zheng, 2011). After 1978 and the start of the open-up market reforms, the situation changed dramatically. Responsibility for funding pensions shifted onto enterprises (Seldon and You, 1997; Peng, 2015) and the huge pension burden had a great impact on those SOEs' profit margins. Also, the SOEs had to deal with the challenge from private enterprises and township enterprises. This situation led to many SOE employees beginning to lose their advantage (i.e. support 'from work-unit to grave') (Leung and Xu, 2015; Peng, 2015). To overcome this problem, in 1986, the central government established a social pool to fund the pension system (Wu and Yi, 1998; Zhou,

1992), but failed accurately to estimate the dependency ratio within the pension system, which, far from declining, continued to increase (Hu, 2012). By 1988, the proportion of the population who were eligible to receive a pension had increased more than five times: in 1978, the population of pensioners was 3%, but by 1988 it had become 16.1% (Peng, 2015). This figure confirms that the pay-as-you-go pension design had not adapted to the new demographic context (Selden and You, 1997; Wu and Yi, 1998; Zhou, 1992) – and this failure to adapt triggered the establishment of the urban employees’ basic pension system. In the following section, more details will be provided about this scheme.

### 3.2.1.2 The urban employees’ basic pension system (UEBPS)

The UEBPS is the most important pension scheme in China. It grew out of the LIS and underwent several reforms (see table below). The aim of the scheme was to protect the later life of employees in urban enterprises (Wang, 2014). In 1995, the central government published a Notice about further reforming the pension system for enterprises, but it allowed local governments to choose whether to use social pooling or individual accounts to fund the system. Social pooling was based on a pay-as-you-go format and was financed by employers, whereas individual accounts relied on contributions from both employers and employees (Oskensa, 2010; Alonso *et al.*, 2011; Peng, 2015). This reform was not a success (Feng, 2004) because the government underestimated the cost of the transition from the old to the new system and therefore underestimated the implicit pension debt, despite its conviction that the social pooling fund would absorb these problems (Zhou; 1992).

**Table 12 The Chinese pension reforms**

Time	Key reform strategies	Contribution rate	
1995	Shift from PAYG to Mix model (social pooling + individual account.	Social pooling from work units—4%	Individual account from staff wages—16%

<b>1997</b>	contribution rate adjusted, and UEBPS made the national compulsory pension scheme	Social pooling contribution from employers—17%	Individual accounts contribution from employees wages—11%
<b>2000</b>	Contribution rate further adjusted and attempt made to establish a multi-pillar pension scheme	Social pooling contribution from employers— 20%	Individual account from staff wages—8%
<b>2005</b>	Social pooling account and individual account officially combined	Social pooling contribution from employers— 20%	Individual account from staff wages—8%

*Source:* Wang, Y (2016)

In fact, the deficit of the social pool fund continued to expand and in order to ensure that pensioners could access their benefits on time, local governments had to use the money in the individual accounts to fund the deficit in the social pool. This caused a significant problem known as the ‘empty individual account’ (Lu, 2000; Zhang, 2012). In order to tackle this problem, the government launched various pilot programs in two north-eastern provinces<sup>4</sup> (Beland and Yu, 2004) that were designed to fund empty individual accounts and establish a sustainable pension system to prevent future aging problems.

In 1997, this scheme was reformed into a multi-pillar system (Feng and Chen, 2016). The first pillar of the UEBPS was a compulsory, defined-benefit scheme (Yang, 2013) that required employers to pay 17% of the employee’s wage as a contribution. Employees who had made contributions to the scheme for fifteen years or more were entitled to pension benefits (Zhou, 2000; Feng, 2004). The replacement ratio was determined by the number of contribution years (Li, 2012). The second pillar of the UEBPS was the individual account to which employees had to contribute 11% of their wages. In 2005, the central government decided to improve the basic pension system for enterprise employees.<sup>5</sup> Similar to the

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<sup>4</sup> Jilin and Heilong Jiang provinces, both of which are located in the north-east of China. They are a very important industrial base for China.

<sup>5</sup> The government issued a regulation known as the ‘Decision to Improve the basic pension system for enterprise

previous reform, the new reform was intended to combine the social pool with individual accounts (Oskensa, 2010; Alonso *et al.*, 2011; Peng, 2015). Under the new regulations, all urban enterprise workers, the self-employed and people with flexible employment had an obligation to participate in the UEBPS. It should be noted that all groups of people were eligible to receive benefits if they had contributed to their account for at least fifteen years before they retired (Zheng *et al.*, 2009).

Beyond the UEBPS, after the LIS was abolished, there is another essential public pension scheme worthy of attention – the work units pension scheme (WUPS). The WUPS was established in 1953 and is the most generous public pension system of the current Chinese pension schemes (Feng and Chen, 2016). The average replacement rate of the WUPS is 80-90%. It was intended to protect civil servants and other public-sector employees (Alonso *et al.*, 2011; Chen, 2012). In 1991, the urban employees' pension system started to be reformed; financial responsibility now had to be shared between the government, enterprises and employees. It was also designed to establish a provincial unified social pooling pension system protecting all types of enterprises and workers. In the following year, the government introduced individual accounts into several pilot pension systems (Selden and You, 1997; Alonso *et al.*, 2011). Based on the outcome of some of these pilot programs, the government eventually decided, in 2005, to adopt a pension system which combined social pooling and individual accounts (Chen, 2012; Li, 2012). After 2013, the WUPS was gradually merged into the UEBPS (State Council, 2015; 2016). However, the WUPS remains an important institutions at the center of the Chinese pension reform debate because its contribution and compensation standards illustrate the 'identity-related' nature of the Chinese welfare system. In other words, people's hukou and work unit status significantly determine the standard of social protection they enjoy. In many people's

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employees in 2005'.



minds the work unit welfare system is full of inequalities – and this issue will be explored in more detail in Chapter Six).

### **3.2.1.3 The urban-rural basic pension system (the previous new rural residents' pension scheme combined with the urban residents' basic pension scheme)**

Before the Hu Jintao era, two pension schemes targeted rural and urban *residents* (as opposed to employees): the new rural residents' pension scheme (NRRPS) and the urban residents' basic pension scheme (URBPS) respectively. These two schemes were inspired by the UEBPS, however they were not mandatory schemes. Traditionally, China's rural citizens had no state pension entitlement and had to rely entirely on their families and their land. This situation did not change until the open-up era began in 1978. In order to support the process of urbanization and economic development, many rural residents lost their land and large numbers of young rural residents moved to urban areas to seek more challenging but well-paid jobs. As a consequence, on the one hand, in the urban areas, with increasing numbers of migrant workers arriving, social problems became quite severe, and, on the other hand, many rural areas were now confronted with an unprecedented aging (and therefore pension) problem (Cai *et al.*, 2012). At the same time, with the processes of urbanization and marketization, the traditional Confucian family ties became weakened. Furthermore, with the rural communes facing significant financial difficulties, there was no specific program to ensure support for rural citizens in later life (Pozen, 2013). All these reasons meant that a new program was required to protect the rights of rural citizens, so in the late 1990s and early 2000s, the government implemented some pilot pension programs in selected prosperous areas. However, because these pilot programs required rural residents make contributions for only small pension returns in their later life, only a limited number of rural citizens joined them (Dourfman *et al.*, 2013).

In 2009, the NRRPS was established to protect the whole rural population. Its aim was to guarantee the basic livelihood of elderly citizens in rural areas. The central government's

plan was to cover 10% of the rural population in 2009 and then expand the NRRPS programs to all rural areas by 2020 (Hu, 2012; Leung and Xu, 2015; Peng, 2015). Rural residents aged sixteen and over who had not participated in the UEBPS were now required to join the NRRPS. Interestingly, however, students were not allowed to join. There were three ways to fund the NRRPS: individual contributions, government subsidy and collective assistance. The scheme combined the social pool with individual accounts (Frazier, 2010; Li and Li, 2003) but, in reality, relied heavily on personal contributions and government subsidies. One of five contribution levels had to be selected by rural citizens: 100 yuan, 200 yuan, 300 yuan, 400 yuan and 500 yuan per year (Hu, 2012; Cai *et al.*, 2012; Peng, 2015). The local authorities were able to adjust these contribution levels in accordance with local economic conditions. Generally though, rural citizens aged 60 and over could expect to receive a monthly basic pension from the social pool and from government subsidies, and this pension could be topped up with money from their individual accounts (Alonso *et al.*, 2011). Initially, the benefit level of the basic pension was 55 yuan per person per month<sup>6</sup> with individual account benefits being additional to this sum.

Similar to the new rural cooperative pension program, in 2011, the government established the URBPS to protect urban residents' later life. The URBPS provided monthly benefits for citizens aged 60 and over.<sup>7</sup> The compensation level was 55 yuan per month, but this was decided by the government funding and could improve variously depending on other local conditions (Leung and Xu, 2015). It may be suggested that the URBPS learned from the NRRPS's experience (Leung and Xu, 2015; Peng, 2015) because the former also adopted the combination of social pooling and individual accounts, and relied heavily on individual contributions and government funding support. The social pooling account

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<sup>6</sup> Approximately £5.50 per month.

<sup>7</sup> As with the new rural cooperative pension system, the elderly people's monthly benefits come from the basic pension and their individual account.

inherited from the LIS retained the PAYG characteristics and individual account strategy, which mirrors the funding mechanism of employees and employers' contributions (Feng and Chen, 2016). The government believed that this arrangement would be a good means of dealing with substantial burden of population aging in China (Wang, 2014). This arrangement would, on the one hand, ensure financial sustainability and, on the other hand, satisfy increasing social needs through the combination of social pooling and individual accounts (Zhang, 2008a). To improve the management structure, the central government established a lifelong record for each insured individual account. There were ten different contribution levels to individual accounts per year: 100, 200, 300<sup>8</sup> and so on up to 1000 yuan. Each person had to select a contribution level for his/her individual account (Zhang, 2012; Feng and Chen, 2016). Similar to other pension programs, local governments were able to set contribution levels according to local conditions.

Because the two schemes were very similar, especially in relation to the funding sources and their management, in 2014 the government attempted to merge them into one program, the Urban-Rural Residents' Basic Pension (URRBPS) system (Peng, 2015). This merged system was intended to eliminate the welfare gap between rural and urban citizens and achieve full coverage nationwide (Leung and Xu, 2015; Peng, 2015; Feng and Chen, 2016). In the following section the second-pillar pension scheme will be discussed.

### **3.2.2 The second-pillar pension schemes: enterprise annuity and occupational annuity schemes**

Currently, the second pension pillar consists of two programs, enterprise annuities and occupational annuities (Li, 2009; Yuan, 2012) both of which are based on defined contributions and are fully funded (Yuan, 2012; Zhang, 2014). The enterprise annuity program was designed for employees of enterprises and the occupational annuity was for

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<sup>8</sup> There are ten levels of contribution standards, which range from 100 to 1000 yuan per year.

civil servants and public sector employees. These two programs are treated as supplements to the first-pillar pension systems (Zhi, 2004).

The enterprise annuity was first introduced in the 1990s as a pilot program and was formally implemented in the middle of 2004 (Yuan, 2012). A few pre-conditions had to be satisfied before a particular enterprise could set up annuities for its employees. For instance, the enterprise should already be participating in the UEBPS with no contribution gaps and must be in good financial standing (He and Zheng, 2017). An enterprise annuity requires each participant to have an individual account that is contributed to by both employees and employers. It should be noted that contributions to an enterprise annuity are up to a maximum of one sixth of the total payroll for the previous year and with an employee contribution of no more than one-twentieth of that amount (OECD, 2010; Peng, 2015). Under the Enterprise Annuity Fund Management Regulation Act of 2011, an enterprise annuity fund operates under a trust governance structure that comprises five key actors: principal, trustee, account managers, investment managers and custodians (Li, 2007; Sun, and Dong, 2012). It should be noted that personal income tax can be exempted in the phases of contribution and investment but is levied in the phase of receiving pension benefits after retirement. Also, according to current tax laws (Autumn 2017), only less than 4% of the tax base of an individual contributory wage can temporarily be deducted from the taxable income.

The occupational annuity scheme is a later addition to the pensions mix and was initially set up for employees in the public sector. It was first introduced in China in 2011 and was intended to be the preparatory stage for wider reform of the public pension system. Occupational annuities were subsequently expanded to include civil servants. Both the work unit and employees have a responsibility to contribute; work units have to contribute 8% of the total contributory wage and employees contribute 4% of the individual

contributory wage. The principal institutional design was the same as the enterprise annuity scheme described above (Yuan, 2012; Peng, 2015).

### **3.2.3 The third pension pillar: commercial insurance and private savings**

As is the case in many other countries, in China, private savings and all kinds of commercial pension insurances are regarded as the third pillar of the pension system. Private savings play a significant role in Chinese people's lives (Cai *et al.*, 2012; Peng, 2015). The more private savings an individual has, the better the retirement life that that person can enjoy. However, in the past few decades, even after China embraced the market economy, commercial pension schemes failed to attract enough investors and compared with some commercial pension arrangements in other countries, Chinese people prefer to choose private cash savings to improve the quality of their life after retirement. In addition, as Lu and Piggott (2015) point out, Chinese commercial pension schemes are unregulated, which is another reason why they did not gain people's trust. The high private saving rate with low commercial endowment participation rate indicated that Chinese people feel insecure about their later life.

### **3.2.4 The major problems of the Chinese pension system**

Before President Xi came to the office, the Chinese pension system was faced with several problems: first, the coverage rate still needed to be extended in the near future (Pozen, 2013; Peng, 2015) and compared with urban areas, more effort has to be made in rural areas. Also, the pension systems are not comprehensive and there is a long way to go to achieve full coverage (Cai *et al.*, 2012; Dourfman, 2013). Second, the equity problem of the pension system still remained; different sectors of the population have access to different pension schemes, some of which are better than others (Alonso *et al.*, 2011; Wang *et al.*, 2014a). Additionally, the dual-track economy arrangement maintains the gap between rural and urban areas and those who live in prosperous regions have more generous pension benefits

than those in remote areas (Feng and Chen, 2016). Third, the performance of pension fund investments still needs to be improved (Pai, 2006; Peng, 2015). Under current Chinese law, public pension funds are invested in government bonds and bank deposits with regulated interest rates. Even so, it is not easy for the government to sustain the value of the funds, particularly because fund values are regularly devalued by high inflation rates. As a consequence, low rates of return lead to low replacement rates. There is dilemma here: on the one hand, the government is keen to find an appropriate approach to increasing the value of the funds, and on the other, it is unlikely to put all the fund into the financial market, which will be a huge risks. Alternatively, it is unlikely to put all the fund into the bank account to prevent the devaluation of pension funds. Where investments are concerned, it is always the case that the more potential there is for profit from an investment opportunity, the more risks there are likely to be and, in a situation where the government struggles to improve the performance of pension fund investments because of the relatively immature state of the financial market, enhancing the value of the funds is a significant challenge. Finally, it is also clear that the underdevelopment of commercial pension schemes poses another problem for China's pension system (Wang *et al.*, 2014 b).

### **3.3 Poverty Reduction Policies**

Since the PRC was founded, China has introduced a number of poverty alleviation schemes such as '87 plan', 'three west' and 'fupin kaifa' for the rural population (Lu and Huang, 2016) and social assistance schemes such as Dibao for both the urban and rural populations (Han, 2015; Liu and Han, 2016). The '87' plan was launched in the 1990s and was targeted at the 80-million strong 'poverty population' over a seven year period (Zhang, 2007), while the 'three west' plan only targeted three western remote zones known as hexi, haixi and guxi (Lu and Huang, 2016). The 'fupin kaifa' is a poverty reduction scheme targeted at the rural poor only. Unfortunately, the poverty reduction funds allocated to these plans were not used appropriately and as a result these policies were only implemented in selected

areas, and consequently did not reduce poverty for many who were really in need. This section will concentrate on the development of social assistance schemes in the pre-Xi era in order to provide proper historical context for an area that has become a core focus of social policy under Xi.

Poverty reduction in China is one of the most significant areas of social policy. Both the Chinese government and many international organizations have praised the achievements of Chinese poverty reduction strategies over the past few decades. China's poverty reduction performance has relied not only on the success of developments in Chinese social policy but also on Chinese economic policy. According to He (2017), China's sustainable economic development is one of the key reasons why the majority of the Chinese population have moved away from the poverty trap.

China is a populous country with a massive land mass. Regional inequalities and institutional barriers such as 'hukou' system hinder the efforts of many remote areas to reduce high levels of poverty. Since 1978, China has made extensive progress in poverty alleviation mainly because of rapid economic development at the macro-level that has enabled poverty alleviation programs particularly in rural areas at the meso-level strategy, while also facilitating social assistance programs such as 'dibao' at the micro-level. Social assistance in China is widely accepted as a crucial welfare pillar in serving China's economic reforms and maintaining social stability, especially by providing basic protection for the unemployed and for laid-off employees (Zheng, 2002; 2005). Social assistance programs in China initially targeted urban poverty and subsequently developed into a national social-protection network. By the 1980s, China had achieved remarkable levels of economic growth but had also changed from being an essentially egalitarian society into one with high levels of inequality. Poverty and income inequality became the most severe problems, and with a view to protecting the most vulnerable sections of the population, various social assistance programs such as the Minimum Living Standard Guarantee

System (*dibao*) and the Five Guarantees program (*wubao*) were introduced. After a few decades of development, these programs continue to play a crucial role in today's welfare system (Zheng, 2009; Wang, 2013).

The *dibao* program is more important than other social assistance programs (Li, 2012; Gao, 2017) because it provides a basic safety net in both urban and rural areas (Zheng, 2009). This program is a means-tested scheme that provides cash support to low-income households. The level of support is set to ensure that this part of the population can live at least at subsistence level; the word *dibao* in Chinese means 'the minimum living protection' (Tang, 2005; Zhang and Tang, 2006). The system was the first formal national social welfare program (Zheng, 2005; Li, 2012) and was first introduced in Shanghai in 1993. It was designed to address the rising urban unemployment problem created by the open-up market reform. The central government regards this program as one of its most significant welfare achievements because *dibao* has contributed to lifting 500 million Chinese citizens above the poverty line (Li, 2012; Gao *et al.*, 2013; Wang, 2013).

### **3.3.1 The development of the *dibao* scheme**

During the Mao era, the government sought to protect people's basic rights by establishing social relief programs (Leung, 1999) that only provided cash or other in-kind benefits to childless senior citizens, disabled people (veterans) and 'three nos' people (no relatives, no job and no capability) (Leung, 1999). Those who were employed in urban work units and their families were excluded from this scheme. This socialist welfare arrangement did not fully consider all possible groups of people who might need social assistance (Seldon and You, 1997: 1660; Sun and Dong, 2012) so the programs were quite immature (Zheng, 2009). The situation changed, however, following further marketization reforms – although these social relief schemes failed to help the increasing numbers of urban residents who fell into poverty.



Rising levels of urban poverty were caused by many factors. First, the process of reforming SOEs led to many workers becoming unemployed. In early 1980s, the Deng Xiaoping government introduced the contract system, which destroyed the Maoist policy of permanent employment (see Chapter One). Second, the poor economic performance of most SOEs affected the employed population. For instance, many enterprises could not afford to pay the pension contributions and wages for their employees and retirees (Leung, 2003; Leung and Xu, 2015). Also, the market reforms stimulated an increasing proportion of the urban labour force to move from the public sector to the non-public sector, but there were no social protection programs to prevent such people from falling into poverty. Furthermore, as the process of market reform deepened, many social services were reformed – with urban households having to bear more of the costs of these services. The most typical example was health reform, which changed a low-cost health-care system into an expensive one.

Urban poverty therefore started to attract the attention of the policy makers (Leung, 2003; 2006; Zheng, 2002). In order to set up a wider social safety net, in 1993 the government reconstructed its previous social assistance programs and piloted the first new social assistance scheme in Shanghai (Leung, 2003; Solinger and Hu, 2012). This new social assistance program was known as the minimum living standard guarantee system (*dibao*) and it not only provided help to disabled veterans and three-nos people, but also to the unemployed and pensioners with low incomes (Leung, 2003: 83). The level of *dibao* varied in different areas (World Bank, 2011); for instance, the level in richer areas was more generous than in poorer hinterland areas for the reasons suggested below. It should be noted that the eligible population was not consistent across the country and that different provinces, cities and towns had different regulations according to their financial capabilities.

In many cities, the *dibao* program served as a specific social assistance scheme targeting the three population groups mentioned above. To ensure the effectiveness of the program,

both local governments and enterprises were required to provide funding to support the scheme, but this led to the program strongly relying on the financial capability of both these bodies (Leung and Xu, 2015). As a result, prosperous regions have a higher standard than relatively underdeveloped regions, which led to regional inequality concerning the *dibao* standard (World Bank, 2011). To solve this problem, in 1999 the central government issued a regulation to guarantee the *dibao* for urban residents and this helped to unify the basic structure of the program (Leung, 2003; Solinger, 2008). It also expanded the eligible population to all the households whose income was lower than the national regulated poverty line. Unfortunately, after the tax sharing reform<sup>9</sup>, the central government is in charge of policy design but collected 70% of taxation revenue, while the central government left majority of responsibilities to local governments (Wong, 2001). Moreover, local government were get into an economic development competition (see Chapter One), hence, local governments preferred to use the limited government budget for economic development rather than for social assistance expenditure (He, 2012; Chen, 2012). What make matters worse, central government would only provide support to those local governments that were experiencing financial difficulties, which usually referred to the very remote areas located in Xinjiang, Tibet, Ningxia and Gangsu. While this approach was certainly not perfect, it has constrained local governments to develop their *dibao* programs (Gao, 2017). Because the principal responsibility still fell on the local governments, in the initial stages, many local authorities put little effort into the programs. But local government still have to set up *dibao* programs to protect those who stay in low income group.

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<sup>9</sup> The 1994 Tax Sharing Reform was an important event that marked the first attempt to put intergovernmental fiscal relations on an objective basis, but the process is far from complete. Many steps remain in clarifying and separating central and local responsibilities, and the central government's slowness in putting resources into an equalization transfer scheme has reinforced local suspicions about the firmness of central government commitment toward building healthy local finances (Wong, 2000:3).

To change the situation, the central government allocated 400 million yuan to encourage them to establish and enhance their own *dibao* programs (Zheng, 2002). The central government also promised that local governments would receive central cash transfers until their *dibao* fund reached 50% of the total fund (Leung, 2006; Solinger and Hu, 2012). It should be noted that the central government concentrated this support on underdeveloped provinces such as Tibet and Xinjiang. As promised, the central transfer increased dramatically, from 400 million in 1999 to 2.3 billion yuan in 2001 (MCA, 2003). The coverage also increased dramatically (Leung, 2006).

Turning to the rural areas, when the open-up reform started in 1980s, the capacity of local governments to support rural welfare services was weakened because previously well-organized rural communes had been gradually abolished (Tang, 2005; Han and Liu, 2008). By the early 2000s, this situation had become worse. To concentrate political power, the central government introduced a tax-sharing system that local governments have to hand in majority of their local revenue. According to Leung (2006), this tax-sharing reform led to rural areas having insufficient fees and financial support. During that period, the rural five-guarantees *wubao* system was almost abolished. In order to resolve this, pilot *dibao* programs were implemented in some richer rural areas but, because of the constraints of the local financial capability, these pilot programs could only cover the extremely poor rural households and the compensation level of the rural *dibao* was extremely low. So, the *dibao* scheme only provided relatively low-level protection, especially in rural areas (World Bank, 2011; Mok and Ngok, 2012: 93). In Guangzhou city, for example, even though the city government increased the level of *dibao* sixfold so that every eligible person could receive 365 yuan per month in 2008, compared with the average annual income of citizens in Guangzhou, the level of the *dibao* was still less than one fifth of annual income per capita (Mok and Ngok, 2012: 93). According to Gu and Gao (2007), people who were covered by the *dibao* were still living in absolute poverty.

This caused a dilemma: on the one hand, the vulnerable population in those areas relied heavily on these welfare programs but, on the other, insufficient financial support was making the welfare programs stagnate. So the local authorities where this was happening implemented some short-term, temporary social-assistance programs as supplements to the rural *dibao* (Xu and Zhang, 2010; Leung and Xiao, 2015). It should be noted that those benefits only provided limited help for emergency needs (Leung and Xiao, 2015). This situation did not change very much until 2007.

In 2007, the central government officially implemented the *dibao* program in rural areas after issuing an administrative regulation, the ‘Notice of establishing the *dibao* system in rural areas’, which required all levels of local government to put the development of the rural *dibao* scheme on their agendas. The MCA and the Ministry of Finance also issued a regulation<sup>10</sup> designed to enhance the management and improve the financial capabilities in all rural areas (Leung and Xu, 2015; Leung and Xiao, 2015). These two regulations showed that the central government was seeking to help those rural citizens who were living below the local lowest standard of living.<sup>11</sup> In addition, the central government concentrated more on the western and central provinces, which were relatively poorer, by increasing the cover to more than 60% of the total expenditure. Since then, the rural *dibao* recipient population has grown dramatically from 36 million in 2007 to 54 million in 2013. In 2015, the rural *dibao* coverage declined slightly to 49.7 million recipients. After a few years of development, the rural *dibao* compensation level had increased nearly three times from 70 Chinese yuan per person in 2008 to 203 yuan in 2013.

### **Table 13 Statistics of the rural *dibao* program**

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<sup>10</sup> Notice on Strengthening the Use and Management of *Dibao* funds in rural areas, 2007.

<sup>11</sup> There are various way to count the local lowest standard of living: some of them use \*\*\*

Year	Recipient population (in millions)	Total expenditures (In billions yuan)	Central Allocation (%)	Average assistance standard	Average payment provided
2001	3.0	N/A	N/A	N/A	N/A
2002	4.1	N/A	N/A	N/A	N/A
2003	3.7	N/A	N/A	N/A	N/A
2004	4.9	N/A	N/A	N/A	N/A
2005	8.3	N/A	N/A	N/A	N/A
2006	15.9	N/A	N/A	N/A	N/A
2007	35.7	10.0	N/A	N/A	N/A
2008	43.6	22.9	N/A	70	53
2009	47.6	36.3	70	82	68
2010	52.1	44.5	60	101	74
2011	53.1	66.8	75	117	106
2012	53.5	71.8	60	143	104
2013	53.8	84.2	N/A	203	111

*Source:* Ministry of Civil Affairs (2013)

### 3.4 Conclusion

This chapter has described in detail the principal characteristics of the three main areas of Chinese social policies chosen for this thesis and briefly discussed the achievements made in the pre-Xi period. Some of the most debatable weak points within each policy have been considered. Each of these policies has undergone a great transformation within the past few years. In relation to pensions, China has addressed the aging society within the past few decades. The pension system is crucial for protecting Chinese people's later life. It can be seen that the central government has combined social pooling with individual accounts to fund pensions. However, the relatively low coverage rate, insufficient funding and underdeveloped commercial insurance schemes are the main barriers to China's pension system being able to achieve better performance. Health policies are a more complicated issue. Three health insurance schemes have already achieved almost full coverage, but

inequality, poor accessibility and relatively weak affordability continue to be a huge burden for Chinese people. In terms of social security, the Minimum Living Standard Protection Scheme (*dibao*) might be the most effective social policy introduced by the Chinese government in the past few years. It has contributed to pulling 500 million Chinese people above the poverty line. However, low benefit levels, poor management and corruption are threatening the performance of this policy. It is therefore necessary to explore these three key welfare areas in China in greater depth.

## **CHAPTER FOUR: RESEARCH DESIGN**

This chapter presents the outline of the research design and field-work for this research study. It will start with the theoretical framework, which is the foundation of the study. The key research questions will then be set out and the theoretical positions such as issues of ontology and epistemology discussed. There will also be a discussion of some paradigm issues such as positivist and constructivist which will explain the worldview of this study. Following this, the chosen research methods will be presented and justified. A qualitative research methodology was chosen and qualitative interviewing of key elite personnel adopted as the main research method. In order to establish research triangulation, other methods, document analysis and a small amount of quantitative secondary data were also used. After introducing the research methods used in the study, the strategies for carrying out the data analysis will then be discussed. At the end of this chapter, the potential limitations of the study and the ethical issues involved in the research will be considered.

### **4.1 Research questions**

#### **4.1.1 General research questions**

This study was designed to address the following key questions:

1. What is the nature of China's current welfare system?
2. To what extent does the case of China as an informal security regime capture the nature of the country's current welfare system?

The first general research question shows that this research will focus on China's current state of welfare development. This study focuses on the welfare construction efforts made during President Xi Jinping's first term in office. The Xi Jinping-Li Keqiang government has proposed many new terms to describe China's current development situation. For instance, the government uses the phrase 'China's new normal' to describe the country's new economic growth rate – from a high level (at least 8% per year) to a medium-high level (lower than 8% but higher than 6.5 % per year). The term is also widely used by Chinese scholars in many social policy areas (Xi, 2013; Wang, 2015), but few researchers have explored the implications of China's new normal for the development of social welfare in

China. From the social policy perspective, it is necessary to assess the implications of the ‘new normal’ for the country’s welfare system.

Another term frequently used in Xi’s government’s report is the ‘Chinese dream’. According to Xi Jinping (2013), the Chinese dream refers to a prosperous, strong, democratic, culturally advanced and harmonious nation. President Xi also emphasized that China should use social policies as the foundation for achieving further development (Xi, 2013). From this definition, it appears that that Xi is paying unprecedented attention to developing China’s social policy, especially the welfare system. It should be remembered that the previous president Hu Jintao was widely praised for his social policy-based strategies (Li, 2012; Ngok, 2013; 2015). There is a considerable literature that focuses on Hu’s social policies, but, to date, much less attention has been given to President Xi Jinping’s welfare construction strategies. It is therefore both appropriate and necessary to carry out empirical research designed to discover what is currently happening in Chinese social policy. In order to undertake the field-work for this current study, there are some more specific research sub-questions and these will be set out in section 4.1.2.

The second general question is related to the first and is intended to explore the links between the Chinese case and existing welfare regime theories, especially the theory proposed by Ian Gough (Gough *et al.*, 2004; Wood and Gough, 2006; Sharkh and Gough, 2010; Gough, 2013; Wood, 2015). As discussed in Chapter Two, Gough *et al.* (2004) combined Esping-Andersen’s (1990) classic work and Ian Holliday’s (2000) heuristic work to propose a global comparative welfare regime framework. Unlike other welfare regime theories that focus only on the OECD countries, Gough *et al.*’s framework is particularly relevant to the developing economies in the global south. Of particular interest is the extent to which China can continue to be characterized as an ISR, or whether there is now reason to argue that the country’s recent attention to social policy reform has pushed China closer to the welfare arrangements enjoyed by the more developed economies in the global north and west.

As discussed in Chapter Two, according to Gough *et al.* (2004) China can be classified as an ISR. In a more recent article (2013), Gough proposed that China should now be classified as a ‘successful informal security regime’, but there is evidence to suggest that Gough did not use the most appropriate indicators to measure China’s development. For Gough *et al.* (2004), health, education and disability were the main variables used to carry



out a cluster analysis. Other researchers, however, such as Leung and Xu (2015), have suggested that health, pensions and income protection schemes are more important in China than Gough *et al.*'s three selected areas. Indisputably, health policy is the most important area in China's current welfare system, and the Chinese government has regarded reforming the health-care system as a key priority since 2009. Pensions are also another crucial area that should be considered for a number of reasons. First, after reviewing the history of welfare state development, it is clear that pension provision is a fundamental foundation of any welfare state (Garland, 2016). Second, China has become an aging society, so it is necessary to examine policies related to care for the elderly, especially pension provision. Furthermore, the government currently regards health, pensions and poverty reduction as the most crucial tasks. So, compared with pension policy, education policy is less important in the current stage of China's welfare development. Disability policy is important but is not the most crucial area in China's case not least because this policy area is not involved with the overwhelming bulk of the Chinese population. While disability issues are of course important they are nevertheless not as significant as those policy areas that affect the majority of citizens. On this logic, creating an effective social assistance scheme in China is regarded as more important for the following reasons: first, China's economy has undergone a downturn, which means that more people will face the possibility of income reduction and unemployment, so social assistance programs in China are required to act as a basic social safety net for the Chinese people. Second, because China's welfare system is still immature (Ngok *et al.*, 2011; Zheng, 2011b; Sun and Dong, 2012), social assistance programs have for a long time functioned as one of the country's most crucial welfare pillars. In recent years, the government has not ignored the role which social assistance programs play. On the contrary, all levels of Chinese government have attempted to extend and improve these programs. More important, the President Xi claimed that China will eliminate all poverty by the end of 2020. All levels of Chinese government- either central or local governments- are devoted huge social resources to fulfil the president's mandate. As a result, it is entirely appropriate that social assistance related poverty reduction policies in China should be selected as one of the three areas for this research study.

Additionally, Gough *et al.* (2004) themselves admitted that their research had limitations in the case of China. There is no doubt that their research is comprehensive, but Gough *et al.* tend to over-simplify the current position of China's welfare system. Also, their data are now rather dated. All of the data used by Gough *et al.* were gathered between 2000 to 2008,

so, given the extent of social policy change in China over the past decade, it is important to use more recent empirical evidence in order to be able to judge the extent of China's welfare progress. Criticism of Gough *et al.*'s work still continues, but despite its potential weaknesses the idea of an ISR may well remain conceptually one of the best ways of understanding China's current welfare arrangements. Their theory also acts as an important model of welfare against which to judge whether new policy developments in China during Xi's first term are moving the country towards a more comprehensive welfare state. The intention of this current study is to check where China is now and how the Chinese welfare system is developing. In the next section, specific research sub-questions will be set out which will help to guide the empirical field-work in this current study.

#### **4.1.2 Specific research questions**

Two general research questions were set out and discussed in section 4.1.1. In this section, more specific research questions will be presented. The first general research question generated the following sub-questions:

- A) What factors drive China's welfare development?
- B) What are the welfare aims of the current Chinese government?
- C) What are the key welfare achievements of the current Chinese government?
- D) What are the key challenges facing the current Chinese government's desire to achieve its welfare aims?
- E) What are the strategies for the Chinese government to deal with these challenges?

The second general research question also generated further sub-questions:

- A) Does China continue to retain the main features of an ISR cluster? If yes, to what extent? If not, why not?
- B) Does the empirical evidence suggest that China is effectively going its own way in welfare development? Or does an alternative categorization of the Chinese case capture the nature of its social policy change?

## **4.2 Philosophical assumptions**

In this section, I shall consider the philosophical assumption ‘What constitutes knowledge claims?’ (Creswell, 2012; 2013). This philosophical assumption is also known as the worldview or as a social paradigm (Kuhn, 1970). From some scholars’ perspective, it is the one of the most crucial parts of a theoretical framework (Gilbert, 2008). There are three sorts of paradigm in this context: (post-)positivism, constructivism/interpretivism and pragmatism (Creswell, 2012; Teddlie and Tashakkori, 2009; Thomas, 2009). These technical terms have been used to describe the approaches which we use to think about research findings and about the world (Thomas, 2009; 2013: 105). Before discussing these three paradigms, there are two theoretical constructs which need to be considered first: ontology and epistemology. These will be discussed in the following sections and more details about paradigms and theoretical positions will be identified.

### **4.2.1 Theoretical positions and paradigms**

#### **4.2.1.1. Theoretical positions**

*Ontological consideration:* Ontology is the consideration of the question of what we are looking at (Thomas, 2009; 2013: 119). It is primarily concerned with the nature of social entities such as institutions. The core idea of such consideration, according to Bryman (2016: 28) is “whether social entities can and should be considered as objective entities that have a reality external to social actors, or whether they can and should consider social constructions built up from the perceptions and actions of social actors”. In short, then, ontologists’ main consideration is to ask questions such as ‘What is existence?’ and ‘What are physical objects?’ These two questions refer to two theoretical positions: objectivism and subjectivism/constructionism respectively. Objectivism asserts that social phenomena and their meanings have an existence that is independent of social actors (Bryman, 2015). It also implies that social phenomena and the categories that we use in daily discourse have an existence that is independent of, or separate from, social actors (Bryman, 2004: 29). This particular theoretical position suggests that social phenomena are beyond our reach or influence (Bryman, 2008; Thomas, 2013). At the opposite ontological extreme different is constructionism, also known as constructivism. This position claims that social phenomena and their various meanings are being continually achieved or ‘accomplished’ by social actors (Bryman, 2012: 29). A key insight is that social phenomena are constructed through

language and communication, rather than having an independent existence (Robson and McCartan, 2016). In other words, constructivists claim that meaning is constantly being made and remade through social interaction (Bryman, 2015; Robson and McCartan, 2016). The constructionists consider that the insights or 'results' of social research cannot be regarded as definitive because they can only ever offer a specific interpretation of social reality. From the constructivist standpoint, therefore, knowledge is indeterminate.

Epistemological considerations refer to the question of what is (or should be) regarded as acceptable knowledge in a discipline (Bryman, 2015). There are two antithetical positions in epistemology, positivism and interpretivism. Positivists stress that social science should imitate the principles, the procedures and the ethos of the natural sciences (De Vaus, 2001; Creswell, 2013a). To be more specific, the positivist position is that objective knowledge or facts can be obtained from direct experience or observation, and that this is the only way that reliable knowledge can be obtained; invisible or theoretical entities are rejected (Thomas, 2013; Robson and McCartan, 2016). A positivist viewpoint requires researchers to be independent and objective when undertaking research; personal values should play no part in their work. The belief is that restrictive rules and procedures are the only way to conduct reliable science and that it is fundamentally different from common sense (Thomas, 2013; Bryman, 2015). All scientific propositions should be based on facts, and hypotheses are used to test these facts (Thomas, 2009). The purpose of science is to explore the relationship between different actors or phenomena (Creswell, 2013a). Interpretivism, on the other hand, is closely related to constructivism and is diametrically opposite to positivism. The interpretivist view is that social science has obvious differences from natural sciences so social researchers should seek to understand the subjective meaning of social action. In other words, interpretivists argue that social scientists are participants in social phenomena and cannot separate themselves from social life (Denzin and Lincoln, 2011; Creswell, 2012). In the following section, the strategies of inquiry will be introduced.

#### **4.2.1.2 Strategies of inquiry**

This section is about strategies of inquiry. There are three different data collection approaches in the social sciences; quantitative, qualitative and mixed research methods. In traditional debate, the quantitative approach stands opposite to qualitative research (Teddlie and Tashakkori, 2009; Creswell, 2015). As social science research has developed, however, there has been an increasing tendency to blend these two research techniques (Teddlie and

Tashakkori, 2003). In other words, there is a view that purely quantitative or qualitative research on its own cannot fully enable researchers to understand the complexity of the world (Thomas, 2013; Robson and McCartan, 2016). In this section, these three data collection approaches will be introduced and assessed.

In terms of quantitative research, this type of research was for a long time the dominant research method (Benjamin, 2012). Those who choose to carry out quantitative research take the essentially positivist view that only restrictive procedures and rules can generate true knowledge. Quantitative researchers use statistical tools to measure the relationships between different actors (variables). There are two general strategies used for undertaking quantitative research: experiment and survey (Creswell, 2003; De Vaus, 2014). According to Creswell (2013), experiments comprise true experiments and quasi-experiments. Survey techniques, as De Vaus (2014) stated, include questionnaire, (un)structured interview and observation for conducting cross-sectional and longitudinal research. Qualitative research, conversely, is the use of strategies that avoid the weak points of quantitative research (Denzin and Lincoln, 2011; Creswell, 2015). For example, it is claimed that quantitative research, by virtue of the need to reduce complex social issues to measurable units of analysis, risks simplifying social reality (Teddlie and Tashakkori, 2009; Thomas, 2013). There are a number of qualitative research strategies: ethnography, grounded theory, case studies, phenomenological research and narrative research.

The idea of mixed-method research has become increasingly popular in recent years (Plano Clark and Ivankova, 2015). The proponents of mixed research methods claim that simply using either quantitative or qualitative research strategies cannot lead to a full understanding of the complexity of research problems (Creswell and Plano Clark, 2011), one consequence of this claim being that, certainly from the 1990s onwards, triangulation started to receive increased attention (Tashakkori and Teddlie, 1998; Teddlie and Tashakkori, 2003; 2009). Initially, the idea led to attempts to integrate different sorts of data but it subsequently came to refer to the use of different methods to provide different levels of analysis (Tashakkori and Teddlie, 1998). There are three general research techniques which can be used in mixed-method studies (Creswell, 2003): 1) sequential procedures; 2) concurrent procedures; and 3. transformative procedures. In the following section, I shall consider the implications of these different research techniques for this current study.

#### **4.2.1.3 Implications for this current research study**

Methodology, according to Teddlie and Tashakkori (2009:21) refers to “a broad approach to scientific inquiry specifying how research questions should be asked and answered”. Different philosophical approaches or knowledge claims will lead researchers to different research paths (Creswell, 2003; Thomas, 2009). In this section, the implications of methodological issues for this current research study will be considered. As was explained in section 4.1.1, this current study has several purposes, the first of which is to achieve a detailed understanding of the current welfare system in China. In order to determine the nature of the current Chinese welfare system, it is important to identify the key drivers of China’s social policy: these driving forces could be politics, urbanization, industrialization, economic development or ideology. In order to identify the key drivers, it is necessary first to clarify the core welfare aims of the Chinese government.

The second purpose of this study is to check where China is now in terms of its welfare development. In order to comprehensively understand the complexity of the Chinese case, it is not appropriate to just test theory designed for the developed world (e.g. OECD based typologies). As a result, in this current study, I have borrowed the idea of the ISR as a scaffold or ‘model’ that provides a conceptual baseline against which to assess China’s welfare progress and have then generated qualitative data to supply an in-depth understanding of the country’s social welfare development during President Xi’s first term in office.

The rationale for selecting qualitative strategies as the main research methodology for this research was as follows: the research adopted an interpretivist epistemology on the grounds that the analytical interpretation of the available data offers an important method both of understanding different perceptions of social and political’ reality’ and, in the process of generating new knowledge (Silverman, 2013). Compared with quantitative approaches, qualitative research has more open-ended characteristics that allow more detailed exploration of actors’ perceptions of continuity and change as these relate, for example, to the reasons for proposed policies, how policies were implemented and the consequences of their implementation (Creswell, 2012; 2015). Further, according to Miles and Huberman (1984), a researcher can adjust the research settings once he/she has had the opportunity to make sense of the social phenomenon that comprise the research field under investigation. Quantitative research can contribute to interpreting the general trend of social phenomena

or relationships among different factors (Creswell, 2015). Even so, quantitative research risks simplifying the complexities of a case, which undermines the possibility of developing in-depth interpretations of the social phenomena under review (Punch, 2010; Ritchie *et al*, 2013). Consequently, in order to achieve an in-depth understanding of the Chinese case, this study will use semi-structured interviewing, and in particular interviews with key elite individuals, as the main research method. In qualitative research, the researcher acts as a data collection instrument during the data collection process. In this current study, considering the way that the social context has continually changed in China, qualitative research can enable the collection of highly contemporary data that will help to improve the understanding of China's welfare system. In the following section, the methodological approach used in the current study will be presented.

### **4.3 Methodological approach: qualitative interviewing**

A research methodology, according to Teddlie and Tashakkori (2009), comprises a worldview consideration, general preferences for the research design, sampling logic, data collection and analytical strategies, guidelines for making inferences and the criteria for assessing and improving the quality of the findings. In short, a clear methodology can be used to explain and understand research problems (Thomas, 2013). As discussed in the previous sections, different theoretical positions will lead researchers to adopt different methodologies and their chosen methodology will determine the ways in which they will explore the world (Robson and McCartan, 2016). This current study adopted a qualitative approach that relied primarily on semi-structured interviews with elite participants. Other methods were also used – largely secondary data analysis – but the insights gained about the changing nature of the Chinese welfare state were mainly derived from an extensive range of interviews.

*Interviewing* is one of the most crucial techniques for a qualitative researcher to collect data (Flick, 2013; Guba and Lincoln, 1994). Compared with other methods, interviews are relatively economic in relation to time and resources (Thomas, 2013; Silverman, 2013). According to Silverman (2013), qualitative interviewing does not require extra-ordinary skill on the part of the researcher, it merely requires skills in communicating with another person. The purpose of qualitative interviewing is to try to understand the respondent's experience, opinion and ideas (Creswell, 2012). Interviews have been widely used in both survey methodology and qualitative methodology (De Vaus, 2014; Folwer, 2013;

Brinkmann and Kvale, 2014). There are four types of interview (Silverman, 2013; Horrock and King, 2010): unstructured interview (open-ended), semi-structured interview, structured interview (close-ended) and group interview or focus group. There are various forms of access approaches to interviewees (May, 2001; Henn *et al.*, 2006), for instance, online interview, mail interview, telephone interview and face-to-face interview (De Vaus, 2014). There are also some specific interview techniques used to target particular groups of people, such as expert and elite interviews (Dexter, 1970; Horrock and King, 2010; Flick, 2013).

Many scholars have made comparisons between the different types of interview in terms of their advantages and disadvantages (for example, Flick, 2013; Silverman, 2010; 2013; De Vaus, 2014; Robson and McCartan, 2016). Each type has its merits and its drawbacks. Silverman (2013) pointed out that no perfect interview technique can be found. According to Rubin and Rubin (2011), researchers should comprehensively assess conditions such as time and funds to select a suitable type of interview. The structured interview (also known as a standard interview) is normally related to the chosen survey method (Grove *et al.*, 2011). This technique requires investigators to ask each interviewee the same questions in the same way so that any differences between their answers can easily be identified (May, 2001; Henn *et al.*, 2006; Silverman, 2013). A structured interview requires the researcher to communicate with another person objectively and ask predetermined questions (Kvale, 2007; Thomas, 2013; Bryman, 2015). The structured interview is a positivist research technique (May, 2001; Silverman, 2013); it is used to collect data on the interviewee's behaviour and attitudes (Gubrium *et al.*, 2012). A structured interview is therefore useful for collecting six types of data: facts, beliefs about facts, feeling and motives, the standard of actions, present or past behaviour; and conscious reasons. Moreover, a structured interview can be easily controlled and is therefore a convenient way to obtain data (De Vaus, 2014). For this reason, interviewees' responses are easier to code (Thomas, 2011; 2013). Even so, structured interviews also have their weaknesses. Some commentators have claimed that a structured interview is not a real communication between interviewer and interviewee (for example, Henn *et al.*, 2006; Horrock and King, 2010). As a result, structured interviews will to some extent lose the particular advantages of a more discursive semi-structured interview.

An unstructured interview, on the other hand, definitely provides great flexibility for interviewers to ask questions (Creswell, 2015; Bryman, 2015). However, it is difficult to



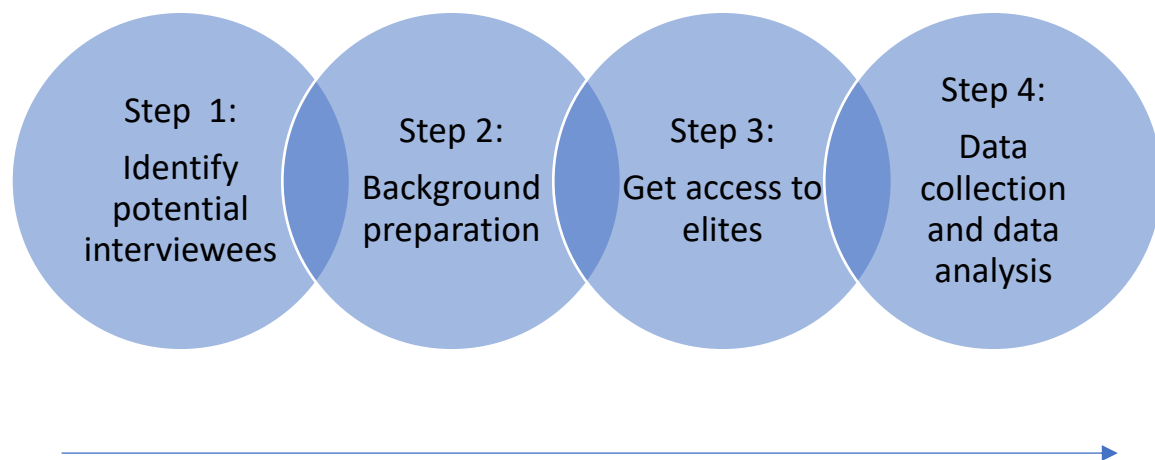
control the process of an unstructured interview particularly perhaps if the interviewer is a relatively inexperienced researcher or if the interviewees have a powerful (and possibly intimidating) social position (Brinkmann and Kvale, 2014; Horrock and King, 2010). Unstructured interviews are also known as open-ended interviews and are commonly used to elicit life-(his)stories (Noak and Wincup, 2004; Silverman, 2013). An open-ended interview can generate rich data because it “allows the interviewee to have enough freedom to talk and ascribe meanings” (Kravle, 2007; Brinkmann and Kvale, 2014) and this sort of interview also requires the interviewer to have skills in active listening and to know how to establish a rapport with interviewees (Thomas, 2013; Horrock and King, 2010).

The advantage of the semi-structured interview, is that, as in the structured interview, the interviewer can design an interview guide in advance (Thomas, 2013; Horrock and King, 2010; Robson and McCartan, 2016), the guide then functioning as a checklist of topics to be addressed and a default wording and order of the questions. However, the semi-structured interview also allows for ‘secondary’ or ‘supplementary’ questions, which introduces elements of the open-ended interview into the process. Further, the wording and the order of the questions can be used more flexibly and can be changed depending on the way that the interview develops (Galleta and Cross, 2013). Additional, even unplanned, questions can then be asked to follow up anything that the interviewee has said during the interview or to seek greater clarity (Ritchies *et al.*, 2013). Similarly, both Kvale (2007) and Thomas (2013) point out that in a semi-structured interview, the researcher does not necessarily need to prepare specific questions but only the overall structure of a list of issues needs to be prepared in advance. In this way, semi-structured interviews are an attempt to use the advantages of both structured and unstructured interviews and can help the researcher to explore the nature of social phenomena and seek answers to the research questions in greater depth (Bryman, 2012). Using the semi-structured interview technique can also help inexperienced researchers to avoid the possibility of a powerful interviewee being able to dominate the interview process (McEvoy, 2006). The flexible nature of both semi-structured and unstructured interviews is more likely to obtain a considered response and can more effectively elicit an interviewee’s viewpoint, interpretation of events, policy understanding, experiences and opinions. Finally, because qualitative interviewing is usually conducted face-to-face, there is an opportunity for the interviewer to adjust the line of inquiry by observing an interviewee’s reactions and body language in response to questions. This form of interviewing can also draw out interesting responses and enable the

researcher to explore the underlying motivation of particular phenomena or events (Kvale, 2007).

In this current study, a series of semi-structured elite interviews was planned because of the ability of semi-structured interviewing to avoid interviewees (in this case members of the Chinese elite) dominating the whole interview (Richard, 1996). Also, as mentioned above, because the researcher in this case was relatively lacking in interviewing experience, it was thought that using semi-structured interviews could help to compensate for this drawback (Siritarungsri *et al.*, 2013). The general research procedure of this current study is set out in Figure 3.

**Figure 3 The general research procedure**



Who should be selected for interview and why these particular people should be involved in this research needs to be clarified. First, appropriate interviewees had to be identified. As is generally known, elite individuals cannot be accessed as easily as other people (Mikecz, 2012); it is difficult to ask them to give their time to participate in a research study. So extensive preparation is an important stage in the process. It was necessary, for example, to know a good deal about each selected respondent, such as their work experience and their recent or most popular publications. (Harvey, 2011; Mikecz, 2012). These

preparations can contribute to establishing a good rapport between the researcher and the interviewees. The third stage was establishing how best to contact the selected potential interviewees, and specifically the means of gaining access to them and arranging the interview location – these matters will be illustrated in greater detail in the following section. The next stage was managing the actual process of the interviews, such as which questions should be asked, in which order - and also, depending on the interviewee, which questions should not be included in the interview. The final stage was the actual collection and analysis of the data, including the process of transcribing and coding the findings. In the following section, more details about the elite interviewing process will be discussed.

## **4.4 Data collection**

### **4.4.1 Elite Interviews**

Elite interviewing is frequently used in political-related research (Dexter, 1970; Richards, 1996; Richardson, 2014). It is a research method that has the potential to be an extremely valuable, appropriate and rewarding means of understanding political events and discourses (Richardson, 2014: 6). Elite interviews are designed for a specific and limited group of potential interviewees, usually relatively high-ranking representatives of organizations or individuals in public life (Aberbach and Rockman, 2002; Flick, 2013). According to Richards (1996: 199), an ‘elite’ refers to those people who are, or were, in a privileged and powerful position in society. Compared with other social groups, elites are likely to have had more influence on political outcomes (Richardson, 2014). Naturally, the definition of ‘elite’ varies in different contexts. In some circumstances, people in top position(s) in a specific organization, including departments of state, can be considered as ‘elite’, while it is also true that those in other positions - political leaders, successful businessmen/women and experts – are usually counted among the elite of any particular society. To identify the eligible population for elite interviewing, Welch *et al.* (2002) recommended that the potential target should have the following characteristics: 1. a senior or middle management position; 2. functional responsibility in an area which enjoys a high status in accordance with policy-making or design; 3. related work experience in selected areas; and 4. a wide network of personal relationships.

According to Richard (1996), elite interviewing has some advantages: first, it can contribute to better interpretation of documents or reports, particularly if the researcher can

gain access to the author of specific relevant documents or report; second, it can help to achieve a better understanding of the personalities involved in the relevant policy-making process and to explain the outcome of a particular event or policy; and third, elites can provide information which is not recorded anywhere else (Richard, 1996: 39). However, despite these merits, there are a few disadvantages of elite interviewing which should be addressed in advance. For instance, this approach sometimes encounters problems of access (Richard, 1996; Aberbach and Rockman, 2002; Richardson, 2014). Because of cultural and political considerations, political elites might be unwilling to participate in any social science research that asks them to provide their own analysis of, or views about, a particular event or policy (Harvey, 2011). Also, there is always uncertainty about the interview duration because of the limited time which elite individuals tend to have for this sort of activity (Flick, 2013; McEvoy, 2006; Mikecz, 2012). Furthermore, elite interviews can sometimes raise problems of reliability (Berry, 2002) because the interviewee might have a problem recalling his or her memory of a specific event (Richard, 1996) – or may wish to conceal the details about his or her actions in relation to a specific policy development or reaction to the implementation of a particular policy. This situation can frequently happen in interviews with senior but relatively older interviewees or officials whose ‘distance’ from the events they are being asked to recall may be considerable (Richard, 1996: 47). Also, sometimes, interviewees can change their views about a particular event or decision. A final disadvantage is that because elite interviewing might give a researcher access to important individuals, the researcher might be deferential in the conduct of the interview. The more humility shown by the investigator, the more chance there is that some elites will try to dominate the interview, and if this happens the interviewer will not be able to use the pre-designed interview format (Richard, 1996; McEvoy, 2006).

#### **4.4.1.1 Interview strategies: purposive sampling**

In this study, elite interviews were chosen as the main data collection method, but the term ‘elite’, as discussed can be ambiguous. A clearer definition for the term ‘elite’ is needed for this study and it is also necessary to provide a clear rationale for why particular elite individuals were recruited (Fontana and Frey, 1994). Because welfare states in general and in China in particular are changing rapidly, in order to understand the trend of China’s current welfare development, it was necessary to select those individuals who were in relatively high positions and who might, or could, influence the direction of China’s welfare construction. These potential selected elites work for the Chinese central government and

in China they have been labelled as the ‘core minority’ of the country (Xi, 2013; 2016). The term ‘core minority’ refers to their status and power rather than to ethnicity. The core minority comprises officials and scholars who have a significant influence on China’s policy-making process. Bearing in mind the issues of time and accessibility, some of them who occupy extremely high positions, such as China’s president and prime minister, could not realistically be included in the sampling process. It is difficult to get access to the Chinese president and prime minister and it is unlikely that it would ever be possible to ask these extremely powerful people to spare their time to participate in any specific research project.

So, who should be included in this research? Ideally, those who work in the Chinese central government and other related organizations who are in a position to influence the social policy-making process. Under these criteria, three principal organizational actors have been included in the research: the Chinese central government, which refers to the CCP as well, the National People’s Congress (NPC) and its standing committee, and the Chinese Political Consultancy Conference (CPCC) respectively.

In China, constitutionally, there are three significant organizational actors in the social policy-making system, the *National People’s Congress and its Standing Committee*, the *Central Government* and the *CCP leading groups* (Brown, 2014; Ngok, 2015b). Under Chinese constitutional law, there are two key policy-/law-making institutions. The first branch operates at the national level and comprises the NPC (*Quanguo Renmin Daibiao Dahui*) and its standing committee (*Changwei Hui*), the central government, and the ministries and commissions under the central government. The second branch operates at the local level and is quite similar to the national level; its major actors are the local People’s Congress and its standing committee and the local governments and their relevant departments; the local People’s Congress and local governments have three levels, province, (city) county and town (China’s Constitutional Law<sup>12</sup>, 2004).

The NPC is the highest legislative body in China, so constitutionally it is the top social policy-maker in the country (Brown, 2014; Ngok, 2015). The standing committee of the NPC undertakes the major responsibilities of the NPC (CCL, 2004). In practice, however, only when a particular social policy plan seeks to become a national law will the NPC and

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<sup>12</sup> Later on short as CCL

its standing committee become involved in the policy-making process (Ngok, 2015), so they are not actually the most important bodies for *devising* social policy. Even so, it is not appropriate to misinterpret the function of the NPC; it has great power in the policy-making process and can cancel or abandon any proposed law codes (CCL, 2004). There are several sub-committees of the NPC and some of them are related to the development of welfare provision (*see* Appendix A): the Committee for Legal Work, the Committee for Internal and Judicial Affairs; the Education, Science, Culture and Health Committee; and the Committee for Agricultural and Rural Areas. Serving on these committees are some of the best-known Chinese experts, retired senior officials and current decision-makers. So the decision makers who work in the central government are members of the NPC in one form or other and therefore some experts and retired senior officials within these sub-committees were identified as potential interviewees. They are relatively easy to access and they were more likely to agree to be interviewed. Furthermore, some of them would be in a position to help to contact some current decision makers.

As well as the NPC, China's central government is another major social policy-maker in the country. The central government is also referred to as the State Council (*Guowu Yuan*). The central government is the highest executive organization within Chinese state power (Luo and Zhan, 2014) and it has close connections with the social policy-making process. It has many functions; it is not only responsible for carrying out the policies proposed by the Chinese Communist Party, but also for implementing the laws and decisions made by the NPC (Brown, 2014; Ngok, 2015b). The central government can create a wide range of policies (Ma, 2015). In terms of social policy-making, it primarily formulates administrative regulations and decisions. The central government also proposes its own policies and orders and scrutinizes their implementation (CCL, 2004; Ma, 2015; Ngok, 2015b). On some occasions, the central government will draft legislative bills and then submit them to the NPC or its standing committee (Han, 2008). Another significant responsibility of the central government is to enact China's macro development plan and report, and to seek approval of the state budget from the NPC or its standing committee (CCL, 2004). Interestingly, under China's administrative law, the central government can enact administrative law without needing to obtain the permission of the NPC (Jiang, 2010; Luo and Zhan, 2014; Ma, 2015). Constitutionally, the State Council comes under the leadership of the NPC but in reality, the State Council has more power to influence the whole process of policy-making.

There are several important ministries which are involved in social policy-making and are therefore relevant to this current study (*see* Table below): the Ministry of Human Resources and Social Security (MOHRSS), which is in charge of social insurance and employment-related policies; the Ministry of Civil Affairs (MOCA), which is responsible for anti-poverty policies and for managing social assistance programs; the National Health and Family Planning Commission (NHFPC), which is in charge of health and family-related policies; the Ministry of Education (ME), which is responsible for education-related policies; and the Ministry of Housing and Construction (MHC), which bears the responsibility for housing policies (Zheng, 2011; Ngok, 2015a). Those departments come under the aegis of the central government but they undertake their work independently.

**Table 14 The five most important Ministries or Committees related to Social Policy-Making in China**

Ministry/Commission	Function
The Ministry of Human Resources and Social Security (人力与社会保障部) √	Social insurance, employment, social security, pensions, income maintenance
The Ministry of Civil Affairs (民政部) √	Anti-poverty programs such as <i>dibao</i> and <i>wubao</i>
The National Health and Family Planning Commission (卫生与计划生育委员会) √	Health policies
The Ministry of Education (教育部) X	Education policies
The Ministry of Housing and Construction (住房和城乡建设部) X	Housing Policies

*Summarized by author. Note: √ denotes that this ministry was included in the research; X denotes that it was not.*

For social policy researchers, there is a risk of ignoring the importance of some other ministries within the central government (*see* Table 15). Three such ministries are the Ministry of Finance (MF), which is responsible for the government's budget and expenditure; the Commission of Development and Reform (CDR), which is regarded as the small State Council of China and is a committee which has the power to enact China's macro development plan in almost all areas (in recent years, President Xi has paid unprecedented attention to the reform of the welfare system reform and the CDR has become increasingly important); and the Ministry of Industry and Information (MII), which

is another important actor and is responsible for the process of industrialization and for information communication technology (ICT) construction. In 2016, for example, the government published a plan to establish a large data-base of health statistics on all Chinese citizens and the MII played a significant role in this new-generation welfare construction (State Council, 2016).

**Table 15 Easily neglected policy-making bodies in China’s administrative context**

Ministries/Committees/office/Bureau	Function
Ministry of Finance (财政部) ✓	Budgeting and expenditure
The Commission of Development and Reform (发展与改革委员会) ✓	Enacting the macro-plan for development and reform in all areas
The Ministry of Industry and Information (工业与信息化部) ✓	Industrialisation and ICT construction
The Bureau of Chinese Medicine (中医药管理局) ✓	Chinese medicine management and hospital administration
The Office for Health Reform (国务院医疗改革办公室) ✓	Enacting specific plans for health-related reform and health policy analysis

*Summarized by author*

Additionally, other offices and bureaux should not be neglected. For instance, the Bureau of Chinese Medicine and the Office for Health Reform is important. The Bureau is responsible for medical management at the macro-level and is therefore a crucial player in the current health reform program. The Office of Health Reform has responsibility for drafting new policies and analyzing the outcome of policies.

In China, the CCP permeates all areas of government and of life in general, so some organizations of the CCP also had to be included in this study. Some scholars might argue that the CCP is ever-present in China so it is not necessary to regard it as separate from the central government. This is to some extent correct. In China, sometimes what is effectively one system has two names – one refers to the State Council, the other to the CCP. Since President Xi took office, several leading groups have emerged within the CCP (Ngok, 2015). President Xi chairs almost all of these leading groups. Chief among them is the group for deepening reform, which acts as the top-level policy-making group within the CCP.



After this brief introduction to the makers of China's social policy, it is necessary now to return to the question of which individuals should be included in this research. As already explained, it was deemed to be more appropriate to use purposive sampling. Of the three main organizational actors, however, it was relatively unclear who should be included from the NPC and the CCP. There are also some overlapping positions identified in the three main organizational actors. To achieve the requirement of purposive sampling and to identify the most relevant individuals for this study, it was more practical to identify as precisely as possible individuals from within the central government. Ideally, all the heads and the deputy heads of the ministries described above should be included, but because these people are more than likely to be responsible for the general management of each ministry, it was regarded as not sufficient simply to interview only these people. Specific office leaders within each listed ministry or committee had to be included.

In the case of MOHRSS (*see* Appendix A), the minister and the deputy-minister in charge of issues related to social insurance needed to be included in addition to the leaders of departments related to this research. For instance, there are twenty-six departments within the Ministry of Human Resources and Social Security of which twelve are the most relevant to this research: the Department of Policy Analysis, the Department of Law and Regulation, the Department of Working Injuries Insurance, the Department of Wages and Welfare, the Bureau for the Social Insurance Fund, the Department of Pensions, the Department for Rural Social Insurance, the Department for International Cooperation, the Department for Migrant Workers, the Department for Health Insurance, the Department for Unemployment Insurance, and Department for the Retired Cadre. The directors or deputy directors of these twelve departments should be potential interviewees, so there could be between twelve and twenty-six interviewees from MOHRSS.

In the NHFPC (*see* Appendix B), there are five departments and bureaux related to this research: the Bureau of Planning and Information, the Department of Law and Regulation, the Department for Institutional Reform, the Bureau of Health Policy and Management, and the Bureau for Primary-Tier Health Management. Similarly, in addition to the minister and the vice-minister in charge of health reform-related issues, there were between five and twelve directors and deputy directors who could be selected as potential interviewees. Because education and housing are two areas that were not considered in this current study, the ME and the MHC were not included. However, the MOCA (*see* Appendix B) is another important ministry from which some potential interviewees were identified. Five other

significantly relevant departments also had to be included, the Department of Social Welfare and Charity Promotion, the Department of Social Assistance, the Department of Social Affairs, the Department of Policy and Regulation and the Department of Pacification and Resettlement, so five to twelve individuals from these departments were selected as potential interviewees.

There are four more ministries or committees which also had to be included in the research (*see* Appendix C). In the CDR, the four most relevant departments were selected, the Department of Planning; the Department for Institutional Reform, the Department for Society and the Department for Investment, so four to ten further people were potential interviewees from the CDR. Two Departments in the MF had to be included in the study, the Department of Social Security and the Department for the Budget, to there were two to six potential interviewees from the MF. With regard to the remaining two bureaus/offices, it was difficult to identify which department/office should be included in the study since both of them are to some extent responsible for aspects of China's health reforms, so it was necessary to approach some of the leading officials who had participated in health-care reform because it was possible that there may be between two and four interviewees who should be included. In sum, therefore, between thirty and seventy potential interviewees were identified as being suitable for inclusion in this study.

The elite individuals referred to above were identified according to their post, but there is some risk in a social policy researcher simply identifying appropriate interviewees from the titles of their posts. On the contrary, several junior officials in commissions, ministries and departments who had appropriate experience were identified and these junior officials were also interviewed and asked to identify their immediate superior or who was in charge of a particular policy initiative. This guaranteed that no VIP was neglected. Furthermore, each ministry and commission has an official think-tank and these think-tanks are quasi-governmental or governmental organizations. Some of the experts in them were approached and asked about their views on China's welfare development. More importantly, they were asked to help to identify who were the most relevant elites who should be included. By complementing the number of potential interviewees in these ways, it was hoped that none of the relevant political elites would be overlooked.

In reality, elites who joined the research were not all from aforementioned listed departments. This situation happened for a number of reasons: first, an unprecedented

scandal broke out in the MOCA. The minister and other vice minister were under investigation, and none of the officials were willing to arrange a meeting with these individuals. For personal safety, it was also not appropriate to get involved in such a significant political incident. Fortunately, some officials from the MOCA still provided specific help for the researcher. They suggested that I should contact the National Poverty Alleviation Office (NPAO), which is a department in charge of poverty alleviation issues in China. The department is also partly involved in the social assistance program. As a result, one leading official from the NPAO (Interview X) and one scholar (Interview E) from the NPAO's advisor organization were invited to participate in the research.

A further issue affected the research that meant that a 'plan B' had to be put into operation. Some elite individuals were uncomfortable about talking to a researcher based in a western university and refused the researcher's request even for a quick chat. To fill this gap, the researcher had to resort to those who not only had extensive knowledge of Chinese social policy, but who also appeared able to influence policymakers. As a result, 12 professors from China's top universities have been included in the research (see appendix G). Interviewee F, for example, is a well-known professor from Renmin University and, being an expert on pension and social assistance, has a good relationship with all social policy makers.

Additionally, many elite individuals from the central government were too busy to participate in the research. Owing to the timing of the field work phase, which fell close to the end of 2016, many officials were working particularly hard because of the increasing proximity of China's spring festival. It is at this time of year that people are very busy because they plan their work around the desire to have free time during the new year vacation. As a result, more NPC members, as well as members from CPCC, at slightly lower than the topmost levels were invited as interviewees. These people also take part in the social policymaking. Among some of them, they were previously working in specific ministries related to the Chinese social policy such as HRSS, MCA and NHFPC. Some interviewees such as interviewee K, who was working in HRSS and is now a businessman

with NPC membership, were selected as one of the interviewees. More details about these interviewees' details can be found in appendix F.

In sum, ideally, all the interviewees should come from the listed ministries of central government, NPC and CPCC. However, for several reasons, many of individuals from top universities have been included in the research. Due to these people working closely with the Chinese government over social policy issues they can be regarded as influential figures in the policy making process.

#### **4.4.1.2 The researcher's role and research preparation**

Many researchers have emphasized the importance of determining the role of the researcher in elite interviewing (for example, Aberbach and Rockman, 2002; McEvoy, 2006; Flick, 2013; Richardson, 2014). Indeed, as has already been explained, compared with other types of interview, elite interviewees are more likely to want to dominate the interview process (Richard, 1996). The more 'modest' the attitude shown by the researcher in appearance and in action, the more likely it is that elite interviewees will break the sequence of pre-designed interview questions (McEvov, 2006). In China, this problem is particularly severe because of the political convention that accords Chinese elites extremely high status and consequently a firm grip on power and resources (Li, 2010). In their everyday life, elites at this level are accustomed to being treated as figures of authority and people will seldom challenge what they say (Ge, 2013).

In this study, it was essential to be sure exactly what role the researcher should play. Because the researcher was relatively young and lacked experience of elite interviewing, elites were likely to treat him as an immature person because, especially in Chinese traditional culture, age is important. It was not, therefore, appropriate to identify the researcher's role simply as a student. Instead, it was decided that the researcher should play multiple roles during the elite interviews. First, it was agreed that the researcher should behave as an 'insider' (McEvov, 2006), meaning a Chinese citizen as well as a someone attempting to understand the policy-maker's perspective. Second, it was thought best that the researcher should identify himself as a 'listener'. The skills of becoming a good listener have been recommended by many scholars (for example, Mason, 2002; Silverman, 2010;

2013). The more time allowed for the elite interviewees to speak, the more valuable the information that is likely to be generated. Third, the researcher needed to depict himself as a learner and student. Because these elites are shown a great level of respect in their daily routine, it is important to display appropriate respect in the interview situation. One key factor that should be constantly borne in mind is that the researcher is precisely that, a researcher, and as a result, the research aims should never be forgotten. If an interview slips off track, the interviewer should use every means to pull it back. In order to achieve all these roles, the researcher had to do some careful preparation before conducting the interviews.

The first thing that needed to be prepared was a list of the names and positions of the potential interviewees who were identified in the previous section, and then, second, to search the Chinese government website to gather as many personal details about them as possible. Some scholars (for example, White *et al.*, 1996) recommend that the more a researcher knows about the interviewee, the better the outcomes might be. Third, many of the identified elites had frequently published articles to advance their own views about new policies or trends, so it was necessary to collect these papers using the Chinese Scholars' Search Engine. Fourth, it was necessary to prepare professional recording devices such as a password-protected iPhone. Although a notebook or A4 pad is a necessary tool for the purpose of recording particular aspects of the conversation, it is not a substitute for digital devices that can record the entire interview and save the data for transcription at a later date. In reality, however, it was recognized that some individuals would not wish a researcher to record the conversation. Fifth, during the field work, one of the informants helped me obtain a temporary identity in a SOE as well as the Hunan University, which helped to minimize the impact of the 'western influence'. In reality, these identities greatly facilitated the field work and many elite interviewees treated me as an insider rather than a western scholar. In the following section, more details about gaining responses to related issues will be discussed.

Gaining access to the identified Chinese elite individuals ( see Appendix G ) was by no mean a simple task. In China, elites individuals are sensitive to all kinds of interviews; they are unwilling to expose themselves to the public and generally avoid revealing their own viewpoints (Mikecz, 2012). This is because of China's unique cultural and contemporary

political system. In terms of culture, Confucian thinking requires people to be careful about their use of words and there are no clear boundaries about what is confidential and what is not (Zhao, 2015). So there are political risks in the possibility of saying something that might run against the views of higher leaders. There is also the risk of attracting public criticism. As a result, Chinese elites are very careful about their words and are not willing to talk too much about anything relevant to politics. Also, visible and invisible gatekeepers co-exist in the Chinese context. A visible gatekeeper is the Department of General Administration, and secretaries and security staff in each department will also act as gatekeepers. Invisible gatekeepers are less obvious; they could be a member of staff who is responsible for reading letters, or even the individual him/herself.

Fortunately, with the reform of the administration in China and other factors such as the internet-related development of social media, China's government today has opened up in an unprecedented way, and previously untouched sensitive topics such as the Cultural Revolution have gradually become more talked about by politicians, government officers and the media (Phoenix, 2015). To demonstrate the characteristics of transparency, opening-up and increasing globalization, President Xi and his team have started to get involved in the Chinese equivalent of Facebook, *Weibo* (Southcn, 2015). It is therefore now more possible to gain access to the listed elites if these potential interviewees are contacted appropriately.

Several ways were adopted to access the listed elite individuals. First, a letter of invitation was sent by conventional mail to the official mailbox of all the listed ministries or committees. Some scholars (for example, Creswell, 2015) suggested that it is polite to write a formal letter in advance of an interview. This letter explained the purpose of the research, why an interview was being sought with the identified recipient(s), how long the interview would take and what questions would be asked. Several copies of this letter were made; one was delivered to the official mailbox which has multiple functions, such as if citizens

want to view the archives of a particular department or ask to confirm the decision-making process or other issues relevant to the department. The remaining letters were delivered separately to all the listed departments. Most importantly, one of the copies was sent to the Department of General Administration (DGA) within each ministry or committee. All of the listed ministries and committees have a DGA which is principally responsible for a wide range of internal management. As explained above, the DGA is a visible gatekeeper: on the one hand, it can help to arrange times for interviews with the listed elites and on the other, it acts as the organizational gatekeeper to control access to these elites. Even so, sending a letter to the formal mailbox might not guarantee successful access to the identified individuals. If only this way is used to contact interviewees, the best outcome might be receiving a formal response stating that they are willing to help but that the applicant should wait for further information. In reality, this format of letter is equal to a politely presented refusal. No further information would be forthcoming about whether any elite individual was willing to participate in the research, and there is very little chance that this would happen (Flick, 2013) because elites value their time and are kept busy with their own duties (Rubin and Rubin, 2010; Hegroz and Ali, 2015).

Another way to contact the potential interviewees was by official email or the public hotline provided on the government websites. However, as with the first approach described above, these two approaches might also be blocked by gatekeepers. In these circumstances, the elite individuals themselves would probably know nothing about the interview invitation. Because of administrative reform, fortunately, government in China has become more transparent (Ngok, 2015a; Ma, 2015) and the government nowadays puts all the officials' personal contact numbers onto the official website. These personal contact numbers include the land-line telephone numbers of these elites' offices and also their personal mobile phone numbers, so it was possible to contact them directly.

If contact with the identified elites is to be made by telephone or mobile phone, it is advisable to contact them by text messages in advance because text messages, like letters and emails, can explain the reason why the researcher wants to talk to them. It is best to text them a few times and then give them a call if there is no reply to the texts. There is always, however, the risk of receiving a polite refusal and where this was the case, no further attempt was made to contact the individual concerned. In reality, contacting these elites heavily relied on informants' help. Some of the informants helped the researcher find a potential respondent's secretary in advance and persuaded these potential gatekeepers to help arrange a time and also deliver consent form to interviewees. Some other informants brought the researcher to an individual's office and requested that these people spare some time for the research.

In China, because of the Confucian tradition, people value social networks and personal relationships, known as *guanxi* (Davies *et al.*, 1995). Without the effect of *guanxi*, there would only be a small chance for a researcher to gain access to the listed elites, so *guanxi* was the most crucial facilitator for making contact with the elite individuals identified. Richard (1996) suggested that network contacts are a way of ensuring the success of elite interviews, so to conduct elite interviewing in China, a researcher should use his/her own social network. Fortunately, some of the listed elites have been labelled 'official scholars', which means that they have a high political position but are willing to participate in academic research. The researcher had previously met a number of these people at academic conferences. Also, to increase the possibility of being able to interview these elite individuals, some Chinese universities, research organizations or think-tanks are often able to help. For example, some professors who had previously taught the researcher helped to contact certain individuals. One thing to note is that the researcher's family background could help to endorse the researcher's identity and credentials and to obtain the potential interviewees' trust, and then the likelihood of getting their agreement to participate in an



interview will be increased dramatically. Unfortunately, there was no guarantee that the individuals concerned would participate in the research even with the *guanxi*'s endorsement.

#### **4.4.1.3 Interview Guide**

There is a consensus that flexibility is one of the main features of qualitative interviewing (Thomas, 2013; Robson and McCartan, 2016). To respond to issues that might crop up during an interview and also to explore the attitudes, beliefs and values of the interviewees on the research topic in hand, the traditional interview format (a structured interview), according to Horrocks and King (2010), is not appropriate. Instead, it is important for qualitative interviews to use an interview guide that outlines the main topics or questions that the investigator intends to explore (Creswell, 2015), but unlike a structured interview – with predetermined questions in a fixed order – the qualitative interview guide should be more flexible, particularly in terms of the wording of the questions and the order in which they might be asked. An interview guide also provides freedom for the interviewer to interact if an interview takes an unanticipated but potentially fruitful direction (Rubin and Rubin, 2011; Patton, 2010).

For qualitative interviewing, there is no fixed format for researchers to design an interview guide; a qualitative interview guide will depend on the different methodological traditions and the researcher's own preference (Kvale, 2007). As explained above, the interview guide should include the topics which the researcher intends to discuss with the potential interviewees. Bryman (2016) suggested that an interview guide is quite useful for a semi-structured interview; in particular because the interview guide can include all the questions which might help to collect an interviewee's perspective on specific events. To design an interview guide, a few conditions should be borne in mind (Bryman, 2015: 470). First, it is necessary to provide a logical order for the interview questions. Although qualitative interviewing does not require a fixed order of questions, in order to conduct a good quality interview, it is still worth taking time to consider the order and the relationships between the questions. However, qualitative interviewing is more like a conversation (Flick, 2013; Robson and McCartan, 2016), so the order of the questions might have to vary depending on the progress of the actual interview. Second, there is a consensus that questions in an interview guide should relate to all the research questions of the study (for example, Aberbach and Rockman, 2002; Horricks and King, 2010). Third, care must be taken over

the wording of the questions, selecting and using words which are precise and understandable. Fourth, an interview guide should not contain any leading questions and should avoid double-barrelled questions (Bryman, 2015: 253). Even though an interview might be conducted in an anonymous style, it is still necessary to confirm the identity and personal details of each interviewee, otherwise, it would not be possible to identify whether the interpretation of each interviewee's perspective is correct.

In an interview guide, the actual interview questions or topics to be explored are very important if the interview is to be successful. Kvale (2007) suggested nine question types which can be asked in a qualitative interview, and even in a semi-structured interview, the interview questions will play a crucial role. The nine sorts of question frequently found are:

1. *Introducing questions*: these questions are mainly used for warming-up and leading the interviewee to start to talk (Patton, 2002; 2010).
2. *Follow up questions*: these questions are used to require interviewees to further explain their answers.
3. *Probing questions*: these questions follow-up what the interviewee has said and ask for further examples or details.
4. *Specific questions*: these questions are used to find causal relationships between different events and to explore an interviewee's attitude to or perspective on some specific issues.
5. *Direct questions*: these questions are used to straightforwardly elicit facts or considerations from the interviewee.
6. *Indirect questions*: this kind of question will first provide or ask for some background information and then ask the interviewee's point of view.
7. *Structuring questions*: these questions are used for changing topics and determining whether the interviewee can, or is willing to, continue the interview.
8. *Silence*: many scholars have emphasized the importance of occasional silence within an interview (for example, Rubin and Rubin, 2011; Horrock and King, 2010).

The silence might not represent a question, but it is a device which can help the interviewee to talk more to the researcher (Kvale, 1996).

9. *Interpreting questions*: these are questions which are used to interact with an interviewee especially when some of the information which has been provided by the interviewee causes the interviewer to misunderstand or to feel confused.

According to Charmaz (2006), interview questions are divided into three categories: initial open-ended questions, intermediate questions and ending questions, but no matter how the questions are classified, Bryman (2016) suggested that the researcher should focus on the interviewee's values, behaviour, formal and informal roles, relationships, places and locales, emotions, encounters and stories. For the current study, the interview guide was designed with all these requirements in mind (*see Appendix E for greater detail*).

#### **4.4.1.4 Pilot Interviews**

Many scholars have suggested that a researcher should pay particular attention to the usefulness of pilot interviews (Kvale, 1996;2007). In order to test the potential outcomes of the questions in the interview guide (*see Appendix E*), the researcher carried out several pilot interviews before seeking access to the identified interviewees. Bearing in mind that elite interviewing is a very sophisticated research method, the pilot interviews were held with selected special groups of people who could reasonably be labelled as 'elites'. So several local elites were invited to take part in the pilot interviews. Research by interview is a purposive conversation (Kvale, 1996), so to ensure that the researcher could always keep the principles of research interviewing in mind, two of his supervisors also participated in one or two mock elite interviews. In the following section, details of acquiring the necessary documents for analysis will be explained.

#### **4.4.2 Documents**

Documents cover a wide range of sources; personal documents such as letters, diaries and autobiographies (Bryman, 2015), and sources of data such as newspapers, magazines, websites, blogs and photographs (May, 2001). For some scholars, the word 'documents' might refer to official documents such as laws, regulations, decisions, notices and other documents generated by the government or its associated organizations (Henn *et al.*, 2006).

Silverman (2013: 276) suggested that ‘documents can be used to identify data consisting of words and/or images which have become recorded without the intervention of a researcher as they are an interview or focus group’. ‘Documents are standardized artifacts, usually in a particular format such as notes, case reports, contracts, drafts, death certificates, diaries, statistics, annual reports, certificates, judgements, letters or expert opinions (Wolff, 2004: 284)’. In social research, both quantitative and qualitative research techniques are used to interpret data from these documents. This particular research method is called content analysis (Thomas, 2013). Document analysis can be an independent research method, or documents can be used as a complementary research source to support arguments and findings (Robson and McCartan, 2016). Scott (1990: 14) defined documents in two dimensions: their authorship and their accessibility.

The first dimension comprises documents in two categories: private or personal documents and official or public documents (Henn *et al.*, 2006). For instance, private documents can be birth certificates, personal diaries or other papers related to privacy (Flick, 2013: 354). Public documents not only refer to documents produced by the state, but also those generated by other organizations in a society, so government reports and/or decisions, think-tank reports and documents from other companies are included in this category. Now that the internet has become well-developed, it can provide vast amounts of information for researchers, so careful attention should be paid to documents found on websites (Dolowitz *et al.*, 2008; Flick, 2013; Punch, 2013). Document analysis consists of a series of steps: Robson and McCartan (2016) suggested that, as with other research methods, the first step in document analysis should be closely related to the research question(s). Second, deciding the sampling strategy is crucial. Third, it is necessary to define the recording unit. The most important part of undertaking document analysis is locating and selecting the most relevant documents and in the following section, more details of this will be presented and discussed.

#### **4.4.2.1 Document selection**

For selecting and assessing the quality of documents, Scott (1990: 6) suggested that documents for social research should meet four relevant criteria: *authenticity*, *credibility*, *representativeness* and *meaning*. For authenticity, Scott (1990: 6) suggested that researchers should ask themselves whether the evidence in selected documents is genuine and of unquestionable origin. This criterion also enables the researcher to identify whether the selected documents are primary or secondary documents. The second criterion,

credibility, refers to the accuracy of the documentation. It is suggested that researchers ask themselves whether the evidence is free from error and distortion. It is necessary to address the limitations of the selected documents and the researcher must consider the reliability of the documents produced (Pole and Lampard, 2001). For representativeness, Scott (1990) suggested that the researcher should consider whether the evidence is typical of its kind, and, if not, whether the extent of its untypicality is known. As a result, this criterion requires researchers to consider whether the selected documents are most relevant to the research in hand. It is crucial to know whether a specific document is a typical record. In reality, it is not always certain whether a document is useful or not. Flick (2013:354) provided an alternative approach to selecting a document by assessing whether or not a specific document is *irrelevant* to the research.

Meaning requires the researcher to consider whether the evidence is clear and comprehensible (Scott, 1990: 6). Flick (2013) suggested that this criterion can be used to distinguish between three different categories, the intended meaning of the author of the document, the meaning for the reader of the specific document, and the social meaning of someone who is the object of that document. This current study was focused more on official documents such as speeches and annual reports made by elites, and policy documents, including other documents relevant to this research in the archives or databases (*see* Appendix F) of the Chinese government and of international organizations such as the International Monetary Fund (IMF), the Organization of Economic Co-operation and Development (OECD), the United Nations (UN) Development Project, the World Bank (WB), the International Labour Organization (ILO) and the Asian Development Bank (ADB). These documents included official reports, laws and/or regulations, decisions and Notices related to welfare provision in China, and especially documents related to pensions, anti-poverty and health policies. The dates of the selected documents were confirmed to ensure their relevance.

In this study, particular attention was given to documents generated after 2012 because the intention of the study is to assess the nature of China's welfare system under President Xi (*see* Appendix H). The same criteria were also applied for collecting documents from international organizations. Official reports and working papers from international organizations related to assessing President Xi's welfare construction strategies were selected. In addition, data from specific databases such as the Chinese Statistics Bureau's database and those of other international organizations such as the IMF, the OECD and the

ADP were main resources for quantitative secondary analysis. Again, the development of the internet made gaining access to these official documents not a severe problem.

#### **4.4.3 Using existing quantitative data**

In this current study, the analysis of quantitative secondary data played a complementary role to the elite interviews. The purposes of using quantitative secondary data is mainly for descriptive purposes. The thesis has made use of available secondary data such as the Chinese government and other international organizations. The possibility of accessing secondary data for this research existed because all the data could be found on official websites. The secondary data in this study came from both domestic databases and the databases of several international organizations, such as the Chinese Academy of Social Science(CASS), which is the largest Chinese official think-tank and the largest social science research base in China today. Other international databases used in this way have already been listed in section 4.4.2.

The secondary data used in this research had to fulfil two key criteria: first, the quantitative data generated from the listed official organizations had to be of relatively high quality so that the researcher did not have to worry about the reliability or the validity of the specific data. Second, secondary data were used as complementary evidence to help the researcher to establish data triangulation, which could reduce the risk of elite interviews having problems of reliability and validity. Third, secondary data analysis is a less time-consuming process than locating primary data. It can help the researcher to make comparisons between different countries or different periods. Some of the data or evidence can be used to carry out comparative studies to show what is going on in China's current welfare regime. In the following section, the process of data analysis will be discussed in detail.

#### **4.5 Data analysis**

This section presents a discussion of the ways used to analyze and interpret the data collected from the elite interviews, from the documentary analysis and from the quantitative secondary data analysis. Data analysis is central to any research study. It does not take place after the data have been collected. On the contrary, it starts at the early stage of the research project (Corbin and Straus, 2015). The way selected to analyze the acquired data will reflect the researcher's knowledge claims and shape the outcome of each piece of research.

Different scholars have shown different perspectives on data analysis. For instance, Miles and Huberman (1994: 11) suggested that there are three major flows in the data analysis process, data reduction, data display, and conclusion drawing and verification. Data reduction denotes the process of selecting, focusing, simplifying, abstracting and transforming the data which appear in written-up field notes or transcriptions. Data display refers to the organized and compressed assembly of information which permits conclusion drawing and subsequent actions. Conclusion drawing is only half of a two-fold process because it also involves verification as the analysis proceeds (Miles and Huberman, 1994: 11). To explain the analysis of the data collected by the three different research methods employed in this current study, it is necessary to illustrate how the researcher dealt with the different sorts of data generated. In the following section, the process of interpreting the interview data will be described.

#### **4.5.1 Interpreting data from elite interviewing.**

##### **4.5.1.1 Transcription and translation**

Many scholars (for example, Flick, 2013; Harding, 2013) have emphasized the importance of transcription. Indeed, for all kinds of research, it is necessary to document and edit the collected data before analyzing them. In order to analyze interview data, transcribing all the recorded conversations into written texts is regarded as the essential first step for data interpretation (Kvale, 2007) and its importance must not be underestimated. Transcription reflects the way that a researcher intends to interpret the acquired data. There is no single standard for researchers to transcribe recorded material (Flick, 2009; Silverman, 2013), the best and most comprehensive standard for each case is determined by the purpose of the interviews. Also, the criteria for accurate transcription are strongly related to the research questions. It is therefore not appropriate to make any errors in this early step of the data analysis process. However, some scholars have pointed out that precise transcription is a labour-intensive process and can absorb the researcher's time and energy (Strauss, 1987; Flick, 2013; Silverman, 2013). So, to shorten the research process and to enable a researcher to devote more energy to the subsequent data analysis work, a researcher can hire a respected professional organization to help to transcribe the recorded conversation precisely (the transcription criteria are given in Appendix C). Although this organization might help the researcher to avoid such a labour-intensive process, this does not mean that the researcher can skip this process and move to the next step of data analysis. On the

contrary, the researcher has to spend reasonable time reading and re-reading all the recorded material, especially when the recording language is not English, because it is then necessary to spend time translating useful details into English.

The process of transcription has its own complexities (Kowal and O'Connell, 2014). The transcription of interviews might need to be repeated several times. Initially, the researcher might achieve a rough transcript which contains the words uttered and other features such as pauses (Flick, 2013; Kowal and O'Connell, 2014). This might be followed by adding in further adjustments such as shorter pauses, fillers and false starts. The transcription will reflect the purpose of the research and should be closely related to the research questions. Flick (2014) pointed out that the transcription is an indispensable step in qualitative research and although transcription is by no means an easy task for a researcher, it is an unavoidable but quite tricky step in analyzing qualitative interview data (Harding, 2013). There is no formula for a qualitative researcher to achieve a precise and comprehensive written narrative of the original dialogues. Most typically, all transcriptions are based on the principle of selectivity and this brings the risk of researcher bias (Kvale, 2007; Kowal and O'Connell, 2014).

In the current research, the researcher first transcribed all conversations from recording devices and research notes. Because the interviews were conducted in Chinese, the researcher had to translate all the transcripts into English. To leave more time for the researcher to consider the implications of the collected data, the translation task was given to a commercial Chinese translation company. The company has an excellent reputation and worked for the Chinese government. To minimize the potential misinterpretation of the translation, however, the researcher together with one of the supervisors helped to re-translate the English version back to Chinese several times to ensure accuracy of interpretation before proceeding to the analysis process.

#### **4.5.1.2 Analysis and triangulation**

The main objective of the three-way analysis used in this thesis-interviews, documentary and secondary quantitative data - was to ensure that the data were sufficiently well triangulated to allow a robust interpretation of the data and conclusions drawn from the analysis. Successful triangulation demands thematic consistency and, to this end, where the



interviews were concerned, I placed the interviewees in different policy related groups. For example, those who were involved in pension reform plans such as ‘achieving national social pooling level’, ‘delaying the mandatory retirement ages’ and ‘addressing elderly market’ were grouped together. Similarly, in the health policy areas, interviewees who discussed ‘governance predicament’, ‘policymakers’ weakness’ and ‘institutional problems’, all of which can be classified as critical features of the fragmented health system in China, were placed in different groups. Finally, in relation to anti-poverty policies, I first identified the key challenges remaining from previous policies such as *Dibao* and poverty alleviation, then used accounts provided by the group of interviewees selected as experts in this area to understand how new initiatives have developed in recent years. Part of this process involved summarising key reforms strategies and interpreting interviewees’ perceptions of key achievements and solutions.

Regarding the document analysis, the researcher also adopted a two-step analysis: first, a basic content analysis was used to gain a general idea about the main content of documents (Bernard et al, 2017). Then the researcher read these documents paragraph by paragraph and line by line to highlight keywords, using these codes mentioned above to summarize the useful information about these documents. This information was used to cross-check and confirm interviewees’ perceptions of policy change and policy process.

Concerning the secondary quantitative data, as discussed above, only those figures and tables from existing documents, that help to illustrate key features of China’s current social, political and economic situation have been used in the thesis. For instance, figures related to demographic changes in recent China have been used in Chapter Six. Similarly, data referring to the health insurance coverage rate of the total population, taken from the Chinese statistics bureau, have been used in Chapter Five. These descriptive statistics provide ‘context’ for the information gathered in the interviews and, together with the

documentary analysis, help to ensure that interpretation of the interview data is both valid and robust.

## **4.6 Ethical considerations and limitations**

### **4.6.1 Ethical considerations**

All social researchers should consider the ethical issues related to each study (Flick, 2007; 2013; Matthews and Ross, 2010). Ethical issues involved in the social sciences represent a complex and demanding responsibility for a researcher (Horrocks and King, 2010). Both qualitative and quantitative social research are an attempt to address the activities of human beings and related social phenomena (Newman, 2000), so all kinds of social research can have an impact on both the researcher and the research participants (Pole and Lampard, 2001). In other words, ethical issues will exist and emerge throughout the whole process of social research, from the beginning to the completion (May, 2012). In this section, more details about the ethical issues involved in elite interviewing, document analysis and quantitative secondary data analysis will be presented and discussed.

#### **4.6.1.1 Ethical issues in elite interviewing**

The use of qualitative interviewing, especially elite interviewing, will generate a number of ethics-related issues. Some of these ethical issues can be predicted before field work starts, some of them cannot (Mason, 2002). Many scholars have strongly recommended that wording, accent and questions might reveal some moral judgement (Patton, 2010; Mason, 2002). Rubin and Rubin (2011) stated that the core of the expectation and obligations of an interview is not to cause any harm to respondents. There is a consensus that researchers should behave ethically because interviewees are expected to comply with the researcher's arrangements for them participate in a specific program (Kvale, 1996). In particular, a researcher should ensure that no pressure or deceit is involved (Kvale, 2007).

There are four common moral principles of qualitative interviewing which should always be obeyed: 1. show enough respect; 2. keep promises; 3. no pressure; and 4. no harm. Showing enough respect to interviewees is the one of the most crucial criteria in qualitative interviewing. Allmark *et al.* (2009) stressed the need to show respect, which involves many requirements for the researcher to undertaking the research. For instance, Pole and Lampard

(2009) stated that interacting with an interviewee directly is the best way to show respect. Deceit is not allowed because it not only offends the basic moral and ethical principles, but also reveals that a researcher is not showing enough respect to interviewees. It is not an interviewee's responsible to tell the truth (McEvoy, 2006) so a researcher must not make any judgements about what an interviewee has said. In order to reduce misunderstandings, the researcher should explain the research topic precisely; if the purpose of the research is not fully explained, this will cause problems with gaining access and establishing a rapport (Mikecz, 2012). This is an extremely important requirement for researchers.

Before the interview, the recording methods should be agreed with the interviewee. Because of cultural differences, Chinese elites are extremely sensitive about being interviewed; they are unwilling to expose themselves to the public and they will want to reduce the risk of receiving any criticism from the public. It is quite difficult to ask for permission to record the conversation on digital devices if an interviewee has not already agreed for this to be done. However, it is not helpful to simply listen without any note-taking or recording of some kind during an interview (Rubin and Rubin, 2011). Sometimes, interviewees might forget that they are involved in a study and it is the researcher's responsibility to remind the interviewee of this. For instance, when an elite interview is in progress, it cannot be guaranteed that no-one will interrupt the interview; if this happens, it is the researcher's obligation to turn off any recording devices and even leave the room for the interviewee to keep his/her privacy (Kvale, 2007).

To show respect, the researcher should not waste a selected individual's time. For instance, it is not appropriate to arrive late for the interview (McEvoy, 2006; Morris, 2009). Questions are another aspect to which great attention should be paid. Questions can be easily answered in a variety of ways. It is not advisable to ask elites to provide some background information to their responses. Rubin and Rubin (2011) suggested that offering to provide the results of the study is one of the ways to make interviewees feel that the time which they spent on the interview was worthwhile. The researcher should always be polite, even if an interviewee repeatedly cancels appointments or if there are frequent interruptions. The researcher should be aware that interviewees are providing great help for him/her to move forward in terms of the research, so mocking or sarcastic comments should be avoided. It is appropriate to show understanding of the arguments put forward by interviewees and it is better not to interrupt an interviewee even when he or she is saying something irrelevant to the research topic (Mason, 2002; Kvale, 2007).

Keeping promises is another important ethical consideration for a researcher. It means that a researcher should make sure exactly what can be delivered to interviewees. If a researcher has promised that interviewees can read and correct a draft of their interview, it is necessary for the researcher to do this as soon as possible after the interview. If a researcher has promised interviewees that their personal details will be kept confidential, then it is the researcher's obligation to fulfil this promise. In some extreme case, if a researcher is unable to fulfil any promise he/she has made, it is necessary to warn interviewees in advance of this happening. In this study, discussing confidential issues with the selected individuals was one of the most important aspects, so it was the researcher's responsibility to use appropriate tactics to avoid identifying interviewees to any organizations or individuals. Interview data must be stored in a secure location in order to ensure that no harm caused by exposure will occur to interviewees after the interview.

The third ethical consideration for elite interviewing is whether the interview might cause any pressure on the interviewees who participate in the research. Unlike interviewing ordinary people, elites know that they are positioned in a position of authority, which means that they can grant or deny any request from the researcher, but issues likely to put pressure on elites still need to be considered. For instance, because of the cultural differences discussed above, Chinese elites might be resistant to being interviewed without any *guanxi* (social networking) endorsement. The researcher in the current study had to remind the selected elites that even though he had used a particular social network as an endorsement, they nevertheless had the right to choose whether or not to accept the invitation to participate in the research. In order to give more freedom to the elites to decide whether to participate, the researcher fully explained the research purpose in advance, and even sent the interview guide to them, letting them know exactly what kinds of question he wanted to ask. Providing enough details of the research and helping potential interviewees to evaluate all the potential risks which they might encounter is another responsibility of the researcher. Neither the interviewer nor the interviewees can anticipate all the risks which the research might entail. As a result, enough freedom must be provided for an interviewee to interrupt the interview at any time, and he or she must have the right to decide whether the interview data can be used in the research or can be published.

To make interviewees feel comfortable, it is necessary to select a location which can make them feel safe. In this current study, the elite interviewing took place in the participants' offices. In addition to not pressure elites to participate in any research, any question which

they are clearly reluctant to answer must be withdrawn in order to protect their privacy. Rubin and Rubin (2011) offered the reminder that an interview is not an interrogation, so the researcher should not denote or imply that an interviewee has not provided the truth.

Finally, doing no harm to interviewees is another crucial ethical principle which should not be neglected (Rubin and Rubin, 2011; Horrock and King, 2010). Elites who have talked to the researcher should not then find themselves in a worse situation. Ideally, they should be better after they have granted their valuable time to the researcher. Elite interviewing in China might make them feel uncomfortable or that they have taken a political risk, so it is the responsibility of the researcher to make sure that the selected elites cannot be identified. Informed consent is the core of interviewing, because it will guarantee that the participants understand the purpose of the research and all the potential risks which it might generate. Ultimately, it is necessary for a researcher to fully explain the function of the informed consent form and ask the selected elites to sign it. In order to make them feel secure, it is necessary to explain to the interviewees when the research will be finished, how the data will be used, and how the data will be dealt with after the research has finished.

Elite interviewing was the main research method of this current study. Before undertaking the elite interviews, it was necessary to contact the potential interviewees before the field work started. As discussed in section 4.4.1, because of the cultural difference, a researcher wishing to gain access to Chinese elites has to use multiple approaches, putting especial reliance on personal social networking. However, using *guanxi* to recruit these people risks some ethical problems; for instance, whether the *guanxi* puts (political) pressure on elite respondents and forces them to participate in the research. This consideration is less likely to be problem where potential elite individuals who hold high political rank are concerned. These are powerful figures, so are unlikely to experience pressure if *guanxi* is adopted – in fact they may be more willing to talk with the researcher and might even recommend more potential interviewees who could be included in the research if they feel very positive about it. As a result, utilizing *guanxi* is the best way to gain access and establish a rapport.

A final consideration is the fact that, in recent years, with the development of social media in China, many journalists, in order to gain fame, have misused elite interviewing. Any negative news about elites exposed on the social media will damage their future. This makes Chinese elites interviewees understandably sensitive about being interviewed and to protect themselves, some of these individuals might be perfectly prepared to talk to a

researcher, but unwilling to sign the consent form. There are also regulations about Chinese political leaders not agreeing to be interviewed by western journalists, so the current researcher had to explain the purpose of the interview extremely clearly.

#### **4.6.1.2 Data protection**

The collected data for this thesis conforms to the Data Protection Act in the following ways: data will only be used for the purpose of this research and all the related data will be destroyed after this research has been completed. The real names and the specific positions of the participants will not be revealed. All of the collected text-based data will be stored in a secure locker within a locked office in the Research Centre for Social Science (RCSS) in the University of York. This means that only a limited number of key holders can enter the building. The researcher himself is the only person who holds the key of the locker. All the electronic data related to this study will be securely stored in the University of York server accessible only by student ID and password.

During the field work, when the researcher had to be away from the campus, the text-based data was stored in a steel safe box which required the researcher's fingerprint, key and password simultaneously. The electronic data were saved in password-protected files on the University of York server through the Virtual Private Network and could only be accessed by student ID and password. After the researcher had finished the field work, all the text-based data were stored in the locker within the RCSS described above.

#### **4.6.2 Potential limitations**

Ideally, the thesis should have used 'plan A', the intention of which was to focus mainly on policy makers from selected ministries and relevant organizations (see appendices). Unfortunately, due to certain unpredictable difficulties – for instance, obtaining access to the Ministry of Civil Affairs proved impossible (see section 4.4.1.1) – a number of well-known and expert professors were selected as complementary interviewees. Not being able to access some of the most senior officials was unfortunate, because it inevitably meant that the thoughts of some influential people could not be included in this research. Although those who have been selected as complementary interviewees are famous and influential academics, and have either a direct or indirect impact on the policy making process, their viewpoints are nevertheless likely to differ from – and arguably may be more 'theoretical'

than – those of policy makers. So, in some ways, Plan B is not as good as the Plan A, but, conversely, it may be that the inclusion of the expert academic standpoint can provide a more objective position for understanding the Chinese case.

## **CHAPTER FIVE: HEALTH POLICY: MOVING BEYOND FRAGMENTATION?**

Health-care reform has a high media and political profile in China. In recent years, the Chinese government has paid unprecedented attention to improving the performance of its existing health-care systems. The current health reforms are targeted at a variety of related problems including the fragmented management institutions and other related problems such as poor affordability and poor accessibility, which have severely constrained the performance of the Chinese health-care system. With China well on its way to becoming a middle-to-high income country, people have higher desire to decent life with better healthcare system, more systematic social security system and more certain social safety net. To achieve a better understanding of the current state of health-care development and to conceptualize the nature of the recent health reforms, the ISR theory proposed by Gough *et al.* (2004; also see Chapter Two) will be used in this chapter and the following chapters to provide a baseline or starting point from which to judge China's progress towards the construction of a more comprehensive health care system. Since 2009, the Chinese government has treated the reform of Chinese health-care as a priority. Collecting, understanding and interpreting the thinking of elite policy makers and experts will help to capture the key elements of health-care reform. After Xi Jinping came to power in 2013, Xi also paid unprecedented attention to the Chinese health system. In 2014, the Chinese government started a comprehensive healthcare reform, known as "The Tripartite Health Sectors Reform", which aims to resolve all health-related problems in a short space of time. As Xi (2016) pointed out, "A Comprehensive healthcare system is a foundation for China establishing a moderately prosperous society." President Xi even proposed a new term – 'Health China' – which is used to depict a future blueprint of the Chinese health system. 'Health China' is an umbrella term, which requires the government not only to pay attention to the healthcare system but also to attend to twelve other areas including the old security



system, child protection, environment protection and other related to public health issues (State Council, 2016).

This chapter will also consider a range of perspectives on China's health-care reform from members of the Chinese policy making elite. Using interviews with well-placed individuals, the chapter will clarify the primary targets of the health-care reform, the main achievements to date, the main problems that are currently facing the Chinese health-care system, the potential solutions proposed for addressing these problems, and bearing the ISR in mind, how far China has departed from Gough's initial appraisal of the Chinese health system. The key question is 'What is the nature of China's current health-care reforms? In the following section, the chapter will discuss the government's health ambitions in more detail.

### **5.1. The Health Ambition of the Chinese government: an overview**

Chinese health policy has become increasingly ambitious since 2013. In 2009, the Chinese government started a health reform known as 'New Generation Health Reform', which aimed to deal with certain problems such as poor affordability and health inequalities. However, the beginning stage of the reform only affected relatively simple problems such as expanding health insurance coverage. As a result, Chinese people did not experience many changes in the first few years (Wang, 2009). Things began to change after Xi Jinping came to power. According to Xi (2015), we (CCP and its government) should let people feel they gain a lot from the country (*huode gan*).

In order to explore the nature of the current Chinese welfare system, it is necessary first to clarify the state's objectives in the recent health reforms started in 2014 (bearing previous reforms in mind, these can be considered as a 'second stage' of healthcare reform – see Ngok and Wang, 2017). According to a number of government policy documents, China intends to create a "more equitable, more efficient, more sustainable and universal healthcare system" (State Council, 2009; 2014; 2015; 2016). In 2016, the Chinese government published a Notice regarding the primary tasks of the health-care reforms (State Council [2016] No. 26) stating that in order to create a health-care system with a hierarchical structure, the key priorities on the government's agenda were to establish a universal health insurance system and secure a more efficient system of drug management.

From the perspective of some of the interviewees, the UK provided the key example of a hierarchical health care structure, while the US acted as the best example of an efficient system of drug administration. One of the respondents confirmed that:

*The current health reform called the Tripartite Health Sectors Reforms is the most crucial task of the Chinese government at the moment. The Chinese government aims to systematically and comprehensively improve its whole health-care system by learning from some developed countries such as the UK and the US simultaneously. (Interviewee M)*

However, reviewing policy documents is not enough to reflect the fundamental drivers of the current health-care reform in China. Almost all the interviewees involved in health policy asked questions such as ‘What are the key targets of the Chinese health-care reform?’ and ‘Why has the Chinese government been eager to change its health systems in recent years?’ Interestingly, answers to these questions differed depending on whether or not interviewees were members of the government or came from other agencies. Government members had a similar view about health care, but other elite respondents from universities and non-governmental organizations such as some NPC members expressed different points of view about what, in their opinion, the Chinese government wants to achieve.

Interviewee (A), who worked in the MOHRSS raised the idea of a ‘sharing society’ and pointed out that China had already achieved incredible economic development but that “there are still many people left behind”. He believed that China needs to be, and should create, a sharing society, which can “enable all Chinese citizens to share the positive outcomes brought by the socio-economic reform”. To this end, he commented that the current health-care reforms are primarily intended for “serving the increasing needs of the people”. Interviewee (C), also from the MOHRSS, see Chapter Four), also talked about the key targets of the health-care reform. He explained that the aim of the recent changes was to “integrate and unify the current health systems”. The underlying goal is “reforming the current management institutions” and “promoting the performance of the health-care system”. Not too surprisingly, this interviewee also suggested that improving the current health-care system constituted an attempt to “improve the health welfare standard for the people” and “enhance the capabilities of serving the people”. These views were endorsed by interviewee (D) who also worked in the MOHRSS. He stated that reforming the current health-care system was mainly a “response to the increasing demand from the public”,

while also indicating that there was also a desire to ensure “the legitimacy of the CCP and the government”. Interviewee (D) was clear about this underlying driver, stating that if the current health care reforms “did not achieve people’s expectations”, this failure could threaten the legitimacy of the CCP government.

Interviewee (G), a top Chinese university professor, argued that the health-care system as it existed before President Xi “did not satisfy the needs of the Chinese government” and that the reforms were an initiative by the present government to seek better solutions. At this stage, as interviewee (G) pointed out, “creating a universal health-care system will be one of the most crucial tasks for the Chinese government”. This interviewee also indicated that there is a debate about which direction should the Chinese health system moving forward US like a market-based healthcare system or a UK like NHS. This debate in some cases can also reflect from some of the Chinese official documents (see Appendix H), there are inevitable conflicts among various documents. He further added that moving “towards a kind of NHS health-care system is the choice finally made by the State Council.”

As well as the social targets of the health-care reform, as many interviewees revealed, the current reforms also have clear economic goals. As interviewee (U), who is a successful businessman operating one of the exemplary health projects in Zhejiang province pointed out, since President Xi came to power, the aim of the health-care reform had been “to find a new economic growth point” for the further development of the Chinese economy. Comments made by both interviewee (A) and interviewee (D) confirmed the economic, in addition to the ‘social’, purpose of the health-care reforms. Interviewee (A) claimed that the reforms would serve to establish an “innovative and a consumer-oriented economy” and would “satisfy a variety of demands from the people, especially from the middle class”. He also explained the relationship between the Chinese economic development and the THSR:

*A kind of systematic reform is necessary for health-care reform, which must be firmly linked to economic reform as well. It is inevitable that health-care reform without economic development or progress in our country will inevitably end up in failure. (Interviewee A)*

Interviewee (J) pointed out that “the process of upgrading current industries calls for higher quality in the health services”. Because upgrading industry has created uncertainty across

the whole of Chinese society, improving the health-care system will allow for the development of a healthier workforce, so the Chinese government needs to create a more efficient and more reliable social safety net<sup>13</sup> including health protection system to protect people from uncertainty. It is necessary to improve the current health system to support such transitions.

In recent years, the Chinese government has accelerated the rate of urbanization, and health-care reform over the past few years has been intended to meet the increasing demand from this rapid urbanization. As interviewee (D1) who is a health expert working in the NHFP confirmed, health-care reform has multiple purposes, but one of its primary targets is “to deal with some problems brought by the rapid urbanization.” Respondent (I) insisted that the health-care reforms principally address some internal problems existing within the health-care system and that the Chinese system needs a more reliable and more equitable health resource allocation system. Interviewee (D1) also showed his consideration of some of the existing problems such as poor affordability and poor accessibility when he commented that resolving both the poor affordability and the poor accessibility will be the priority concern of the current reforms. Interviewee (N) expressed concern about the “increasing need for long-term care services from the aging population”. As he pointed out, the aging problem is one of the newly emerging problems that the reformed health-care system needs to take seriously.

Interestingly, interviewee (T) insisted that “the current health-care reform aims to industrialize the health sectors”, which is a reference to some experience from many developed economies, especially the US and the UK. Interviewee (T) also assumed that the Chinese government intended both to achieve economic development and to satisfy the population’s needs.

Indeed, China’s health-care reform is not a simple task. As these responses make clear, the country not only has social goals but also economic and political aims. There are therefore multiple drivers behind the current health-care reforms. Almost seven years have passed since Xi came to office, and the new generation of health-care reform has surely achieved

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<sup>13</sup> In China, social safety net included the health protection system.

some success: but what are the key achievements? What are the major challenges facing further reform? In the following section, these questions will be discussed in greater detail.

## **5.2 New Generation Healthcare reform since 2009: achievements and challenges**

The interviewees (e.g. A, B, D, D1 and G) were asked about the major accomplishments of the health-care reforms to date and the current position of China in terms of improving performance. The aim of these questions was to explore whether the progress being made towards a more comprehensive Chinese health-care system is likely to contribute to a better welfare regime. Most of the interviewees regarded the “full coverage rate of the three existing social health insurances” as the biggest achievement in the past few years. A full coverage rate of social health insurance is a significant achievement for a heavily populated country such as China. As interviewee (G) commented:

*The full coverage rate is the foundation for China towards a universal health-care system. (Interviewee G)*

However, some of the interviewees demonstrated concerns about the real extent of the coverage rate of the existing Chinese social health insurances:

*The full coverage rate is an unprecedented achievement in such a populous country ... However, the quality of the full coverage still contains some problems. Some eligible people have still failed to enroll in the existing health insurances. (Interview E)*

To discover what ‘some problems’ refers to, the researcher asked some follow-up questions. For instance, ‘what do you mean by some problems?’ and ‘Can you talk more about the issue of ‘some problems’ in the health-care system?’ These questions were mainly used to confirm the key drivers of the reforms and the challenges that confront policy makers. There are, of course, various problems in the health sectors and several of these were mentioned by the interviewees. Chief among the challenges is the ‘*Suipian hua*’ problem,’ also known as fragmentation problem’. Virtually all the interviewees displayed concerns about the fragmented health-care system. In the following sections, the nature of ‘fragmentation’ in the Chinese context will be clarified and discussed.

### 5.2.1 '*Suipian hua*': Fragmentation

The Chinese health-care system is a typical product of incremental reform (Gu, 2017). Many problems exist in the current health-care system, chief among which 'fragmentation'. For present purposes, this term refers to a policy environment that is literally 'fragmented' in a variety of ways. Of key importance here is the fact that health care, understood as the sum of the availability of health insurance, the availability of hospital treatment, the management of medicines, layers of health care governance and forms of health care finance differs across social groups and geographical regions. (Gu, 2017). The fragmentation problem has two main causes: path dependency and the governance predicament. The following sub-section will address the fragmentation which results from path dependency.

#### 5.2.1.1 Path dependency: *hukou* and work unit systems

Path dependence is the first reason for China's fragmented health-care system. Many of the interviewees blamed previous Chinese reform strategies for this; the Chinese government has always adopted an incrementalist reform process and this approach to change does not abolish previous institutional structures when establishing new ones. Interviewees employed by the state used an indirect way to suggest why path dependency had led to a fragmented health security system. Many of these interviewees used the phrase 'due to some historical reasons' (interviewees A, C, D and E1). Interviewees from universities, the NPC or the CPCC also criticized the previous reforms adopted by the Chinese government more openly. As interviewees (G), from Peking University, and (H1), from Renmin University, pointed out, the previous gradual-incremental reforms had contributed to "a chaotic situation". Two typical examples of this can be found in the *hukou* system and the system of work units.

Although the rural *hukou* system has announced that it will abolish soon, its long-term impact could not be eliminated in a short period. As an internal passport system, the *hukou* system meant that all regions of the country were working as independent units. This system constrained the existing health insurance arrangements because only local *hukou* holders could be enrolled in their local health insurance scheme (*see* Chapter Three) and it was therefore unlikely that health insurance schemes would accept payments from individuals and families living at a distance (*see* Chapter Three). Conversely, *hukou* holders

who were non-local could not participate in health insurance schemes that were ‘local’ to their current place of abode (Meng *et al.*, 2015). As a result, these *hukou* holders had to pay out-of-pocket if they needed access to health-care systems in regions other than those in which they were originally registered. These problems were confirmed by interviewee (E), who pointed out that the *hukou* system was “not an outsider-friendly policy” because it placed some social groups such as migrant workers in uninsured situations:

*Because the majority of migrant workers are not local hukou holders, they could not enroll in the urban residents' health insurance. In the meantime, many migrant workers did not sign a formal contract with their employers. As a result, they could not participate in the urban employees' health insurance as well, even though some of them had already enrolled in the NRCMS. However, without a local hukou, the NRCMS could not cover their rural medical expenses. These situations meant that many rural migrant workers could not receive any health insurance protection in urban areas. (Interviewee E)*

Interviewee (F1) also revealed his concerns about the fragmentation problem. He thought that “the adverse effect brought by the *hukou* system will remain” and that this would “make it difficult for migrant workers to integrate into the urban welfare system”. The same interviewee further pointed out that “the *hukou* constrained those people from becoming new citizens in the cities”.

The *hukou* system has therefore caused the separation of China’s welfare system into different segments, especially as it stirred up both regional inequalities and urban/rural differences (*see* Chapters One and Three). This is one of the biggest challenges that the Chinese government now has to overcome. However, the barriers caused by the *hukou* system do not form the whole picture of the fragmented health-care system; the work unit’s arrangement also contributes to the fragmented health-care system. In particular, the work unit system separates people into different social groups and these various groups enjoy different standards of welfare. For instance, civil servants receive the most generous welfare provision, next come urban employees, and then urban residents, whereas rural residents currently receive the worse health benefits. In reality, the work unit arrangement has further divided people’s welfare standards according to their administrative rank. Within the same social occupation, civil servants for instance, “a higher administrative rank

means a higher standard of health benefits. Richer work units have higher welfare standards than poorer ones” (interviewee O).

### **5.2.1.2 ‘Governance Predicament’**

The complex nature of governance structures is another key reason for the fragmented Chinese health-care system and interviewees blamed the current governance arrangements in China for health care problems to a greater or lesser extent. The term ‘governance predicament’ was used by interviewee (G). This term involves a number of factors, such as the weaknesses of policy makers, intense localism and the multiple actors' governance model. These factors combine to cause an extremely fragmented health-care system. The weaknesses of the policy makers can be regarded as the first root of such problems:

*Chinese health-care has an obvious fragmentation problem. The origin of this issue is the combination of the differences between regional policy making and localism [too much decentralization]. Three existing social health insurance schemes have been established at different times, targeting various social groups, adopting different regulations, and coping with different problems in different periods. The health security institutional design lacks foresight, lacks full consideration, suffers from incrementalism plus the path dependency restrictions, without continuity, and that is why the fragmentation emerges.*

(Interviewee G)

Interviewee (G) clearly believes that the governance predicament caused by widespread localism and problematic policy design was the main factor responsible for the fragmentation problem. In the following sub-sections, different aspects of the governance predicament will be discussed.

### **5.2.1.3 The weaknesses of the policy makers**

According to interviewee (R), Chinese decision makers have their limitations when they are making social policies. He talked about the educational backgrounds of some previous national leaders and made the point that “in the past, a majority of the national leaders were



engineers”, and that former national leaders “were not familiar with the term ‘social policy’” and they even “lacked the core knowledge of policy making”. He insisted that “the education background of national leaders to some extent caused the system fragmentation”. The same interviewee added that “due to lack of related capabilities [in policy making]”, the Chinese policy makers had “a lack of foresight” and sought only to resolve the current problem and “neglected the potential risks which might emerge subsequently”. He cited the establishment of the UEBHI as an example and claimed that “it was designed for satisfying the urban SOE’s employees’ primary health need at that time”. Because the policy makers lacked foresight, the needs of some social groups such as the self-employed and migrant workers were not fully considered (*see* Section 5.2.2.1). In rural areas, the problem is more severe than in urban areas:

*The Chinese government owed too much to the people. Because they [policy makers] lacked foresight, in the long term, after the Rural Cooperative Medical Scheme [RCMS] collapsed, the rural areas became totally insecure.*  
(Interviewee R)

Interviewee (H1) confirmed this view and added his understanding of the weaknesses of policy makers. He commented that policy makers were “accustomed to only consider the current difficulties and never predict future risks”. Undoubtedly, due to the weaknesses of decision makers, rural citizens remained locked in a welfare vacuum for an extended period (*see* Chapter Three). In reality, this lack of policy continuity is another reason for the fragmented health-care system. As interviewee (J) pointed out, “the lack of policy continuity is not only a technical problem”, it is an issue that is related to the nature of Chinese politics (Gu, 2016). Although all the core leaders are members of the CCP, different individuals have different perspectives on health-care reform and, as a result, new leaders can on occasion cancel their predecessor’s policies or change the direction of reform to enhance their own prestige:

*It [cancelling the past policies] has very frequently happened. There are plenty of reasons for new leaders to do that. First of all, it is the quickest way to establish his [the new chief’s] prestige via new thoughts, new policies. Second, maybe he is on the opposite side to his predecessor ... However, this causes massive disaster for health policies. Some (leaders) might think that health insurance is the most severe problem and that when their reforms just achieve*

*some progress, they might get promotion, then someone else (his successor) might think that public hospitals should improve immediately, then the government will devote all its energy into a new area... then fragmentation emerged. (Interviewee J)*

In addition to these weaknesses, localism is another factor leading to the fragmented health-care system. Localism in the Chinese context refers to the full range of decentralized governance structures across the whole of China. The most obvious example is that, over time, the central government has devolved too much discretion to local governments. In the following sub-section, this issue will be discussed in greater detail.

#### **5.2.1.4 Localism**

Localism is relatively complex in China. It reflects some “traditions of China” (interviewee E) and it illustrates some difficulties in the policy-making process, especially the “lack of a top-down perspective” (interviewee H1). Discretion for local government is not a bad thing in itself, but too much autonomy for local governments might cause some problems. Because of the huge territories involved, it is convenient for Chinese politicians to adopt a decentralized approach to the governance of such a big country. Although many states have adopted this approach, it is seldom the case that a country decentralizes to the degree that has taken place in China. One of the interviewees explained why decentralization has contributed to the fragmentation problem:

*The root of the fragmentation problem in China is the absence of any top-down design or at least insufficient top-down design. This issue is mainly due to the decentralization at all levels of government. By top-down design, I mean the national basic institutional arrangements, which should be the basis of the national governance. A good top-down design has already emerged in economic policies, but social policy-making still lacks such a thing ... take health insurance as an example, we [the Chinese government] have some consensus about how to reform it, but unfortunately, in the implementation stage, local health reforms still show different versions of reform... (Interviewee H1)*

Indeed, decentralization in the absence of any top-down design is an important contributing factor to the fragmented nature of health-care in China, especially when the higher levels

of government grant further discretions to lower-levels of government. For instance, the State Council will devolve discretion to provincial governments, then the provincial governments will authorize city-level governments, and city-level governments will further decentralize their responsibilities or tasks to even lower tiers of government. These lower-level government bodies will further devolve responsibilities to the lowest governmental organizations. For instance, the county-level of the Social Security Bureau will decentralize health insurance management to lower level bureau or agencies. This has given Chinese decentralization its unique characteristics. Further, ‘the central government’ may convey very different meanings for different levels of Chinese local governments. It not only refers to the central State Council but could equally refer to a government level one tier above a particular level, which has discretion over policy making at that level’ (Nie, 2013). One interviewee pointed out that China’s decentralized system of government can make the country look like a union of various independent states, which might accurately be described by the term ‘*de facto* federalism’ proposed by Zheng Yongnian (2007). Arguably, China is more akin to the European Union in the sense that different areas and regions exercise considerable power within their jurisdictions:

*The decentralization in China is quite different from that in other countries. Since the era of Chairman Mao, we [the CCP] preferred to use the tool of decentralization, and that is why China is not a typical communist country ... Why is it [decentralization] different? It is because we keep decentralizing from the highest to the lowest [government levels]; it is a political wisdom in which we are seeking to maintain the balance of power... but some problems have been raised... Different regions tend to put the local interest in the priority position... China then looks more like a union of states like the EU. So I agree with some scholars’ claims that China is more Europeanized, and I think that this is the reason why China has a unique decentralized status and then [why decentralization] makes our welfare system so fragmentary. (Interviewee M)*

This unique scale of decentralization also helps to explain why localism is so widespread. For example, local governments design their welfare systems typically to consider only the needs of residents who are local *hukou* holders. What makes matters even more difficult is that governments at city-level and beyond can enact their own laws and regulations constitutionally. This level of independence means that local governments have more freedom to implement policies and even make some adjustments to the State Council’s

goals. Because of the regional differences, it is unlikely that the State Council could enact a unified standard in particular policies. Normally, policies promulgated by the central government are quite ambiguous. This ambiguity can be beneficial for economic and various other public policies because local governments can make full use of their local resources. However, for health security policies, such policy ambiguity is a constraint to achieving better health outcomes. One of the interviewees who worked in the MOHRSS claimed that:

*.. policy fragmentation has frequently happened in our country ... the State Council (central government) and its ministries (and commissions) will only provide an ambiguous policy framework for provincial governments; the provincial governments will then enact a more appropriate regulation for city level governments' reference. However, the rules leave many blanks for the city-level governments to fill. The city-level will need a more accurate regulation than the provincial one but some blanks still remain for lower-level authorities to fill in ... you know different counties, cities are entirely different. Therefore, local governments can make some corrections ... our health insurance is to some extent constrained by such arrangements. (Interviewee D)*

This tendency towards policy ambiguity from the central government provides the opportunity for the local governments to focus on their particular local interests. As well as the factors discussed above, the use of trial-and-error strategies<sup>14</sup> is a further sign that Chinese policy makers do not have a top-down perspective and they also further increase the fragmentation problem in the health-care system. The trial-and-error attitude occurs when the Chinese government undertakes progressive reform. In short, when a new policy emerges, the government usually selects several local governments as places in which to experiment with pilot programs. Once these pilot programs have achieved satisfactory levels of performance in the experimental local government areas, the central government will then expand the program nationwide. However, these programs might not be entirely suited to local conditions elsewhere, with the result that different local governments generate various versions and interpretations of policy depending on local conditions.

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<sup>14</sup> Pilot program first then expand nationwide if the program works well.

### 5.2.1.5 The problem of the legal system

The problem posed by localism is exacerbated by the immaturity of China's legal system. The problem of the legal system is partly a cultural issue and partly the consequence of Chinese traditions. Unlike western society, Chinese society is built on trust rather than contract, and this trust is based on personal relationships known as *guanxi* (see Chapters One and Four). Traditionally, China is not a society governed according to the rule of law, the governing principle is 'rule by man'. The Chinese legal system is still relatively immature and this immaturity has at least two adverse effects: first, without the element of rule by law, Chinese governments have not shown sufficient respect for the law. As a result, from design to implementation, all levels of governments lacked comprehensive consideration of the complexities of policy making and policy evaluation (see Pawson, 2013), and also had no effective means of monitoring the implementation of specific policy programs. One of the interviewees provided an example to demonstrate the link between the underdevelopment of the legal system and the fragmentation problem:

*The Chinese government proposed a plan to integrate rural and urban health insurances by the end of the year [2015]. However, at that time, there were only a few days for local governments to learn the details of the new documents from the central government. It was unrealistic for local authorities to design a feasible reform plan and also to implement the program in such a short time. This situation shows that law-making or policy-making in China was not regarded as a serious issue. The central government adopted a casual attitude to social policies and social laws, then local governments failed to treat them [social policies and laws] seriously. What is worse, the State Council failed to monitor the implementation of the new policies. As a result, many laws and policies could not be implemented at the final stage in many regions. (Interviewee R)*

The State Council did not allow enough time for local governments to make the appropriate preparations for understanding the new policy documents. Moreover, the central government push very hard for local authorities to implement the new policy rapidly, which meant that they had insufficient time to roll out the policy properly (also see Chapter Three):

*You can blame the current central/local relationships, you can blame local governments for only caring about their own interests, but you cannot ignore the fact that we [central government] push too hard on local governments, and that is why we need reform to adjust the current situation. (Interviewee W)*

Furthermore, if local governments fail to achieve policy targets, penalties are not necessarily imposed. Similarly, if a local government changes the target, the central government will not necessarily take any action. One of the interviewees claimed that this disrespect of the law is one of the roots of fragmentation problem:

*China is not a law-ordered country; within the country, the law is useless, it cannot play any role in the policy-making process. You can see the problem in China everywhere ... without respect for the law, the central government lies to the local governments, the local government also play tricks on central government, so no-one will treat law or regulation from governments or legislation organizations seriously ... especially the lowest level authorities, because they think that the central government could not manage them, so they can do everything they want... this is the reason why the Chinese social welfare system, health-care, pensions and social assistances vary across regions and governments, and this is (known as) the fragmentation problem. (Interviewee R)*

From the discussions above, it can be seen that fragmentation is the core issue in the current health-care system in China, and that it has also caused some severe problems such as poor affordability and poor accessibility.’

#### **5.2.1.6 ‘Nine Dragons governing the river’: Multiple Channel Management (MCM)**

Multiple channel management (MCM) is another root cause of China’s fragmented health-care system. The MCM means that various ministries and departments manage the same issues simultaneously -- a situation that has caused considerable conflict among different governmental organizations. There is a metaphor known as ‘Nine Dragons governing the river’, which effectively illustrates how dysfunctional MCM is. The reason why MCM phenomenon emerged in China is because the government commonly divides responsibilities among different governmental systems. Initially, MCM was intended to

improve the government's efficiency and to reduce the level of corruption in addition to maintaining the balance the power among different organizations. All of the existing health insurance schemes have different regulations regarding financing, governance benefits standard and other related issues. Furthermore, different provinces, cities and even lower levels of government each have their individual management departments such as a local Human Resources and Social Security Bureau. Moreover, each bureau might have quite a few offices or other organizations managing health insurance separately. In theory, then, a degree of coordination would be beneficial. However, one of the interviewees claimed that the MCM is in fact a problematic arrangement that has, if anything, contributed to the fragmented nature of the health-care system:

*We all know that China's social security system is fragmented ... we have to take charge of a lot of jobs which might not actually be in our remit. We sometimes have to negotiate with other departments for many overlapping areas. Take health insurance as an example; we divided the management responsibility between several ministries. Within a department, we further divided the power across several different departments and then [further authorized it to] offices. Initially, we thought that it would enable all of us to achieve our goal collaboratively in an extremely efficient way. However, the thing is moving towards the opposite result ... (Interviewee D)*

Because power has been divided among different organizations, in order to make decisions those organizations have to collaborate with each other, but they tend to consider their own interests and trade-off whether the policy will make it easier for them to do their specific jobs – or they will only consider whether the arrangement will make their departments more powerful. In this way, the MCM has had an adverse effect on the whole health-care system.

### **5.2.2 Poor affordability**

Poor affordability has a variety of characteristics such as the high proportionate cost of medical services for the user and the unacceptably high cost of medicines. There are several reasons for these problems. First, they can be attributed to the large uninsured population. Second, the monopolies enjoyed by public hospitals mean that they have the autonomy to regulate their own medical prices. Third, the distorted drug administration system means that the costs of medicines are difficult to control. Finally, there is the limitation of health

insurance payment methods, such as poor portability. These reasons are related to the fragmentation problem discussed above.

### 5.2.2.1 The uninsured population

The large uninsured population contributes significantly to poor affordability. The fragmentation problem is relevant here because it contributes equally significantly to two difficulties associated with the lack of insurance. The first refers to neglected social groups such as the rural population and urban residents; the second denotes the large proportion overlapping insured population, which known as multiple enrollment problem (He and Wu, 2016). The first of these uninsured problems has now been resolved by expanding health insurance coverage (see Chapters Three). However, the overlapping uninsured problem still exists. The most typical example relates to rural migrant workers (see Chapter Three). To protect these workers, all levels of Chinese government have provided some preferential policies. Some local authorities allow migrant workers to enrol in the URBMI (see Chapter Three), others encourage them to register in the UEBHI (see Chapter Three). In reality, many migrant workers have already enrolled in the NRCMS in their place of *hukou* registration. This is why the problem of an overlapping insured population has emerged:

*If we force migrant workers who participated in the NRCMS to turn to the UEBHI, problems of massive repeated insurance would appear. Those migrant workers who already participated in the UEBHI actually would be insured twice ... (Interviewee E)*

In 2014, the total number of migrant workers was 274 million, of which there were 168 million workers who worked outside the UEBHI and only 52.29 million migrant workers who were participating in this system, a coverage rate of 19.1% (NBS, 2015). Even if outgoing migrant workers are included in the calculation, the coverage rate was just 31.1%. From the perspective of the UEBMI, there were still more than 100 million migrant workers eligible for urban health insurance who did not participate in the scheme. However, according to the count of people covered by the NRCMS, its coverage rate of rural residents had already surpassed 95% by 2012 (NBS, 2015). This situation makes it difficult to estimate the full health insurance coverage rate because large numbers of migrant workers have not enrolled in the eligible scheme while many of them enrolled both NRCMS and UEBMI simultaneously.



Another big insured population is online store owners and their staff. In recent years, with Chinese online economic development such as Alibaba, JD and other online business platform emerged rapidly, an increasing number of ambiguous employment conditions has emerged. It is challenging to identify which health insurance scheme these people are eligible for. If the government treats people who operate online stores as urban employees, it is unclear who should bear the responsibility for paying the employers' contribution. If the state treats these people as unemployed, they would have to enroll in the URBMI. In reality, however, the URBMI has a lower contribution rate and enjoys government's subsidies. Hence, many small business owners have withdrawn from the UEBHI and turned to the URBMI instead. These issues have had a significant impact on the current Chinese health insurance system. One of the interviewees commented that the actual health insurance coverage rate is far from the full coverage rate:

*From the perspective of employee medical insurance, this is also part of the problem of eligible members of health insurance schemes not being insured. With the application of internet technology and mobile technology, urban employment patterns have also changed in recent years. Flexible work and jobs with an ambiguous relationship to the labour market are a growing trend. This is another reason why the coverage rate did not achieve full coverage. Of course, there are also people who do not insure themselves because they evade payment, but this is just a technical problem and can be solved by strengthening management. (Interviewee E)*

Flexible working and jobs with an ambiguous relationship to traditional employment practices are related to China's fast-growing online economic development and this, in turn, is leading to an increasing population being able to work with an ambiguous employment status because it is not clear whether or not they are eligible to join the UEBHI. Of course, the uninsured problem is not the only driver of the poor affordability problem. Many interviewees blamed the current health-care services system, especially the management of the public hospitals. They insisted that public hospitals are the root of the poor affordability problem. Indeed, many of the interviewees replied that the management of the public hospitals is the main constraint to China achieving better health-care performance.

### 5.2.2.2 The monopoly of the Public Hospitals

In China, public hospitals monopolize the majority of health resources, in particular, the three-star public hospitals (the best hospitals). All hospitals are still under government control as a type of work unit. This means that all public hospitals will have a specific administrative rank and that all the doctors working in them are treated as governmental employees. The higher the administrative grade of a public hospital, the more health resources the public hospital can obtain. As a result, three-star hospitals can attract the best doctors and own the best medical facilities. The best facilities and the best doctors then attract more patients, and having more patients leads to these hospitals attracting more health resources. Furthermore, because the primary health-care system does not act as a gatekeeper (see below), three-star hospitals tend to be crowded and busy, with the result that they have to use the price mechanism to control patient flows. Therefore, the cost of health in these three-star hospitals inevitably rises:

*.... the three-star hospitals monopolize more and more high-quality medical resources which could solve the medical treatment of patients in the primary health-care system... The faster the three-star hospitals expand, the faster the country's health-care costs rise, and health insurance funds are rendered useless (Interview S).*

The fact that three-star hospitals monopolize health resources in this way has also caused some other problems, especially for low-income groups in urban areas and the majority of the rural populations, since the high personal costs of health-care became a considerable burden for them. Patients' instinct to pursue the best health-care services led to a vicious circle of poor affordability. Health poverty (*yinbin zhipin*) produced by the high costs of care led to greater poverty in general for some people and this 'return to poverty' because of health costs (*yinbin fanpin*) has occurred frequently in recent years (Chen, 2012). In addition, there are also geographical factors at work because the three-star hospitals are located in urban areas and this concentration of resource increases the health gap between rural and urban areas. Furthermore, as a type of work unit, public hospitals have constrained the development of private hospitals by restricting the free flow of doctors. Without any competition mechanism, the public hospitals can decide the cost of providing medical care. This faulty medicine pricing system is another driver of the poor affordability problem.

### 5.2.2.3 Distorted medical pricing system

The poor affordability problem can also be attributed to the distorted medical pricing system. The cost of medicine is under the control of the CDR. However, in reality, three ministries are involved in the process of drug approval, pricing and reimbursement policy decisions. These ministries are the CDR, the MOHRSS and the China National Food and Drug Administration Bureau (CFDA). The CFDA is in charge of new drug approval. The HRSS has control of the National Drug list which contains all the medicines covered by health insurances.

There are multiple drivers that distort the medical pricing system. One of the biggest drivers can be attributed to the complexities arising from the various actors involved in governance structures. The presence of multiple agents extends the whole process of how new medicines are made available to the market. The longer it takes, the greater the cost that drug companies have to shoulder. To compensate for these costs, the price of medicines has to go up. This distorted form of pricing is also related to the limitations of the pharmaceutical pricing process. For example, the CDR will set a drug price ceiling and also adopt a market-oriented rule to encourage competition. When determining the price of medicines, the CDR will usually take into account the cost of drug production, drug efficacy and, recently, an additional process designed to evaluate the economic efficiency of drug administration (Burns and Liu, 2017). However, one of the interviewees pointed out that there is a significant drawback to the process of medicine pricing: the price, in reality, does not match the market demand:

*The Commission of Development and Reform CDR, which is in charge of the medicine pricing] ... there are only a few staff [in the CDR]... they don't have enough people [to make decisions ... But no matter how many people you [CDR] can borrow, can you [CDR] figure out everything in the market everywhere? The market will change every day, every moment; you can't be sure, the only thing you can do is imagine and estimate for thousands of medicines, raising these ten today, turning down twenty tomorrow. The price flow should be determined by the market, so that when the demand goes up, the price is up, and when the demand goes down, it will lower the price, and it will cease to be on the market if the medicine is not efficient. (Interviewee R)*

Drug pricing is determined by a few key personnel, a system which has substantial planned economy features. In fact, collusion between doctors and medicine companies is another driver of the distorted drug pricing system. The compensation mechanism<sup>15</sup> in public hospitals leaves a vacuum in which physicians can collude with pharmaceutical companies to fix prices (*see* Chapter Three). If the doctors and medicine companies conspire with each other in this way, then it is possible for public hospitals to prescribe high-priced drugs and make high profits. As discussed above, although public hospitals are still under the control of the Chinese government, their primary income does not come from the state budget (*see* Chapter Three). As a result, these hospitals have to adjust their compensation mechanism. Of course, the rising price of medicines inevitably leads to higher medical expenses and, as a result, the poor affordability problem is exacerbated. Ideally, health insurance should play a significant role in controlling the price of medicine (Gu, 2012a).

#### **5.2.2.4 Health insurance payment methods**

China's current health insurance payments methods have several limitations. One is the issue of post-payment and another is the relatively underdeveloped long-distance payment system. The post-payment arrangement cannot control the increasing cost of health-care provision, because the post-payment arrangement focuses more on the hospital's profits, which encourages unnecessary inspections and medicines (Zhao, 2014:54); on the contrary, it does not encourage public hospitals to provide better health-care services (Zhao, 2015). The post-payment method uses patients' own money to resolve their health problems. Therefore, hospitals lack the motivation to improve their services and reduce the cost of health.

Furthermore, the *hukou* system constrains the possibility of long-distance payments for health insurance. Multiple factors contribute to this problem. The primary health-care services are relatively underdeveloped (*see* Chapter Three). People prefer to go to the best hospitals even though it might cost them more of their own money. At the same time, the primary health-care services have failed to play a role as gatekeepers for higher-level health services. For many people, especially the rural population, if they head to the best hospitals, they might not be able to use health insurance to reduce the cost of health-care for themselves. As discussed, the *hukou* system does not permit people to get reimbursement

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<sup>15</sup> This is a system related to the doctor's salaries, the system encourages doctors prescribe more medicines and inspections.

from a non-*hukou* registration place. As a result, the poor affordability problem is also related to some drawbacks of the current health insurance regimes.

### **5.2.3 Poor accessibility**

Poor accessibility is a further problem that currently confronts the Chinese health-care system. This issue can also be related to the fragmentation problem. Many factors cause poor accessibility: first, the primary health-care organizations are relatively underdeveloped, and, as explained above, the first-tier health services have also failed to play a role as gatekeepers for higher-level health systems. Second, there is the poor health resource allocation mechanism, especially the ‘siphoning effect’ of the public three-star hospitals. Third, the private hospitals do not play enough of a role in the whole health service system. In the following sub-sections, these issues will be discussed in detail.

#### **5.2.3.1 The undeveloped primary health-care system**

The undeveloped state of the primary health system has two dimensions: first, the primary health-care services, compared with their higher-level counterparts, are notorious for their inadequate facilities and low-skilled doctors. Primary health-care services are community-based clinics in urban and rural areas; they are in the lowest level of the Chinese health-care administrative ranking system. As a result, the government will invest less in these clinics. Because of the inadequate facilities and poor standards of staff welfare, the best doctors are not willing to work in these clinics. At the same time, the shortage of health workers also leads to the primary health-care system having to operate in an underdeveloped way. Furthermore, many primary health-care services do not connect with health insurance schemes. In other words, if patients use those first-tier services, they cannot obtain any health insurance reimbursement.

What makes things worse is that, as mentioned, the primary health-care services have never played the role of gatekeeper for higher-level health-care services, a feature that directly contrasts with the British NHS, for example. Patients do not use the primary health-care service as the first contact point when they become sick, so the three tiers of health-care that make up the Chinese system do not work in an integrated fashion. Instead, the hospitals and health organizations are effectively ‘independent kingdoms’. In China, no matter what the situation (for example, simply having a cold), patients prefer to access the three-star

hospitals – the consequence being that the three-star hospitals have to deal with many additional patients. Inevitably, then, the three-star hospitals are crowded, whereas the primary health-care services tend to be quiet and under-used (Gu, 2016; Burns and Liu, 2017). This situation is also related to the second problem, the poor health resource allocation system:

*The underdevelopment of the primary health-care system has been increasingly syphoning health resources to three-star hospitals. In particular, under the current administrative arrangements, the primary health-care system is unlikely to attract the best doctors and other resources. As a result, all the disease management and medical insurance funds have been increasingly syphoned off to the three-star hospitals...As a consequence, primary health-care cannot catch up the pace of the three-star hospitals.*

(Interviewee S)

The poor primary health-care system also reflects another crucial issue in the current Chinese health-care system, the poor health resource allocation system, which means that there is no mechanism for the Chinese health system to allocate health resources accurately. This will be discussed in more detail in the following sub-section.

### **5.2.3.2 Poor health resource allocation system**

Health resource allocation in China is not based on demand or need; it more depends on the administrative rank held by institutions established in the planned economy era (Zhao, 2015; Gu, 2016). Health resource allocation is also closely related to economic conditions; prosperous areas will have better health-care services, which tends to benefit the better off in urban areas (*see* Chapters One and Three). Three-star hospitals can therefore hold more health resources than other health organizations and, as discussed, this ability to attract greater resource (e.g. doctors, investment and facilities) allows these hospitals to attract more patients). This ‘syphoning effect’ (Ngok and Wang, 2017) means that the resources available for health care are not efficiently used; for example, patients who are not in need of emergency services and are not in a state of critical illness can occupy the energy and time of specialist doctors (Burns and Liu, 2017), while those who are really in need, find it

difficult to access the relevant specialists and the best treatments. However, the larger those three-star hospitals are, the more severe the problem of accessibility which will emerge. One of the interviewees who at one time was a doctor confirmed this issue:

*Poor accessibility is a unique problem in China. When I was a physician, my specialisms were cardiopulmonary and Chinese traditional medicine. Every day I had to deal with over 50 patients, but the majority of them were small problems which could be treated by GPs. But they do not trust the GPs ... For me, I had to decide to expand the hospital's scale, including hiring more health staff. Unfortunately, this did not change the situation; it only made more people crowd in and [patients found it] harder to access the doctors. (Interviewee G1)*

Expanding the scale of the three-star hospitals is an inefficient solution to the problems described here because it does nothing to improve the basic difficulty – the fact that the Chinese health-care system has no mechanism for health resource allocation. Blindly developing the three-star hospitals in fact makes poor accessibility an even more severe problem. However, the marginal role of private health organizations is also regarded as one of the key reasons why China's health-care services suffer from the problem of poor accessibility, and these will be discussed next.

### **5.2.3.3 Private hospitals**

In the past, all Chinese hospitals were publicly owned, but when the reforms to open up the market started in 1980s, a significant proportion of private hospitals emerged (Burns and Liu, 2017). By 2016, because governments introduced preferential policies to stimulate the development of private hospitals, the total number of private hospitals exceeded that of the public hospitals. More than 55% of hospitals are now privately owned (Gu, 2017) although, paradoxically, their market share remains marginal. This 'marginality' is mainly due to the fact that the public hospitals are able to hinder the development of private hospitals, and some of the obstacles they put in place lie at the root of the fragmentation problem.

The most typical barrier is that doctors within the public hospitals are not allowed move freely. All doctors who work in the public hospitals have an official rank and this arrangement determines their standard of living (such as salary and pension). Compared

with the public hospitals, the private hospitals might provide higher salaries but, conversely, they are not able to offer security of employment because the absence of government-provided financial support means that their futures are more uncertain. Funding can either be gained or lost depending on the capabilities of hospital managers. Furthermore, private hospitals have to deal with more challenges not only from public hospitals but also in the form of competition from other private hospitals. Again, without the best doctors, it is difficult for private hospitals to attract patients in the numbers that use the three-star hospitals. Furthermore, scandals have frequently constrained the private hospitals' development. In the past, because the government has not set criteria to restrict the establishment of private hospitals, their number has increased, but the quality of the treatment they provided has not improved accordingly. In particular, many unqualified doctors colluded with unscrupulous individuals in local authorities such as local NHFP and simply used the fact that private hospitals were viewed favourably to establish new hospitals and then defraud patients of their money. As one of the interviewees pointed out, private hospitals have significant drawbacks to and have done little to resolve the poor accessibility problem:

*Initially, we [the government] encouraged the development of private hospitals in order to break the monopoly of public hospitals and to provide more choices for patients, and then resolve the poor accessibility problem ... However, health staff shortages and other constraints from public hospitals mainly constrained the process of private hospitals' development ... and what is worse is that there are uncountable fraudulent hospitals in existence, such as 'Putian hospitals' ... Scandals, inadequate facilities and the shortage of the best health staff have greatly constrained the development of private hospitals.*

(Interviewee J)

So, the marginal role played by private hospitals has also contributed to the poor accessibility problem. On the one hand, public hospitals monopolize the best doctors and



facilities, while, on the other, private hospitals lack the ability to attract the best health staff and struggle to gain patients' trust because they continue to be scandal-prone. For patients, private hospitals cannot guarantee the quality of the health services that they provide. Therefore, although the three-star hospitals have low efficiency, poor service attitudes and high health charges, patients still prefer to use them. There are still some problems in the Chinese health-care system that are related to the fragmentation problem to a lesser extent. The first is the conflict between doctors and patients, and the second is the problem of aging, and these will be discussed next.

#### **5.2.4 Beyond Fragmentation?**

The conflict between doctors and patients in recent years has been extensively discussed in the Chinese media as well as in academic journals. It has many complex causes, of which the first is the internal competition and revenue system within public hospitals. Since the 1980s, Chinese governments have withdrawn some financial support from public hospitals, which amounted to about 15% of public hospitals expenditures (World Bank, 1997; Wong, 2015:84). As a result, all the hospitals encourage doctors to obtain revenue from patients (see Chapter Three) with the result that problems of over-prescribing and over-treatment frequently occur (He, 2014). Second, the average salaries for doctors and other medical staff are relatively small and to increase their income, doctors and other health workers use all available means to gain revenue from patients. As discussed, public doctors hold a specific administrative rank and regard themselves as a cadre rather than as service providers with the result that patients have to spend an extra money to have their diseases treated. This phenomenon relates to the practice of informal payments being made between patients and doctors. For instance, patients and their families often use a red envelope containing cash to please doctors who could give more attention to patients (Ruan, 2015; Yang, 2016), which directly increased the health costs of individuals.

Third, the asymmetrical information flow between physicians and patients is another core factor that stimulates the severe conflicts between the two groups. Patients, for example, might have very high expectations of a specialist doctor, but doctors themselves, may not be able to fulfil patients' expectations, and can find themselves in difficulties as a result. In recent years especially, patients have learned a lot about how to protect their rights in informal ways, for example by continuing to complain about doctors or hospitals which they believe have provided sub-standard levels of care. Some patients, threaten legal action

against doctors or hospitals as a way of earning money because they know that physicians and hospitals are unwilling to proceed with a lawsuit. As a result, physicians and patients lack mutual trust. There is not an official statistical database for this issue, but according to some newspaper reports, since 2006, there have been 10,000 cases relating to conflicts between doctors and patients (Chinese health insurance, 2008Apr:20-21). These conflicts have led to more than 40% of doctors and other medical staff to consider changing their jobs.

These problems associated with potential litigation suggest that the legal system in China is immature. Currently, China does not have a specific law to regulate the behaviour of either doctors or patients. Because all the public hospitals belong to a category of government work units, if patients complain about them, then it is straightforward to shift the conflict from doctor *versus* patients to patients *versus* government. The under-developed legal system and the arrangements of public hospitals make this problem quite severe because ultimately there are no legitimate mechanisms for arbitrating between doctors and patients – a situation that can have deleterious consequences for doctors. One of the interviewees explained this as follows:

*Ideally, doctors and patients should be in a harmonious relationship. However, there are no specific laws to regulate the behaviour of physicians and patients... the work unit nature [of public hospitals] makes patients became a 'vulnerable group' in public terms ... no matter whose fault it is, everyone will think that something is the doctors' or the hospitals' fault ... doctors are the real vulnerable group. But we [China] do not have a law to protect and regulate both sides [physicians and patients]. If conflicts emerge, the majority chance is that patients will win the final round because we are a socialist country where the government serves its people. (Interviewee G1)*

Legal 'immaturity' apart, there are of course other factors that compound China's the problems associated with China's health care system – notably the health care challenges posed by the country's rapidly aging population, which are exacerbated by the lack of comprehensive social care services.

### 5.3 Reforming the Chinese Health Care System: The Tripartite Health Sectors Reform (THSR)

Since Xi came to power, healthcare reform has been treated as one of the priority tasks of his social construction reforms. Xi and his government are basically seeking to reduce fragmentation problems. In their view, once these problems are resolved, then at least half of the Chinese healthcare problems will also be resolved. For instance, integrating two different residents' health insurance schemes is intended to create a more integrated health insurance management system, while creating a more integrated and hierarchical healthcare system is intended to address the public hospitals' problems.

The Tripartite Health Sectors Reform (THSR) refers to the simultaneous reform of the three key health sectors that have been considered above: health insurance, health services and drug administration (Zhao, 2015:1; also see Table 16 below). The THSR is not a new concept but dates back to the early 2000s, and Fudan University was the first to propose the idea of THSR, which was intended to reform the current health-care system comprehensively. At that time, because many core institutions such as the work units arrangement were considered to be beyond reform, the THSR was not implemented and became stuck in the policy design stage. Since President Xi came to power, however, the THSR has been prioritized.

**Table 16 The main strategies under the THSR**

Dimensions	Health Insurance	Health-care Services	Medicine Management
<i>Reform Strategies</i>	1.Integrating urban and rural residents' health insurances; 2.Payment method reform; 3.'Internet plus health insurance' program	1.Public hospital reform 2. Establishing a hierarchical health-care system 3. Introducing family doctors 4. 'Internet plus health-care services'	1. Essential medicines list 2. Central purchasing 3. 'Internet plus medicine management'

Dimensions	Health Insurance	Health-care Services	Medicine Management
<i>Targets</i>	1.Resolving the fragmentation problem and reducing the rural/urban gaps 2.Reducing personal charges	1.Establishing a more equitable, more accessible and more service-oriented health-care system; 2.Reducing health inequalities, stimulating the efficiency of the health-care system 3.Increasing the accessibility of the health-care system	1.Reducing personal expenses 2.Stimulating the quality and safety of the health-care system 3.Preventing collusion between hospitals and drug companies

Summarize by author, source from Zhao (2015), Burns and Liu (2017)

### 5.3.1 Integrating the Urban/Rural residents' health insurance schemes

Integrating the urban/rural residents' health insurance schemes (the NRCMS and the URBMI) is one of the most crucial tasks within the THSR. In 2016, the State Council issued a document entitled *Thoughts on accelerating the integration of urban/rural health insurance*, which included principles, requirements and strategies for local governments to integrate their two health insurance schemes for citizens (State Council, 2016). Combining these two schemes will have several benefits: the health gap between rural and urban residents will be reduced and it will also improve the health insurance schemes' capacity for risk-sharing. This initiative will also contribute to a more cohesive health insurance system that will help to resolve the fragmentation problem and improve the poor affordability problem. This approach could also save additional resources by reducing the burden of health management, which would enhance the efficiency of the health-care system overall.

Integrating the urban and rural residents' health insurance schemes is likely to achieve success because both schemes have similar arrangements. However, integrating these schemes is by no means an easy task because, owing to the fact that the NRCMS and the URBMI are managed by different ministries (*see* Chapter Three), many political interests

are involved. Moreover, different local governments have different ways of implementing this reform strategy, as one interviewee explained:

*Due primarily to the integration process lacking a core element, various local governments have different perspectives [about the health insurance integration], and local conditions show quite a difference. Therefore, different versions of integration have emerged in China. Some places have integrated their management agencies, but still, [there are] two different departments in charge of one thing, or the two institutions have not unified at all ...*  
(Interviewee C)

The core issue mentioned by the interviewee refers to the lack of a mechanism for resolving conflicts among political interests. Integrating the two systems means that they will both experience a dramatic change in many aspects of their operation, such as the scope of their administrative responsibilities, which may well be reduced as the reforms take effect. These difficulties will not be helped by the fact that the Chinese government still lacks a centralized, top-down approach to the reform process:

*Of course, it is not all their [local governments'] fault; the central government is still using one ministry and one commission jointly to take on the job [of integration]; local governments then have to set up two systems to comply with the central government's requirements. Local governments have to implement two regulations from different ministries. When they report on the local situation and statistics, the report has to be separated into two parts, and then reported to two distinct departments, so the statistics then might not reflect the reality.*  
(Interviewee C)

As a result, the integration of health insurance is at a stage where some barriers still need to be addressed. In early 2017, eighteen provinces claimed to have achieved the target of combining the urban and rural resident health insurance schemes. For the government, combining existing health insurance arrangements is the first step towards the reform of health insurance in general. A further important strategy is the reform of the payment method from a post-paid to a pre-paid system (prospective payment, World Bank, 2016). The government has begun to establish a long-distance health insurance payment system nationwide and by the time of writing, the government had also established a new National

Health Insurance Bureau, which integrates the management of the three existing social health insurance schemes and the medical price management function (People daily, 2018, March). In the following sub-section, these new strategies will be discussed in greater detail.

### **5.3.2 Health insurance payment reform**

Recently, the Chinese government has started to reform its health insurance payment methods in two ways: first, health insurance payments have been shifted from a post-payment to a pre-payment system. One of the interviewees suggested that prospective payment will be a better arrangement than the existing method because it provides greater certainty about the management of budgets:

*The pre-paid is better than the post-paid approach. It can provide motivation for the health organizations because the pre-paid method means that the hospital has to spend its funds to cure the patient, so the hospital's money is spent to help patients. (Interviewee M)*

Prospective payment is not perfect, but it might be a solution to China's problem of poor affordability. At the time of the field work for this current study, the reform was still ongoing.

The long-distance payment construction is another health insurance payment method reform strategy. Long-distance payment refers to health insurance participants being able to obtain reimbursement for expenditure on health in non-*hukou* registration areas. As discussed, the existing health insurance schemes have strong links with the *hukou* system, under which participants can only obtain reimbursement in their place of registration. This arrangement means that many people, especially rural migrant workers, are subject to huge risks of being exposed to unaffordable health-care. The long-distance payment indirectly contributes to the unification of the health insurance payment system, which will significantly benefit both the Chinese government and patients themselves. The government implemented two strategies to achieve a better health insurance payment system: the first, from the institutional viewpoint, relieves *hukou* restrictions by allowing the migrant population to obtain health insurance reimbursement in places of non-*hukou* registration. However, because the *hukou* system remains an embedded institutional feature of Chinese society, it will not be entirely removed in a short time, so, to ensure the success

of long-distance payment reform, the government has established an online platform as a complementary means of overcoming some of the problems presented by *hukou*. The online platform ideally can help local governments unify compensation rates and contribution rates of health insurance. Unfortunately, during the fieldwork, both strategies of long-distance payment reform had not yet achieved what the Chinese government expected. For instance, many prosperous cities did not relieve the *hukou* restriction because of their desire to maintain control over the total population. Indeed, cities such as Beijing and Shanghai (BJG, 2016; SHG, 2016) continue to use *hukou* as a tool of population control. Although the online platform construction seems more effective than the *hukou* reform, however, the online platform construction has its limitations as one of the interviewees confirmed:

*I think that the online platform [for health insurance long-distance payment] is a quite good idea. But it seems that currently the local governments still have an absolute misunderstanding about the central [State Council] policy. The long-distance payment platform has only been established between those provinces which have healthy relationships. For instance, Shanghai has created long-distance payment with Jiangsu but not with Heilongjiang. As a result, the system is still quite fragmented. It is not a unified online platform (Interviewee P)*

Health insurance payment reform is consequently at an early stage; it has achieved some progress but further adjustment is still needed. However, health insurance reform does not make up the full picture of the THSR; there are also many changes being implemented to improve the health-care service and drug administration.

### **5.3.3 Public hospital reform**

The reform of the public hospitals is the most difficult part of the THSR. It is intended to improve hospital governance and management. The most crucial task for the public hospitals is to reform their administrative procedures in an effort to improve their efficiency. Administrative reform will allow doctors to flow freely within the health labour market, thus relieving the problem of health staff shortages. The reform is also intended to establish a service-oriented health-care system and further requires public hospitals to change their previous profit-oriented compensation scheme such as the internal competition system and the drug distribution mechanism (*see* Chapter Three). The government's intention is

therefore to gradually introduce a performance-based compensation system in order to prevent the problems of over-prescription and to control personal charges (He, 2016). One of the interviewees, however, reported that the reform of the public hospitals has not actually started yet:

*The THRS did not proceed in the same places. We [the Chinese government] wanted to change the health insurance system at the earliest stage because it was the easiest part. The most difficult part of the THRS is the public hospitals... the reform did not start. (Interviewee C)*

The reform of the public hospitals has not been started because there are too many beneficiaries involved. If the administrative reforms are implemented, thirty million people will be affected by this change, as interviewee (O) predicted. As a result, further research is required in order to be able to judge the impact of the reform before other measures are taken. At the time of writing, the Chinese government had just issued a notice, which announced that the public hospitals and universities will gradually break up their work unit arrangements. The suggestion here is that the reform of public hospitals has finally been started (SC, 2018).

To strengthen the primary health-care service and further resolve the poor accessibility problem, the Chinese government started to establish a hierarchical health-care system(HHS) and gradually introduce family doctors' practices.

#### **5.3.4 Developing a structure for China's Health Services**

Adopting a hierarchical structure is one of the core tasks of the current reforms. The aim is to strengthen the primary health-care system and then create a better health resource management mechanism. The establishment of the HHS has also been regarded as one of the solutions for resolving both the poor affordability and the poor accessibility problems. There are two important ways of achieving the target: the first is to use health insurance as a lever to stimulate people to use the primary health-care system as the first point of contact for treatment (SC, 2016). The second is to improve the service quality of the primary health-care system in order to encourage better patient take-up (World Bank, 2016).



Currently, however, because the HHS is still at the pilot stage, it is difficult to judge whether or not it is likely to be successful in the long-term. Several respondents held different perspectives on the HHS. For some interviewees, the HHS is an impossible objective because it is not alone sufficient to change the structure of the current health-care system. One respondent reflected the views of many by commenting that:

*The faster the expansion of the three-star hospitals, the faster the medical costs will rise across the whole country, and the more impossible it will be to achieve our reform goals [THSR]. This large-scale expansion of the three-star hospitals will further exacerbate the problems of poor accessibility and poor affordability, and make the hierarchical health-care system become more and more impossible, and result in the hopelessness of 'Healthy China'. (Interviewee S)*

So as can be seen, although the HHS is still in the pilot stage, the three-star public hospitals are the main barriers preventing the government from achieving the target. From a long-term perspective, if it can be properly instituted, the HHS will bring many benefits to the whole Chinese health-care system. But for the present, if the government cannot first reform the public hospitals, then the HHS will never become a reality. As one of the core strategies for achieving the HHS, the introduction of family doctor institutions should not be neglected. Similarly, this family physician system is also in the pilot stage in Beijing and in Shanghai, and progress is only moderate (*People's Daily*, 2016; 2017) because introducing the family doctor institution has encountered some problems which have yet to be resolved especially in terms of the law and regulations:

*We aren't a law-ordered country. Therefore, if the family physicians are involved, there are plenty of barriers waiting for them. First, who manages them? Second, how to protect patients' privacy? Third, who pays for them? Who should be responsible for the punishment if the treatment is not appropriate? Fourth, what is the motivation for those family doctors to do the job? What is the requirement to be a family physician? ... lots of barriers ... all waiting for us! (Interviewee G1)*

Interviewee (G1)'s comment shows that family doctor institutions still need to be properly constituted before they can take on specific tasks and roles such as law enactment, specific management functions and making decisions about how best to protect both patients and

family doctors. However, because reforms remain in the pilot stage, it will be some time before a full assessment of the impact of the changes can be made.

### **5.3.5 Medicine Management Reform**

The aim of medicine management reform is to improve the drug pricing system and then to achieve further reductions in medical expenditure. In 2009, the central government introduced an new essential drug list (EDL) for public primary health-care institutions. At the same time, the government also wants to reform the current medicine pricing governance system, in particular by expanding the powers of provincial governments and cancelling the existing public hospital compensation system:

*The drug management was chaotic because a big country used only a few people to control its drug market, and it had a planned economy character in the past, but now, the provincial governments are involved in the process and the management of the pharmaceutical administration will be better. (Interviewee R)*

Both of these reforms are still in progress. The EDL also has some limitations:

*It is too naive to use only the essential drug list to control prescription costs. If the pharmaceutical companies collude with public hospitals, then the list will be useless because they can prescribe expensive medicines which are not on the list. (Interviewee G)*

To improve the management of the EDL, the State Council has recently authorized provincial governments to act as the primary monitors of the prescription price. However, as interviewee G suggested, if the public hospitals do not reform, then the administration of medicines will remain a significant challenge.

## **5.4 Conclusion**

The elite interviewees confirmed that attempts to extend full coverage rate of the existing social health insurance schemes have been the main achievement since 2009. However, as this chapter has shown, fragmentation remains the most severe problem in the Chinese health-care system and the problems caused by what is effectively a quite a 'chaotic' system

have inhibited progress towards full coverage and further constrained the performance of the health system. According to interviewees G, X, Y and Z, fragmentation is caused by a range of factors, especially the path dependent nature of the system and what has been labelled ‘governance predicament’. Both poor affordability and poor accessibility are difficulties that are closely related to the fragmentation problem. Prior to the most recent reform, the fragmented health-care system meant that the family had to play an important role in funding its own health care, with significant out-of-pocket expenses – 20% of household income in 1978 increased to 60% in 2001, and remaining around 40% since 2008 (Li, et al 2012). According to Zhang and Chen (2018), the out of pocket payment of Chinese household remains higher than the suggested WHO bottom line of 30%. The fact that these payments remain so high indicates that the Chinese health-care system continues to comply with main characteristics of the ISR on this dimension. That China still displays clear elements of an ISR in its health arrangements can also be seen in the fact that the nominal full coverage rate of the social health insurance, coupled with poor accessibility and poor affordability means that the family still plays a significant role in Chinese welfare provision – with the result that people continue to rely heavily on out-of-pocket payments and other forms of social capital to satisfy their health needs.

Since 2014, China has adopted a more comprehensive reform program known as the Tripartite Health Sectors Reform. Interviewees X, Y, Z indicated that there are several tasks involved in reforming the current health-care systems: first, achieving better performance across the health system as a whole; second, creating a more equitable, more sustainable, more efficient and universal health-care system; third, resolving embedded institutional problems such as the fragmentation problem and addressing newly emerging problems such as population aging; fourth, aiming to balance the need for better health care as part of a more comprehensive welfare system with the continuing demand for economic growth. Both economic development and the creation of well-being are closely linked to the legitimacy issues related to the CCP.

Published policy documents such as *The Plan of Health China 2030* indicate that the Chinese government aims to shift its welfare arrangements from a residual model to a universal model. Some interviewees also confirmed this overall objective, and they further pointed out that the government is accelerating the process of integrating the current health-care systems. Some respondents stated that there is increasing demand for a universal health-care system and to address this demand the government has started to combine some

of the existing health insurance systems, as discussed in this chapter. Moreover, a model that emulates elements of the structure of the British NHS health-care system is now under construction. To some extent, the elites who were involved in this study knew about what changes need to be made and also which groups of people are in real need. Despite the many reforms that it has experienced in recent years (Exworthy et al, 2016) and its continuing weaknesses, the UK's NHS continues to be regarded as a good health-care model largely because of its capacity to integrate different features of the system – primary care, doctors and hospitals, for example - into an overall framework that is managed centrally (partly through tight cost controls) while allowing a degree of 'managed decentralization' and privatization (Powell and Johns, 2015). However, due to fact that in China the reform of the public hospitals is lagging, the THSR has not yet achieved its intended goals. The high out-of-pocket costs and the high medical costs for individuals and households are still matters yet to be addressed. As a result, not enough has yet been achieved to meet the health needs of the people.

If satisfying people's needs is the social target of the current health reforms, then according to at least some of those interviewed here, the Chinese health-care reforms should also have economic goals. Health-care reform should not only serve the needs of the people but should be part of a strategy to boost the further development of the Chinese economy. However, if only the economic goals underlying health-care reform are considered, then there is a risk of falling into the trap typified by the productivist/developmentalist theories – which is argued that social policy is sub-ordination product of economic policy. The responses of many of the interviewees, by focusing, as they do, on the desired social impact of health policy, suggest that the balance between economic development and social policies has changed. Previously, China's social policies were subordinated to the country's economic development. Now, however, the Chinese government intends to clarify the symbiotic relationship between economic development and the development of social policies. At the same time, China has started to understand that, without a social policy, economic growth is far less sustainable.

Much remains to be done however. Because of the fragmentation problem, the health-care system remains radically 'disconnected', which means that the system is far from being able to deliver comprehensive and systematic health care. As a consequence, the state and the market, regarded as the formal institutions or legal protection providers, are not as influential in terms of their ability to provide health care as they should be. Continuing

reliance on informal family resources remains a major feature of Chinese health care – and it is this characteristic, compounded by the ongoing impact of fragmentation and the associated problems discussed in this chapter that means that Chinese health provision has some way to go before it can be characterized as a comprehensive and coherent system.

## **CHAPTER SIX: THE CHINESE PENSION SYSTEM: REFORM AND FUTURE DIRECTIONS**

With aging becoming an increasingly severe problem in China, continuing reform to the existing pension system has become an unavoidable decision for the Chinese government. Unlike health insurance, China's public pension schemes have not yet succeeded in achieving full coverage. At present, the coverage rate of the current public pension systems is approximately 82% (Li, 2017).

There are many challenges within the Chinese pension system, for instance, demographic changes, financial issues and institutional barriers. These problems have led to an unresponsive and fragmented pension system, which is not satisfying the increasing public demand for a living income in retirement. For the Chinese government, delaying the mandatory retirement ages and introducing nominal individual accounts appear to be two inevitable reform strategies. At the same time, the unevenness of the current three pension pillars, a stronger first pillar with two weaker pillars, has caused many uncertainties about people's income levels in later life. The second-pillar pension schemes (enterprise annuities and occupational annuities) are still less developed. Only a limited number of individuals and enterprises are eligible to establish an enterprise annuity. Also, because of strong opposition to change, it is not easy for the State Council to use the occupational annuity to replace some parts of the function of the work-unit pension scheme. What makes things more complicated is that the third pillar (private pension plans) is the least developed among all three pension pillars. Particularly so because private saving is still the first choice of the majority of Chinese people and commercial pension schemes<sup>16</sup> have not been widely accepted by the whole society. As a result of these significant weaknesses, individual and family private savings still play a major role in financing people's later life. According to Wood and Gough (2006), if a country relies heavily on informal resources (such as family and community) to fulfil people's needs in retirement, then this country is best identified as an informal security regime. At this stage, the Chinese pension system continues to show characteristics typical of an informal security regime.

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<sup>16</sup> In China, Commercial pension schemes is almost equal to the private insurance, however, occupational annuity are not in the categories.

This chapter will first review the challenges and pressures that the Xi government has to resolve. Using documentary and interview evidence, it will then identify what are the most challengeable tasks in Chinese policy makers' minds. Following this discussion, the chapter will explore emerging pension debates, and new reforms and strategies since President Xi came to power. Moreover, this chapter will present the empirical data related to this issue and also clarify the key issues of China's pension system.

## 6.1 Challenges and pressures of the Chinese Pension system:

The Chinese pension system has experienced many pressures, especially in recent years. There are three key challenges facing the current plans for pension reform: first, demographic changes and the transition to an aging society clearly would place demands on any pension system. Second, in view of the aging population, the financial sustainability of the current system is far from secure. Third, institutional challenges, specifically various problematic institutional arrangements such as the *hukou* system, mean that changes to current pensions arrangements are not easy to achieve. These challenges contribute to the current fragmented pension system in China. The following sections will illustrate these challenges and show what kinds of consequence have been brought by these pressures.

### 6.1.1 Demographic changes

Demographic changes are the first challenge that Chinese policy-makers have to address. There are several factors related to the problem: the size of the total population, the employment structure, the age structure and the free flow of labour (Bi, 2016; Feng and Chen, 2016; Li, 2017). Regarding the total population, according to the UN (2017), China's population has surpassed 1.4 billion and the annual average population growth rate is 2.35% (see table 17 below).

**Table 17 The Chinese population: 1980 to 2016**

Year	Total Population (10,000)	Male proportion	Female proportion	Urban Proportion	Rural Proportion
1980	98705	51.45%	48.55%	19.39%	80.61%
1981	100072	51.48%	48.52%	21.62%	79.84%
1982	101654	51.50%	48.50%	23.01%	79.84%

1983	103008	51.60%	48.51%	23.71%	78.87%
1984	104357	51.60%	48.54%	24.52%	78.38%
1985	105851	51.70%	48.55%	25.32%	76.99%
1986	107507	51.70%	48.52%	25.81%	76.29%
1987	109300	51.50%	48.50%	25.32%	75.48%
1988	111026	51.52%	48.48%	25.81%	74.68%
1989	112704	51.55%	48.45%	26.21%	74.19%
1990	114333	51.52%	48.48%	26.41%	73.59%
1991	115823	51.34%	48.66%	26.94%	73.06%
1992	117171	51.05%	48.95%	27.46%	72.54%
1993	118517	51.02%	48.98%	27.99%	72.01%
1994	119850	51.10%	48.90%	28.51%	71.49%
1995	121121	51.03%	48.97%	29.04%	70.96%
1996	122389	50.82%	49.18%	30.48%	69.52%
1997	123626	51.07%	48.93%	31.91%	68.09%
1998	124761	51.25%	48.75%	33.35%	66.65%
1999	125786	51.43%	48.57%	34.78%	65.22%
2000	126743	51.63%	48.37%	36.22%	63.78%
2001	127627	51.46%	48.54%	37.66%	62.34%
2002	128453	51.47%	48.53%	39.09%	60.91%
2003	129227	51.50%	48.50%	40.53%	59.47%
2004	129988	51.52%	48.48%	41.76%	58.24%
2005	130756	51.53%	48.47%	42.99%	57.01%
2006	131448	51.52%	48.48%	44.43%	55.66%
2007	132129	51.50%	48.50%	45.89%	54.11%
2008	132802	51.47%	48.53%	46.99%	53.01%
2009	133450	51.44%	48.56%	48.34%	51.66%
2010	134091	51.27%	48.73%	49.95%	50.05%
2011	134091	51.26%	48.74%	51.27%	48.73%
2012	134735	51.25%	48.75%	52.57%	47.43%
2013	135404	51.24%	48.76%	53.73%	46.27%
2014	136782	51.23%	48.77%	54.77%	45.23%
2015	137462	51.22%	48.78%	56.10%	43.90%
2016	137462	51.21%	48.79%	57.35%	42.65%

Source: China National Statistics Bureau, 2017

This vast population means increasing demand upon, as well as a huge variety of expectations relating to, the existing pension system:

*The total population is one of the biggest challenges of the Chinese pension system; more population means more people who need a pension and also means various requirements of the security system for the elderly. (Interviewee H1)*



What makes the demographics matter is that each province has a different total population and the population gaps in different local areas have triggered different forms of fragmentation. For instance, populations levels in Guangdong and Henan, are very large, with 108 million and 94 million respectively (NSB, 2016), so these provinces clearly have heavier pension burdens – and these lead to a variety of local pension arrangements. One interviewee explained that:

*Different provinces have a different total population, which means that their pension burdens are not the same. It is unlikely to require all levels of governments to adopt the same arrangement [for pensions] (Interviewee Y)*

The employment structure is another crucial factor that contributes to the demographic challenges. It consists of several elements such as the nature of the industrial structure, the urban/rural mix and the numbers of unemployed people at any one time (Jing, 2013; Bi, 2016). In the past few decades, with urbanization increasing, the proportions of in the core three industries <sup>17</sup>have experienced a dramatic change. The population employed in the primary sector (e.g. agriculture) has mostly declined (*see* Table 18). The structure of the existing pension schemes has also experienced some changes.

**Table 18 The proportions of national employment in three industries**

Industries	2014	2015	2016
<b>1 Agricultural industries</b>	29.5%	28.3%	27.7%
<b>2 Manufacturing Industries</b>	29.9%	29.3%	28.8%
<b>3 Service-oriented industries</b>	40.6%	42.4%	43.5%

*Source:* National Statistics Bureau, 2016

The larger population employed in service-oriented industries means that more people are required to live in urban areas plainly because the majority of the service-oriented industries

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<sup>17</sup> Agricultural industries, manufacturing industries and service-oriented industries respectively.

are located in the urban areas. In other words, an increasing population needs to participate in the urban pension systems:

*The employment structure change is attributable to the economic development and urbanization process; this also changes the whole structure of the public pension schemes ... more people are eligible for the urban pension schemes rather than a rural scheme ... this is why we merged these two schemes [URBPS and NRPS]... (Interviewee H1)*

So, with the employment structure changing – and the number of those working in the agricultural industries declining – the population eligible for the rural pension scheme has decreased, whereas the eligible population for urban pension schemes has increased rapidly. The proportional change also shows that previous pension arrangements in many local government areas could not satisfy the new changes. Many local governments have to comply with different local economic conditions to reform their pension system. However, due to these different considerations, these local changes cannot be universally applied, which also exacerbates the fragmentation problem:

*Some local government leaders are more sensitive to the new tendency; they might make some corrections in advance. But for others, they might not be sensitive enough or at that time do not have enough capability to cope with changes, then ... Different local governments adopted a variety of versions of pension arrangements. (Interviewee W)*

Turning to China’s age profile, according to government statistics, the youngest age group (aged 0-14) has shown an annual decline in recent years whereas numbers of those aged 60 and above have gradually increased, with the median age rising from 21.5 to 35.2 over the past 40 years (Li, 2017; see Table 19 below).

**Table 19 Comparison of Chinese population censuses 1953-2010**

Age interval	1953	1964	1982	1990	2000	2010
0-14	36.27%	40.30%	33.59%	27.69%	22.90%	16.10%
15-59	56.4%	52.67%	58.77%	63.74%	60.74%	70.14%

<b>15-64</b>	59.31%	55.21%	61.50%	66.74%	70%	74.53%
<b>60+</b>	7.32%	6.07%	7.63%	8.58%	10.46%	13.26%
<b>65+</b>	4.41%	3.53%	4.91%	5.57%	7.10%	8.87%
<b>Age Median</b>	21.15	20.20	22.91	25.26	30.77	35.20

Source: Li (2017)

By the end of 2015, there were 220 million people over 60 in China, which was an increase of 40 million over the total aging population in 2010 (NBS, 2010; 2015). This growing aging population means that the pressure on the pension system has increased dramatically. One of the respondents commented that:

*There is an increasing proportion of the population eligible to join the pension system over the past few years ... Also, with economic development, the pensions benefits have also increased dramatically, which shows that we could provide more government expenditure in the pensions area; people are getting richer as well, and they are not as satisfied as before ... under these conditions, the Chinese pension system is confronted with unprecedented pressure.*  
(Interviewee J)

What makes things more complicated is that even if we narrow it down to province level, the aging proportions are not very different. In some areas such as Beijing and Shanghai, the percentages of older people are extremely high, approaching 20%; these are places where the governments have to spend more of the public budget to deal with the aging and pension problem. The aging problem in the western provinces, however, is less severe than in the prosperous areas for two main reasons: first, these provinces have less total population, second, they are the areas in which China's minority ethnic populations are located. Importantly, too, because the Chinese one-child policy exempted minority ethnic groups, these western provinces have a higher proportion of young people and different family structures compared with their eastern counterparts. In consequence, these differential proportions and locations of the aging population lead to different demands in different regions. These local differences further impact on the retirement policy arrangements, as one of the interviewees pointed out:

*The pension differences among different areas have complex reasons. One of the main reasons is the different age structure. In Beijing, Shanghai, Shenzhen, Guangzhou and some other advanced cities in China, the aging problem is more severe than in other less developed cities. The cities which experience profound aging problems have to establish a better designed pension system than their less developed counterparts. (Interviewee U)*

This uneven social expenditure and the different policy arrangements have exacerbated the fragmentation problem of the Chinese pension system. Furthermore, the new free flow of labour forces known as migrant workers and other migrant population are also causing some challenges to the pension systems. Since the 1980s, there has been an increasing number of rural-urban migrants crowding into the more prosperous regions. This migrant population caused by the relaxation of *hukou* is difficult to integrate into local urban pension systems (*see* Chapter Three and section 8.1.3). Also, rural migrant workers do not always have formal workplaces or employment contracts and can therefore neither participate in the local urban employees' pension schemes nor the urban residents' pension systems. At the same time, the migrant population has not paid much attention to the local social security system because of lack of trust and information, and for this reason it was challenging for local governments to integrate migrants into the local welfare system:

*There are both institutional barriers, and personal barriers ... The migrant population consists of those who consider more about their own interest, they seek to maximise their welfare but they do not want to contribute. In particular, integrating them into the local social security systems is not a guarantee of maximising their interest, and maybe for some of them, the participation might actually increase their cost of living. (Interviewee F1)*

Indeed, there are two simultaneous dilemmas the first being that local governments want to get all the migrants into the local urban pension system but the migrant population has too much flexibility, and the second that, as interviewee F1 points out, the migrant population, while having a particular need for the urban benefits system is not entirely willing to contribute to it. Furthermore, many local regulations are problematic because different regions have different regulations for managing the migrant population. This regional diversity could prevent the migrant population from feeling safe and welcome. As a result, the migrant population has become more vulnerable and further increased the risks

of fragmenting the existing pension system – and this situation has led to a more fragmented pension system across China. In addition to the factors discussed above, institutional factors are even more crucial drivers causing the fragmented pension system and these will be discussed next.

### **6.1.2 Financial barriers**

The funding issue is one of the most crucial factors that can determine whether a pension system can work efficiently and sustainably. Currently, the Chinese pension system is suffering considerably from its problematic financing arrangements, which can be divided into five key areas of difficulty. First, the problem of empty individual accounts has seriously constrained the performance of the current pension system. Because the previous reforms did not fully consider invisible debts<sup>18</sup> (Wang and Xu, 2001; Zheng, 2013; also see Chapter Three), the individual account system does not work as the policy-makers had intended. With more people eligible for the pension, since 2013, the Chinese government has gradually given up trying to introduce a real individual account system and started instead to explore the nominal individual account arrangement. Second, because of the underdeveloped financial market and the conservative investment regulations, pension funds have a relatively low rate of return (see Chapter Three). Third, both enterprises and individuals are only willing to make fairly small contributions. Fourth, the fact that local governments have frequently misused the pension fund is another core reason why the current pension system cannot afford future potential risks. Fifth, the performance of the pension system is significantly constrained by the weak second and third pension pillars. In the following sections, these factors will be discussed in greater detail.

#### **6.1.2.1 Empty individual accounts (since 1998)**

This problem is one of the most challenging for the Chinese government to ensure the pension adequacy and security (Xue, 2011; Peng, 2015; Feng and Chen, 2016); it was inherited from previous attempts at pension reform during Jiang era. The core problem of the empty individual accounts emerged when pension arrangements were shifted from pay-as-you-go to a combination of individual accounts and social pooling (Xue, 2011, see

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<sup>18</sup> The Chinese government once thought that leaving the pension responsibilities to SOEs will relieve the government's burden, unfortunately, policy makers neglected the fact that many SOEs lack of capacity to make contribution to pension schemes.

Chapter Three). However, because policy-makers of the day underestimated the costs of this shift – the invisible debt – for some time now the Chinese government has had to use the funds in individual accounts to support the social pooling fund (Yuan, 2012; Zhang, 2013; Wang, 2014). One of the interviewees explained that the issue of the ‘empty individual account’ still matters:

*For historical reasons, it cannot be denied that the Chinese pension system still suffers from the empty individual account problem ... we have to pay back to repay the past debt. (Interviewee B)*

Historical debt here refers to the empty account problems. Another interviewee gave more precise reasons why the empty individual account issue emerged:

*There are many complicated reasons which led to the problem: first, we did not put aside enough money to deal with the invisible debt caused by the transition from the PAYG system to a combined system; second, enterprises did not strictly obey their contribution responsibilities to the pension scheme; third, too many people are exempt from contributing to the pension schemes, and these privileged people enjoy very generous retirement benefits; fourth, the pension system did not achieve actuarial balance ... a high replacement rate with a low contribution rate. (Interviewee H1)*

The empty individual account problem therefore largely constrained the sustainability of the Chinese pension system. It also caused a significant debt within the current pension system:

*The nature of the Chinese pension system remains pay-as-you-go; the individual accounts did not play a significant role in accumulating the pension fund, so with the rapid aging process, there will be increasing debts in the pension system that will restrict the risk-sharing and sustainability of the pension scheme. (Interviewee Y)*

This problem – and the fact that China has essentially remained a pay-as-you-go system – is confirmed by interviewee B:

*... the empty individual account makes the Chinese pension system remain unchanged; it is still largely a pay-as-you-go system...* (Interviewee B)

The empty individual account problem matters in the current Chinese pension system but it is not the only threat that the system has to resolve. Another critical issue which the system has to cope with is the low return rate of the pension fund. In the next sub-section, the barrier caused by the low return rate of the current pension system will be discussed.

### **6.1.2.2 Low return rate of the pension fund**

The low return rate of the pension fund is a significant challenge for the Chinese pension system to deal with increasing challenges (Peng, 2015; Wang, 2017; also see Chapter Five). Two core reasons have constrained pension fund investment: the immature financial market and the current management and investment regulations. Regarding the financial market barriers, one of the interviewees pointed out that:

*... the financial market can help to ensure safety and gross earnings ... but the Chinese financial market still needs to reform ...* (Interviewee C1)

The problem of a low return rate for the pension fund created some challenges for the Chinese government, chief among which was the declining replacement rate. One interviewee confirmed the common view that:

*If we intend to improve the replacement of our pension system, we need to make our financial market more regulated.* (Interviewee J)

The declining pension replacement rate risks lowering people's expectations about their likely pension income and this problem, in turn, could lead to a reduction in the overall coverage rate because people are more likely to stop contributing to the pension scheme. It is therefore crucial to improve the replacement rate by reforming the financial market:

*Many countries benefit from their well-developed financial market; with a better-off financial market, it means that they have more options to make full use of their pension fund ... For China, if we can reform the financial market, make it more secure and regulated, the sustainability of the whole pension system will be guaranteed.* (Interviewee V)

Indeed, a mature financial market will offer more options for policy-makers to utilize the pension fund. At the time of writing, there were two primary channels in China for investing pension funds: the majority of funds could be deposited in a specific bank account and the rest put into the stock market (Kongshoj, 2013; Hu, 2015). One interviewee pointed out that this strategy reduced the possibilities of a pensions crisis:

*... The current investment regulations can minimise the potential risks...*  
(Interviewee W)

Depositing the majority of the funds in a dedicated policy bank account can reduce the potential risks of investment. This arrangement is, however, constrained by its conservative nature. As is generally known, higher risks mean a higher return rate, and *vice versa*. Some of the interviewees clarified why the government had adopted such cautious pension fund management:

*... there is a huge population related to the pension fund, if the government could not guarantee a specific amount of the fund, then it would cause some disastrous outcomes.* (Interviewee H1)

*... Only seven to nine agencies can obtain the eligibility certification then participate in the pension fund investment and management.* (Interviewee Y)

As can be seen from these comments, pension fund investment currently faces many restrictions and the risks associated with insufficient investment, having too few investment options and too few investors are the three key factors related to the low return rate. The existence of only seven-to-nine agencies means that the Chinese government tightly controls pension fund investment and, further, all the agencies involved in the pension investment process are either state-owned or mixed-ownership insurance companies (Dong *et al.*, 2016). One of the interviewees stated that:

*It is challenging for private or commercial enterprises to participate in the process of pension fund investment ... all of them are state-owned or dominated by state capital... The government still plays the most crucial role in the process.*  
(Interviewee T)



It is possible that, if more actors such as commercial companies were involved, there would be more investment programs for the pension fund to choose from and consequently more opportunities for the fund to increase its value. But no matter how many actors are involved, the public pension fund cannot participate in high-risk programs, or at least, in order to avoid potential disaster, high-risk investment projects can only attract a small amount of pension fund investment. One of the interviewees explained that low return rate may also be due to misuse of the pension fund:

*The Chinese government might not use the resource [the fund] appropriately, at least the gain could not satisfy the increasing need. (Interviewee V)*

This comment indicates that the Chinese government has not by any means improved the return rate of the pension fund; it also reveals that there still effort is required to improve the return rate of pension investment. Furthermore, many interviewees insisted that the Chinese financial market lacks core elements such as well-designed laws and stable mechanisms:

*We should provide more confidence to our people. Improving the certainty of the pension, improving the replacement rate and, more importantly, we should achieve a law-ordered society... Of course, we need a mature financial market. At least it would make us feel safe to invest the fund in the financial market. (Interviewee K)*

Interestingly, some of the elite interviewees from within government have a more positive perspective than the interviewees quoted above. From their perspective, the government not only intends to overcome the constraints discussed above but also wants to go further:

*In fact, after years of development, our country's financial market has met the target of appreciation on investments of the pension funds. First, the scale and professional level of the asset management industry have increased year by year... And in addition, since the establishment of an enterprise annuity and the marketization of the national social security fund in our country, it has obtained the right investment returns. (Interviewee Z)*

In reality, however, balancing the risks and benefits of pension investment is still a crucial issue facing the government. Every kind of investment carries risks (Greenwood, 2009) and the Chinese government has to find the best way to ensure the safety of the pension fund and also guarantee that the fund can obtain the specified proportion of profits from investments. This is a dilemma for the government and its agencies. The pension fund is crucial for people; if the security of the pension fund cannot be ensured, it will damage the whole pension system and might cause serious legitimization problems for the CCP. The safety of the pension fund's investments is therefore still a priority for the government:

*Pension fund investment is by no means an easy task ... it is not only related to people's welfare but is also related to the foundation of the legitimacy of the CCP. (Interviewee D)*

To trade-off between the safety of the pension fund and the risks implicit in investment behaviour, the government introduced a series of policies to reform the existing financial market in 2016. One example is that the government adopted the trust-governance model to achieve more efficient management. One interviewee stated that:

*It is naive to think that depositing all the pension fund in the bank account is the safest approach to managing the fund. If we take account of the inflation rate and other costs, the risks are still very visible ... The best and the fundamental way to shift the situation is to mature the financial market as soon as possible. (Interviewee Z)*

Perfecting the financial market by enacting more laws and setting up reasonable mechanism for further marketisation are the most efficient approach to improving the return rate of the pension fund. It is a win-win solution because if a greater proportion of the pension fund is involved in the capital market, more incentives will be injected into the financial market (Qin, 2014). Also, a more institutionalized financial market is likely to lead to a sufficient pension fund as returns increase. However, as things currently stand, the low return rate problem still has a long way to go. Meanwhile, the sustainability of the pension schemes has been threatened by low contribution aspirations and these will be discussed next.

### 6.1.2.3 Low contribution aspirations

Low contribution rates also cause a problem for Chinese pension systems. There are two types of low contribution: from enterprises and from individuals. Regarding low contributions or non-contribution from companies, the underlying reasons are the excessive contribution responsibility:

*Currently, enterprises have to bear a heavy social security burden ... the total contribution rate can reach up to 25% of which the basic pension accounts for 20% and the remaining 5% comes from the enterprise annuity .... the basic pension contribution rate is very high ... the basic pension has an extrusion and substitution effect on the enterprise annuity. (Interviewee V)*

Because of the burden imposed by high social security payments, enterprises are not willing to make contributions. Also, because companies operate in an uncertain environment with the ever-present risk of bankruptcy, it is not uncommon for employees who are working for private ventures to quit their jobs or change their occupation. As a result, many companies have no incentives to contribute to pensions schemes. Many Chinese companies are not concerned about being seen to be contributing to the social security fund as a corporate social responsibility. Instead, they are more likely to treat social security contributions as another burden of enterprise development. Moreover, local enterprises are key driving forces of local economic development, so many local governments do not want to push too hard against these companies particularly in the area of corporate contributions to social responsibilities (see Chapter Five). In 2008, the government used the existing flexibility around company contributions to social goods and services as a solution to help private business move out of trouble (Cook and Lam, 2011). One of the interviewees explained that:

*Chinese companies and local governments have some unidentifiable agreements by which companies boost local GDPs and local governments allow them to contribute less to the social security fund or not to contribute at all. (Interviewee R)*

Similarly, individuals such as those who are ineligible to join the UEBPS also lack enough incentives to make contributions (see Chapter Three). Groups such as urban or rural

residents who do not have a formal occupation are not always willing to make a defined contribution. There are several reasons for this: first, the urban-rural resident basic pension schemes are voluntary and require people to contribute for no less than fifteen years (Peng, 2015; Wang, 2017; also see Chapter Five). This arrangement lowers the willingness of people to contribute because many of them do not appreciate the necessity of enrolling in the residents' pension system. Of course, if they contribute less, people might not be able to obtain a pension when they reach retirement age. One of the interviewees confirmed that the arrangement lowers the contribution aspirations:

*Unlike other countries such as Germany and Japan, where residents are subject to mandatory participation in the schemes, China's residents' schemes are voluntary and people have to contribute for a defined number of years. However, many of them do not contribute for the necessary time and they lose their right.*  
(Interviewee B)

Second, both the urban and rural residents' pension schemes have a relatively low return (see Chapter Three). For the rural populations especially, the pension benefits would not satisfy their basic living needs. As one of the respondents commented:

*In many areas, rural residents can only obtain 70 to 100 yuan (8.75 to 12.50 pounds) per month. This is far from enough for them to buy meat or other food...*  
(Interviewee R)

The low benefits also dissuade people from putting their money into a pension fund. Moreover, many residents struggle to survive anyway so they are not prepared to pay an extra living burden. One of the respondents revealed that:

*Although welfare is expanding, the increasing cost of living makes quite a few people have to consider very carefully whether to contribute to the pension schemes.* (Interviewee D)

What makes the situation worse is that many Chinese people do not realize that their retirement plan is based on personal contributions (Qin, 2014). In other words, they do not know that if they want to obtain pension benefits, they have to make a defined contribution in advance:

*Many people came to my office and complained that it is not fair that their neighbours were receiving pension benefits but they were not ... I would ask them 'Did you contribute before?' and generally, they will reply 'No!'*  
(Interviewee D)

This lack of willingness (or indeed understanding) to contribute constrains the scale of the pension funds, and with China moving towards an increasingly aging society, the sustainability of the pension system has been seriously threatened. Misuse of pension funds and corruption have also constrained the financial capability of the Chinese pension system and this will be discussed next.

#### **6.1.2.4 Corruption and misuse of the local pension fund**

The most common form of corruption is embezzlement from the social security fund. Such embezzlement frequently took place in local governments and has had a significant impact on the sustainability of the Chinese pension system. As one of the respondents observed:

*... even a hairdresser wants to make full use of his power... for those who are managing the social security fund, it is not easy to control themselves when they are standing in front of a large amount of money; they misappropriate the fund for personal benefit, which significantly harms the operation of the pension system.* (Interviewee L)

Misappropriation of this kind can, on the one hand, damage the operation of the pension scheme by causing a debt, and on the other, it undermines public trust in the government, which will further reduce people's willingness to contribute. Unfortunately, the Chinese legal system has few strict punishment regulations or articles, and economic development is the government's priority, so embezzlement from pension funds is not properly regulated:

*... misappropriating the pension fund has frequently happened in China; it should be a severe issue, but the punishment is very mild: if similar problems occur in some other countries, the criminals would be sentenced to death...*  
(Interviewee R)

Because there are only minor punishments for embezzlement under the current legal system and many local leaders have regarded economic development as their primary task and

misuse of pension funds is not seen as a serious issue. Fortunately, these funds are not often taken purely for personal purposes, but are used instead to support local infrastructure development. For instance, local governments use money from the social security fund to build roads and to repair other public facilities, as one interviewee explained:

*The sustainability of the pension system is threatened by the misuse of the pension fund to build roads, bridges and other economics infrastructures... or officials use the fund to compensate for other loopholes or debts incurred by the local governments. (Interviewee J)*

An unreasonable mandatory retirement age further increases the challenges confronting pension funds and this will be discussed next.

#### **6.1.2.5 The low mandatory retirement age**

The unreasonableness of the mandatory retirement age has been put on the table for discussion (Kongshoj, 2013). The present mandatory retirement age was set in the 1950s: for men the compulsory retirement age is 60 and for women it is 55 (Seldon and You, 1997; Chen, 2012; *see* Chapter Three). In practice, this arrangement has meant that 55 has become the average retirement age for Chinese people (Yin, 2015). It means that many people become pensioners when they are still relatively young. More important, many of them are work unit staff, so do not need to make any contributions to the pension scheme (*see* Chapter Three). Since the 1950s, the average lifespan for Chinese people has increased from 55 to the 70 and because of this development the scope of benefit payments has improved dramatically, with the government now having to spend far more on public pension schemes. The aging problem also exacerbates the situation. Under these circumstances, the government needs to adjust the current mandatory retirement age:

*... To ensure the sustainability of the Chinese pension system, it is absolutely necessary to delay the current retirement age. (Interviewee T)*

*... many people retire at a young age, which means that the mandatory retirement age is not reasonable. (Interviewee H1)*

Delaying the mandatory pensionable ages can both improve the sustainability of the current pension system and also equalize the pension benefits across different regions. One of the interviewees referred to this, saying that:

*... some local governments have a greater or lesser pension deficit, but other areas do not have any shortfall. If the retirement ages are delayed, ideally this will help different regions to reduce the differences in pension benefits ...*  
(Interviewee H1)

This comment makes it clear that delaying the mandatory retirement ages would not only benefit sustainability but would also help the Chinese pension schemes to achieve greater equity between different generations, or at least would reduce the gaps between different regions<sup>19</sup>. So delaying the mandatory retirement ages should be a core issue for further reform of China's pension system. However, the institutionalized nature of pensions policy means that changing the current retirement ages implies that a series of further changes would have to be made. In particular, the government would be taking the risks of losing the public trust. One of the respondents confirmed this:

*The pension system is now a little comical ... This is because it has only been implemented for less than 30 years but it has experienced a few dramatic changes ... As for postponing the retirement age, I think ...first, the government might lose the trust of the people because it would be changing or trying to alter the system without negotiating with the people. If they postpone the retirement age all of a sudden, it would be a violation of the promise made by the government and of the law.* (Interviewee F)

The Chinese pension system is also currently confronted by many other institutional limitations. In the next sub-sections, institutional limitations such as *hukou* and work-unit-related problems will be discussed.

### **6.1.3 Institutional limitations**

The problems of China's pension system are closely linked to several institutional constraints (Zhang, 2012; Wang, 2013), such as *hukou*-related problems, problems related

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<sup>19</sup> Different provinces, cities might have its own retirement age

to work units, too much decentralization, problematic social pooling standards, and the under-development of the second and third pillars. These problems have largely undermined the performance of the Chinese pension system.

### **6.1.3.1 Occupational, gender and regional diversities**

The *hukou* and the work-unit system are the two biggest institutional limitations of the existing pension scheme. Occupational, gender and regional inequalities have a strong link with these two institutions. The *hukou* system, as explained in Chapters One and Three, has created a dual-track welfare system in China and it was this dual-track arrangement which led to the rural/urban inequalities. Although the government abandoned the *rural hukou* in 2015 (*see* Chapter One), *hukou* still affects residents' welfare and this will not change in the short term. It still takes time to incorporate migrant workers into the existing urban pension systems, for example. The agency institutions might be one of the specific phenomena which caused the fragmentation problem. In reality, there are some policy factors which should not be overlooked. Furthermore, as some interviewees reported, the *hukou* system contributes to the fragmented nature of the labour market, which, as mentioned, can be regarded as one of the fundamental reasons why the fragmented pension system emerged in China:

*the hukou system constrained people from freely flowing from one place to another, which led to a fragmented labour market, and with the fragmented labour market, it is unlikely that China will be able to establish a universal pension scheme. (Interviewee K)*

The work-units system created more problems, including occupational and gender inequalities. The occupational disparities have two dimensions: differences between those inside and those outside work units, and the variations between different types of work unit. One of the interviewees commented that:

*There are many invisible rules in the work units' pension arrangements...*  
(Interviewee W)

The respondent reported that there are various arrangements within the work-units system: for instance, the basic pension provision for urban employees is lower than that for work-



unit staff. Also, some work units have more generous welfare arrangements than others (He, 2012). With regarding to the gender inequalities, first females experience difficulties in gaining promotion to high positions. Only a few female officials are promoted to very high administrative ranks in the work unit arrangement. Second, there are some unpublished early retirement regulations that vary among different work units. Many of female officials have suffered from these unpublished regulations. For example, in some of the work units, when younger male officials need promotion into positions that are already occupied, female officials may be required to relinquish their own positions by taking early retirement. As one interviewee stated:

*Under the work units system, some unique gender inequalities exist.*  
(Interviewee J)

Of course, the work unit system might not be the only driver of the gender inequalities within the pension system, but gender inequality is one of the issues that needs to be addressed by policy makers. Unfortunately, the current Chinese government might be unwilling to deal with gender inequality right away. What is more of a priority is the need to equalize the pension benefit standard among different types of employees. One of the interviewees suggested that:

*equalising the pension benefits between urban employees and work unit staff will be the next step of the reform, and changing the illogical retirement age will be a necessary task.* (Interviewee O)

Some respondents also stated that the government could further eliminate the impact of the *hukou* system:

*... we need to continue to eliminate the barrier of the hukou, particularly in some of the biggest cities.* (Interviewee F1)

Occupational, gender and regional inequalities are not the only adverse effects caused by the institutional limitations, there were other barriers which also led to the current problems facing China's pension system. The problems created by the social security agencies also affected the pension system.

### 6.1.3.2 Decentralisation: Social security agencies

The pension scheme has also been influenced by strong localism (see Chapter Five). Unlike health insurance, however, all the pensions schemes are managed by the HRSS system (Zheng, 2015), so the problems caused by there being multiple actors are less severe within the pension scheme. However, another institutional problem exists: the social security agencies (Zheng, 2011c; Zheng, 2013). These agencies act under the authority of the local HRSS system and are supposed to improve the efficiency of pension management, but some arrangements have overridden the original role of these services, which has added to the fragmented nature of the existing system (Zheng, 2015). First, different social security agencies have different functions: some are responsible for all social insurance provision (health, pensions, unemployment, work injuries), others only cover single social insurance programs:

*The social security agency is a unique arrangement in China. Primarily, different governments use different names for these agencies; some might call them 'the office', some 'the centre', and others 'the bureau', 'the station' and similar titles. This makes China's pension system quite fragmented. (Interviewee H1)*

Second, all the social security agencies work separately. Almost all local governments will have set up a social security agency. For instance, Beijing has sixteen district governments and nearly all them have their own social security agencies, and any two of them might never contact each other, as one of the interviewees explained:

*... these social security agencies are authorized by various government actors, they work independently and without any overlapping relationships... they have not improved working efficiency but have increased working difficulties. (Interviewee D)*

Third, lacking any interaction, these social security agencies make the pension system more fragmented and, as a result, these agencies have moved away from the more integrated organizations that they should ideally be. What makes things worse is that the government

did not create identifiable organizational parameters for these agencies. For example, some of them have been treated as government organizations, some are quasi-government organizations and others might operate as completely independent organizations – third-party services:

*The various names of these agencies increased the difficulty of management ... social security agencies failed to improve the efficiency of pension management ... and instead put an even greater burden on the government.*  
(Interviewee D)

Finally, the agencies have never established a unified database, and this has caused overlapping enrolment:

*Social security agencies do not have a centralized database; this is still in clumsy ways to manage data, and different agencies could not share their data. Therefore, multiple-enrolment, wrong details and other problems can frequently happen.* (Interviewee K)

A low social pooling level leads to poor risk-sharing and a fragmented pension system, and this will be discussed next.

### **6.1.3.3 Problematic social pooling level**

The key problems associated with social pooling are the low overall levels of pooling and the variety of social pooling levels. Low levels undermined the risk-sharing capability of the former pension system whereas the existence of different pension systems contributed to the fragmented nature of the Chinese pension system overall. These two issues have a range of causes: first, because of the different arrangements made by local governments, even though an overarching pension framework exists nationwide, the real managers of pension schemes are local governments – and local governments comply strictly with their local economic and financial conditions. In many areas, these local conditions might not be sufficiently favourable to set up a city-level or a higher-level social pooling arrangement (see Chapter Three). But for some prosperous areas such as Guangdong and Zhejiang provinces, social pooling level has relied on the province-level government. This increased regional inequality due to prosperous areas will have better welfare standard and stronger

risk-sharing capabilities. From the institutional aspect, this arrangement exacerbated the fragmentation problem of the pension system (Zheng, 2011d). One of the interviewees pointed out that:

*... varieties of social pooling arrangements increased the level of fragmentation to the pension system ... (Interviewee D)*

which suggests that the underlying reasons for the fragmented pension system are similar to those affecting the health insurance system (*see* Chapter Five). What made things worse was that the low social pooling level impaired the sustainability of the pension system and was unable to deal with a financial crisis:

*... the pension social pooling has remained at a low level; if another big crisis comes, we might not have enough ability to deal with it. (Interviewee T)*

*... scientific social pooling is the key reason for a country to have enough confidence to deal with a big crisis. (Interviewee J)*

Problematic social pooling arrangements have largely constrained the risk-sharing capabilities of the existing pension scheme (*see* Chapter Three), and the less-developed second and third pension pillars has also threatened the whole welfare standard of the pension system.

#### **6.1.3.4 Underdeveloped second and third pillars**

In the early 2000s, the Chinese government adopted the World Bank's advice and created a three-pillar pension framework (*see* Chapter Six). Since then, however, the Chinese pension pillars have become quite uneven:

*The pension system is a very deformed structure; the public first pillar plays a dominant role whilst the other two pillars remain small and weak... (Interviewee Y)*

The underlying reasons for reforming the pension system are as follows: first, there are too many restrictions to establishing an enterprise annuity, and some of the interviewees

confirmed that only a few companies are able to set up an enterprise annuity, which in China belongs to the second pension pillar:

*Not all the businesses are eligible to set up the annuity for employees...*  
(Interviewee W)

*It is not easy for private enterprises to pay the extra costs to set up such an annuity.* (Interviewee Y)

*Only a small group of SOEs have already established an annuity for their employees.* (Interviewee Z)

Second, the current taxation system presents a significant challenge for ventures to set up enterprise annuities. If a company wants to establish an annuity, it has to manage the trade-off very carefully. Two of the interviewees spoke about this:

*If an enterprise wants to set up an annuity, the managers have to think carefully about whether they can afford 40-50% of their annual profits to build the fund.*  
(Interviewee Y)

Indeed, as discussed above, enterprises usually have a heavy social security contribution burden (for the first pillar only). If they attempt to set up an enterprise annuity, they risk having to contribute a further 40-50% of their annual profits to the fund. If an enterprise establishes an enterprise annuity, then, there are clear potential consequences for its profit margin. Third, the underdeveloped financial market has constrained the development of the second and third pillars. On the one hand, the immature financial system has led to companies not having many options over the investment of their annuity funds and, by the same token, the financial system cannot be relied upon to produce reasonable rates of return:

*There are not many options for companies which have an enterprise annuity fund to invest and it is not very safe to put the money into the stock market. The Chinese stock market is quite uncertain at this stage.* (Interviewee Y)

The lack of expertise to operate an investment annuity fund is another crucial reason why enterprise annuities have remained undeveloped. Businesses need professional agencies

and specific experts to manage the funds and the related investment. In the current situation, there is a massive shortage of such experts:

*... we need talented people who are familiar with the operation of annuities and the investment of annuity fund to help the Chinese government to expand the development of the second pillar. (Interviewee H1)*

*....there is an essential thing ... to achieve the actuarial balance... However, without enough talented people who have the capabilities to deal with these issues, it will be difficult for the second pillar to develop. (Interviewee Y)*

*... both enterprise annuities and occupational annuities face similar barriers ... the lack of professional expertise ... (Interviewee Z)*

From the discussion above, it is clear that a whole series of problems have led to the weak development of enterprise annuities. Some of the interviewees quoted above stated that occupational annuities and enterprise annuities are beset by virtually the same problems, but occupational annuities also have their own specific barriers. Initially, these annuities were designed for employees in particular work units, as one of the interviewees explained:

*... the occupational annuity is not intended for all the employees, only government officials and other types of work unit employees are allowed to participate in the scheme. (Interviewee O)*

Unfortunately, occupational annuity targeted employees were worried that their long-established benefits would shrink if they signed up to a new occupational annuity, so the occupational annuities have so far failed to expand. All work-unit employees still enjoy the government-supported pension scheme, so occupational annuities are not an attractive option from their perspective.

The third pillar of the pension system, private insurance, is the weakest of the three pillars:

*... the second pillar's pension system at least had a small-scale fund, but the private pension pillar is virtually nothing. (Interviewee B)*

There are many reasons for this situation. For instance, Chinese people have a high preference for personal savings:

*We are more likely to deposit money in a bank or to hold a significant amount of cash. This behaviour makes us feel more confident about our future.*  
(Interviewee J)

Legal problems have also increased the tendency for people to want to put the majority of their income directly into banks. Furthermore, the Chinese government has not provided a favourable environment for the development of commercial insurance companies. One respondent referred to this difficulty in the following terms:

*We know that private insurance might provide a better later time in our life, but there are too many uncertainties in these businesses and in national policies, so holding money ourselves is more reliable than other methods.* (Interviewee B)

Holding a huge amount of cash or personal saving is not a real problem to some extent, however, the low participation rate in commercial pension scheme plus the high personal saving rate means that Chinese people do not have enough confidence about their current pension systems. In the previous sections, the key challenges confronting the Chinese pension system have been reviewed in detail. In the following sections, the current reform strategies and their related outcomes will be discussed.

## **6.2 Pension reform: debate, solution and policy tendencies**

Continuing to reform the social security system is one of the core tasks stated in the 13th Five-Year Plan (State Council, 2016b; 2017). Four new strategies can be found in the current Chinese pension reform: first, the Chinese government regards addressing the issue of the aging market as one of the important strategies. Second, equalising retirement benefits has been made a priority on the government's agenda. As can be seen from the discussion in the previous sections, China's pension system is seriously inhibited by occupational, regional and gender inequalities, so equalizing the retirement benefits for different social groups has become increasingly important. In particular, social groups of work-unit employees (SOEs, universities) and urban employees have different welfare standards. Third, a national social pooling system is a key target. Moving towards national

social pooling means that two related reforms are necessary: the gradual unification of the social pooling standard and its improvement, by which is meant the pension system will have better risk-sharing function. These two reforms are by no means an easy task. Fourth, several policies are currently pending, such as developing the second and third pension pillars and delaying the mandatory retirement ages. However, these policies remain at the design stage. In the following sections, these new strategies will be discussed in greater detail.

### **6.2.1 Addressing the aging market**

Addressing the demand capacity in the aging market has been put as one of the priority strategies of pension reform. There are two key reasons for the government to want to undertake this: first, improving the aging market could help the government economically by improving domestic demand. Second, the development of this market will allow opportunity for the government to improve the return rate on the pension fund.

In recent years, China's economic growth has experienced a downturn. One of the crucial reasons for this has been the aging problem. Another reason is that the world is entering a post-austerity period (Farnsworth and Zoe, 2015), which means that China has to deal with fiercer global competition than was previously the case. One of the interviewees commented that:

*China's economic development has lost its demographic dividend ... global economic conditions did not fully recover ... China needs to find good ways to overcome these problems ... developing the aging market.... is the right choice to achieve the governments' targets to some extent. (Interviewee L)*

Many interviewees pointed out that because of the huge population, the aging market in China might not necessarily be an obstacle to the further development of the Chinese economy. Instead, economic development could be stimulated by further demand once older people have more spending power:

*If you look at other countries' experience, the US has a huge aging market which is the fifth largest industry in the US ... if China can explore the aging market,*



*with its vast population and huge consumption rate, there will be an incredible new economic growth rate. (Interviewee T)*

In a recent report (2016), the State Council estimated that the Chinese aging market is valued at over 22 trillion Renminbi (1 pound equals 8.9 RMB). Some specific strategies have been adopted by the Chinese government to take advantage of this: first, combining the health and social elderly-care services; second, stimulating the pension pillars linked with services for the elderly, for instance, by letting pension funds invest in services for the elderly; and third, encouraging social investment to build up more services for the elderly, thereby allowing private companies to develop more products that will improve the income security of older people. These strategies are specifically intended to stimulate the development of the older end of the market.

The aim of combining the health and social elderly-care services is to encourage the comprehensive development of security for older people. One of the interviewees stated that providing services for the elderly is a significant constraint on the development of China's pension system:

*There are two types of elderly security sector; one is the asset-based provision known as the pension, the other is more service-oriented and referred to as the elderly industries. These two areas should co-develop. Unfortunately, services for the elderly have been lagging far behind, and to a large extent this has limited the development of the pension system because people have money but don't have many service options. (Interviewee H)*

Indeed, the provision of more services and products for older people means the Chinese pension system would be better able to help pensioners secure their later life. For instance, if there are more services targeted at elderly people, and government allows them to use their pension to buy services, this might, on the one hand, stimulate them to contribute to pension schemes, while, on the other hand, developing a significant market presence, which could stimulate economic development. It is possible that the development of services for older people will stimulate the specific development of commercial pension schemes. Interviewee T confirmed that, if such services can be developed, both the pension system and services for the elderly would stand to benefit:

*People are richer than before, and have a huge amount of personal savings, but because of the underdevelopment of services for the elderly, people do not know where or how to spend this money; this issue has also constrained the development of the second and third pension pillars. (Interviewee T)*

Exploring the elderly market is a good thing for both stimulating China's economic development and improving the standard of pensioners' welfare. It also shows that the government continues to place a high priority on economic development. With the aging market developing further, more projects can be provided:

*With the aging market developing, there will be more pension products emerging and more people will be willing to put their money somewhere other than in banks, and then the scale of the pension fund will be increased and a higher return rate might be achieved. (Interviewee N)*

A well-developed aging market could consequently bring many new investment options for the public pension funds, and people will gain more confidence to use their money to support their later life. At the moment, however, the process of addressing the elderly market is at an early stage and it will take time to observe the outcomes of these strategies further. In fact, at the moment, a clearer strategy can be found in current attempts to reform the first pillar of the public pension system.

### **6.2.2 Integrating the work-unit pension (WUP) into the basic pension system for urban employees (UEBPS)**

Learning from previous failures, the Xi government has changed its reform strategy and adopted an incremental approach to the reform program rather than pursue more rapid change. One of the respondents commented that:

*The time-scale seems more intelligent than the previous time; the State Council left a transition period for us to merge the two schemes. (Interviewee D)*

Integrating work-unit pensions into the urban employees' basic pension system (UEBPS) is one of the biggest Chinese pension reform strategies currently being undertaken, although this is not the first attempt by the government to combine some work-unit

pensions with the urban employees' pension system. It is by no means an easy task, as one of the respondents pointed out:

*It is too naive to think we can finally integrate work unit staff who are working in the public hospitals with those in universities. The integration would mean that over 30 million people will lose their privileges. This reform, as a result, will suffer a backlash. (Interviewee O)*

Merging work-unit pensions into the UEBPS will undoubtedly cause great resistance but if the public pension programs cannot be combined, pension inequality between different occupations will remain, and the government will have to take the risk of losing the people's trust, and, as one of the interviewees pointed out, the privileges held by some work unit staff have already triggered some public dissatisfaction as interviewee D comments in relation to hospital and university employees:

*That civil servants enjoy generous benefits might be understandable, but public hospital staff and university staff holding iron rice bowls has triggered a lot of upset from the public. (Interviewee D)*

Even though there will be many hurdles and complaints for the Chinese government if the pension schemes are merged, the government is determined to complete the task:

*it seems that combining university staff and doctors into the urban employees' pension scheme has become an unavoidable reform ... (Interviewee D)*

*Merging the work unit pensions and the UEBPS ... a stronger determination can be found in this phase of reform. (Interviewee Y)*

This gradualist approach was first introduced in some top universities and public hospitals. One respondent noted that:

*It can be seen that some top universities such as Tsinghua University and Peking University have been the pioneers of the reform. (Interviewee J)*

While another commented that

*Some public hospitals started by introducing contract doctors or moving some full-time doctors to be contract staff. (Interviewee O)*

After the integration reform, the employees affected will lose their former privileges, but for a short period their privileges will remain or be compensated by other resources. One of the interviewees commented:

*I realized that our nation is determined to reform the work unit welfare systems. In particular, reforms are targeting some work units such as universities and hospitals.... The goal of merging these pension schemes is to achieve equity, and it will make it easier for the government to manage them ... But, it takes time to negotiate. (Interviewee O)*

Indeed, it is not easy to eradicate all the adverse effects of previous policies. For instance, inequalities between urban employees and work-unit staff will not be removed in a short period for two reasons: the reform will affect a huge number of beneficiaries and the Chinese government is in reality still using two pooling mechanisms to manage the two schemes (State Council, 2016b) because the funding patterns of the WUP and the UEBPS are different. It will take time to reduce the gap and achieve the final integration. However, one immediate advantage of the reform is that some privileged groups will now have to contribute to the pension fund, whereas previously they did not:

*Some non-contributing groups becoming contributing groups will greatly support the pension scheme's sustainability. (Interview O)*

A further benefit of the reform is that the two schemes have some similarities, such as reliance on government funding, and one of the interviewees commented:

*Well, integrating the work unit pension and the Urban Employees' Basic Pension scheme is a hot issue, but I think there won't be any difficulties. (Interviewee B)*

Currently, the process of integrating the two schemes is still proceeding. It will be worth taking time to observe the developing situation further. Integrating the UEPBS and the WUP will definitely bring many benefits for the pension systems. In summary, the integration of the WUP and the UEBPS is an ambitious but worthwhile reform project. In

the long run, the combination of the two schemes can be expected to improve the performance of the pension system and will contribute to better management and risk-sharing functions.

### **6.2.3 Moving towards national social pooling**

The aim of moving towards national social pooling is to achieve a more unified, more equitable, more efficient and more sustainable pension system (Lu, 2014; Zheng, 2015; State Council, 2017). If the government wishes to fulfil these goals, it will be essential to overcome the fragmented current social pooling arrangement described previously. Many of the interviewees pointed out that in order to improve the performance of the existing pension system, improving the level of social pooling level is an unavoidable first step because it can bring many benefits to the present pension scheme:

*... if China's pension system moves towards national social pooling, it can achieve more equitable contribution arrangement, and it will also be suitable for gaining a more unified labour market. It will also help both the central government and local governments to clarify their responsibilities...*  
(Interviewee H1)

Unifying the social pooling arrangements can help to reduce the inequalities between different regions and different social groups. However, achieving national social pooling is by no means an easy task. The government is currently attempting to achieve this target gradually. The same interviewee explained how this is being done:

*Currently, the Chinese government is going to unify its social pooling level to the provincial level, shortly after that, the social pooling level will be consolidated at the national level.* (Interviewee H1)

There are other benefits to be gained by national social pooling. First, raising the pooling standard can help the Chinese pension system reduce its fragmentation problems. Because achieving the national social pooling will need unified various local pension regulations and mechanism. One interviewee said that:

*The fragmented pension system caused a lot of severe crises; for instance, the segmented labour market, and a highly local-based pension scheme. The*

*problematic pension schemes also led to the government to lose public trust, and moving towards national social pooling can reduce these problems. (Interviewee J)*

The second benefit after the issue of achieving equity is that unifying the level of social pooling can improve the risk-sharing capability. Some of the respondents pointed out that:

*Having various levels of social pooling can undermine the risk-sharing function of pension schemes ... different areas could not coordinate with each other... people might be confronted with portability problems. (Interviewee J)*

*... having segmented pension funds could not avoid the devaluation problems, which increased the difficulty of labour mobility and also affected the capability of dealing with risks. (Interviewee V)*

As a national pension scheme, the system should enable different local governments to coordinate with each other. Coordination will bring great benefits for the pension system by improving the portability of pensions and the risk-sharing capability of the public pension scheme. With the risk-sharing capability improved, the sustainability of the pension system will be simultaneously enhanced because better social pooling arrangements will help the system resist the risks of devaluation. However, all the local governments need to reach consensus before national-level social pooling can be achieved. In order to make progress, central government could set up a national adjustment fund to speed up the reform, which could be used for unifying the social pooling level. One of the interviewees referred to this:

*We all know that achieving a unified social pooling arrangement nationwide is a very tough task; I have already suggested to the State Council to set up an adjustment fund for the underdeveloped areas in order to reduce the gap between developed and less developed regions. (Interviewee H1)*

The aim of such a central adjustment fund would be to help the poor and lower-standard governments to make sure that their pension funds can combine effectively with those of the richer provinces. Improving and unifying social pooling will require collaboration

between the central government and local governments, and the local governments should also negotiate with each other:

*Improving and unifying social pooling is a very complex issue which is closely related to China's political and financial systems. It is unlikely that the government will be able to take care of everyone's interests to achieve the target, it will take the time to negotiate with different local governments. (Interviewee F)*

This comment makes it clear that improving and unifying the social pooling level of the Chinese pension system will need a trade-off between the different interests (regions and groups), so enhancing and consolidating social pooling will take time.

#### **6.2.4 Introducing the nominal individual account? A debate related to resolve the empty individual account problem**

Over the past decade, the government has tried very hard to resolve the problem of empty individual accounts in the public pension system. As many of the interviewees commented, the empty individual account issue will have a significant impact on the sustainability of public pension schemes:

*Our pension system has suffered a lot from the empty individual account problem... (Interviewee K)*

Interestingly, some conflicting perspectives exist on this issue. Some interviewees denied that the empty account problem is a sort of crisis. From this point of view, some people's misunderstanding of the problem affected their opinion:

*Whether there's a gap or not, we shall first find out how this gap is defined... I do not think that individual accounts have deficits; this has been exaggerated by the media. (Interviewee B)*

*Empty individual accounts might be a problem in a few provinces, but for the whole country, the individual account is working very well; it is not necessary to change it at the moment. (Interviewee D)*

Some interviewees denied that there are deficits within individual accounts because they think that the individual account system should not be changed. However, the opposing view seems to support the government's thinking. The Chinese government has been attempting to abandon the idea of creating real individual accounts. Several of the interviewees predicted that:

*... we are going to learn from the Nordic countries about their nominal individual accounts arrangement. (Interviewee H1)*

Some officials such as the former Finance Minister Lou Jiwei (2013) suggested that China will probably move towards a nominal pension account shortly. Lou (2014) stated that China could not afford a real individual account system.

The debate outlined above shows that there is no consensus about how to deal with the empty account problem, but it can be seen that the government wants to adopt the nominal individual account model. Even though the government is going to explore the idea of a nominal individual account, some interviewees still insisted that it is an unnecessary move:

*in my opinion, we should fund individual accounts and move towards a real individual account ... rather than step into the nominal account system ... This is not to say that we should adopt the nominal account as the individual account cannot be funded ... If the government adopts the nominal account, it will mean that it has betrayed the contract with the people. (Interviewee F)*

At the time of writing (Autumn 2017), the debate about the future of the individual accounts was continuing, and the only change is that the discussion has been modified from whether to adopt a nominal account to how to introduce the nominal accounts into the existing pension system (*People's Daily*, 2017a). It might still be the case that the government does not make the final decision over how to resolve the historical debt. Time will be needed to observe further actions. In addition to the empty individual account problem, the low return rate of the public pension fund is another significant problem for the Chinese pension system. The government has come up with several new strategies to deal with it and these will be discussed next.



## 6.2.5 Beyond reform: some pending reform strategies

There are still some pending reform policies which can be found in the recent pension reform plan (SC, 2017, No. 13). First, stimulating the second and third pension pillars; and second, delaying the mandatory retirement ages. These policies have not yet been fully implemented but have certainly attracted public attention. Many interviewees stated that these policies would be implemented sooner or later.

### 6.2.5.1 The Second Pillar: Encouraging the enterprise annuity

*97% of Chinese employees do not have an enterprise annuity. (Interviewee I1)*

As already explained, the second and third pension pillars currently play a minor role in the Chinese pensions landscape. The government has considered several strategies for dealing with this problem, of which it is important to consider stimulate the second pillar pension development. First, based on the desire for unified public pension pillars, the government considers that the second and third pension pillars should maintain a level of diversity:

*... then establishing a diversified enterprise annuity and occupational annuity, this arrangement should on the one hand be based on a unified pension platform, both schemes using similar contribution regulations... but the benefit standards of these two schemes should consider local economic conditions, income diversity, a proportion of the fund should not be held in the same place; this reform will need strong determination from the central government. (Interviewee F)*

Different enterprises have different profit-making abilities. It is not practical to require all companies to use the same criteria to set up an annuity. Also, different local areas have different local conditions; it is not a wise decision to make all the local governments set up the same occupational annuity. Similarly, some respondents believed that China should not just rely on the western experience:

*... establishing and perfecting the enterprise annuity and occupational annuity could not simply be learned from the west's experience, we need to learn from our own realities. (Interviewee P)*

Another interviewee pointed out that the government might pay too much attention to the first pillar pension scheme and that a better strategy would be enhancing the mandatory characteristics of the enterprise annuity while reducing the contribution burden on companies. Furthermore, using the second pillar's pensions to deal with some of the first pillar's jobs might stimulate the development of both the enterprise and the occupational annuities:

*Currently the State Council has some regulations to restrict the occupational pension scheme, but it is necessary to consider reducing the companies' contribution rate ... and to leave some blanks in the pension pillars, using the second pillar to replacing some parts of the function of the first pillar ...*  
(Interviewee T)

Reducing the contribution burden on companies was agreed by various respondents. Another interviewee stated that if the government cannot reduce the burden on companies, it will, on the one hand, constrain the development of the enterprise annuity and on the other hand will cause the replacement rate of the enterprise annuity to decline:

*If the government can propose some preferential taxation policies, the enterprise annuity will make a great leap forward ... and these tax policies can also boost the financial market's development ... In the long term, it will reduce the government's expenditure on pensions.* (Interviewee V)

Other interviewees, however, had a different perspective. They insisted that the enterprise annuity and the occupational annuity could learn from the western experiences; for instance:

*First, employees should have more freedom to participate in the decision-making process of the enterprise annuity; second, perfecting the current governance structure, especially allowing more social actors rather than the*

*government to shoulder the significant risks ...; third, we should adopt a more transparent performance management system. (Interviewee Y).*

In summary, in order to stimulate the second pension pillar, the Chinese government needs to reduce the social security contribution rate and diversify the enterprise annuity arrangement. Improving the governance structure of the existing enterprise annuity will be quite important. One of the interviewees pointed out that:

*Of course, the Chinese government obtained a lot of valuable experiences of the second pension pillar's development. However, there are several factors worth changing slightly. Chief among them is improving the capability of the supervisory functions of the Chinese central government and the related ministries ...; second, different institutions and organizations should cooperate with each other; third, some agencies need to improve their full capabilities ...; fourth, many regulations, especially annuity investment regulations, should be changed... (Interviewee Z)*

It will still take some time for the Chinese government to reform the second pension pillar. From the comments quoted above, it can be seen that the Chinese government will have to improve and perfect its financial market institutions before setting out to reform the second pension pillar.

#### **6.2.5.2 Developing the third pension pillar**

As already explained, the third pension pillar, the private pension scheme, is remained in a small proportion. Private savings are still the first choice of the majority of Chinese people but some of the respondents suggested that accelerating the process of urbanization and improving the governance system (for example, the legal system) might change the current situation:

*... a private pension has many similarities with other pension schemes such as the urban residents' basic pension plan; both of them require people to enrol voluntarily...However, the low urbanization rate and the current legal governance system have constrained the development of private pensions.*  
(Interviewee B)

Many interviewees regarded the weakness of the legal system as the main reason why the Chinese private pension scheme never materialized. Even so, some acceptance of the private pension notion remains because the aging problem emerged earlier than the policy-makers had estimated, and as a result:

*The Chinese government had to push the development of private pensions even though there are not many significant changes which can be made at this stage.*  
(Interviewee H)

As this interviewee stated, currently there are no specific regulations or policies to stimulate the development of private pensions; the government only adopted some strategies which allow private pension companies to participate in the construction of an elderly market and the management of the second pension pillar's fund:

*The private pension has remained a small-scale issue, but it can be seen that the Chinese government paid more attention to the development of private insurance companies ... allowing them to connect with services for the elderly, encouraging them to some extent to participate in the investment and management of annuities.* (Interviewee V)

Private pensions continue to have a fragile status and it will take time to change the Chinese people's attitude towards them. Another fiercely debated pending policy is whether or how to delay the mandatory retirement ages and this will be discussed in greater detail in the following sub-section.

### **6.2.5.3 Delaying the mandatory retirement ages**

Delaying the mandatory retirement ages is a good policy which can help the Chinese pension system to deal with the increasing challenges caused by the problem of aging. Considering reforming the current retirement ages shows that the government intends to

correct some institutional barriers as well to overcome the related financial obstacle. In 2016, the government announced that a specific plan for delaying the mandatory retirement ages would be published ‘soon’ (*People’s Daily*, 2016b). Although the specific program had not been issued by the end of 2016, the issue of reforming the current retirement ages triggered a fierce public debate.

Different interviewees had various standpoints on this issue. Some of them thought that delaying the mandatory retirement ages is inevitable because it would achieve many significant changes:

*... changing the current mandatory retirement age is a crucial strategy which can improve both the public and the private pension schemes. Also, once the retirement age changes, it will help us achieve national social pooling, and it might also boost the development of private pensions. (Interviewee T)*

Another respondent took the opposite view and claimed that reform is not necessary:

*Reforming the retirement age ... means that the government has betrayed the contract between the people and the government. (Interviewee F)*

The remaining interviewees commented that the mandatory retirement age is an important component of wider pension reform and delaying it is likely to have mean that improvements will not be as far-reaching as is desired:

*The action of delaying the mandatory retirement age is not an independent activity, it will be an essential foundation for improving the whole pension system, and the reform will enhance the sustainability of the existing pension schemes, but we shall need to wait and see. (Interviewee H1)*

It cannot be denied that the Chinese pension system has achieved some improvements in the past few decades. Interviewee (H1) predicted that 2017 would be a milestone for China’s pension system reform, but at the time of writing, only a single document on the guidelines for industries for the elderly has been officially published. Pension reform has struggled with the first pillar and has not been properly extended to the other two pillars as yet. Interestingly, the government seems to be devoting the majority of its energies to reforming the financial market. To some extent, however, a more efficient financial market

is the foundation of a better pension system, as has been discussed. It will still take time to observe the future of the Chinese pension system.

### **6.3 Conclusion**

This chapter is based on the elite interviews and has clarified three fundamental challenges facing the existing Chinese pension system. Some major reform strategies have also been discussed. Based on these findings, the development of China's pension schemes in recent years has been explored and discussed. The government has adopted a variety of reform strategies and these have triggered fierce debates. These policies, in general, show that the government is determined to find a new economic growth point. They also show that the government has to respond to the increasing needs of an aging society. However, the current Chinese pension system is a far from the multi-pillar system desired by the government and it is unlikely that the government will be able to resolve all the barriers in the path of further pension reform within a short period.

To date, current reforms are still in their early stages or in the planning stage, and the majority of reform strategies have been focused on the first pension pillar – for instance, integrating the work-unit pension scheme into the urban employees' basic pension scheme and moving towards a national social pooling arrangement. The follow-up reform of individual accounts and a number of other issues have been put on the government's agenda. It is uncertain what outcomes these follow-up changes will bring to the Chinese pension system. At this stage, it is safe to conclude that the government is attempting to move away from a what has been a problematic and insecure pension system. Gough *et al.* (2004) described a welfare state or developed world as consisting of three key elements: a mature financial market, a well-developed labour market and a law-ordered social environment. Considered against these criteria, the Chinese pension system currently still has flaws. What is more, the immature financial market intends to encourage private 'cash saving' and this practice still plays a significant role in people's individual pension arrangements. Family and community therefore still operate as informal, and primary, providers of people's care and health in later life. As a result, the Chinese pension system continues to exhibit 'informal security' tendencies despite the government's clear intentions of moving beyond this situation.

## **CHAPTER SEVEN: REDUCING POVERTY IN CHINA: FROM *DIBAO* TO PRECISE POVERTY ALLEVIATION**

Eliminating poverty is one of the greatest challenges for the current global community (Vetterlein, 2013). In the past few decades, China has made remarkable progress in poverty reduction (*People's Daily*, 2016c; 2017). By introducing social assistance programs such as *dibao* (the Minimum Living Protection Scheme) and poverty alleviation schemes (*fupin kaifa*), the government has provided a relatively early-stage social protection floor (SPF) to both the urban and the rural poor populations (Liu and Kongshoj, 2013). Even so, there are a series of risks restricting the future development of China's anti-poverty campaigns such as the tendency for families to return to poverty, high welfare dependency, the problematic means-testing mechanism and the fragmented nature of poverty alleviation policies.

In 2013, President Xi proposed a new strategic initiative: 'Precise Poverty Alleviation' (PPA), which is intended comprehensively to resolve the whole poverty problem in China (the PPA is also known as Targeted Poverty Alleviation – TPA – or Targeted Poverty Reduction – TPR). Since 2013, all levels of Chinese government have made poverty reduction a priority. At present, with the combined efforts of the whole of Chinese society, PPA has become one of the most crucial projects in China's anti-poverty campaign. All levels of government and other social organizations have given unprecedented attention to poverty alleviation.

According to Chinese media outlets, the PPA has been effectively implemented. For instance, according to Chinese official news media Xinhuanet (2016), 'A total of 320 units of the central government and the Party have taken responsibility for helping to lift their targeted areas out of poverty, and 592 counties that are key targets in the national poverty alleviation development program have received help from units'. The PPA has also improved the poverty reduction delivery mechanism and established a more efficient performance management system for the poverty reduction activities (Xinhuanet, 2016). Beyond the governmental and party groups, 68 SOEs have carried out anti-poverty campaigns in the 108 most remote counties, helping more than 10,000 poor villages address water, electricity, road and other infrastructure problems (*People daily*, 2018c). During the first three years of the Xi's first presidential term, the central government sent out of more

than 1,670 personnel to temporary posts working on poverty alleviation in the aforementioned 592 key counties, and spent RMB11.86 billion in poverty alleviation funds and materials into these counties, helped them absorb investments totalling RMB69.58 billion, and organized the export of 310,000 workers from these counties (Xinhuanet, 2016).

Despite this positive verdict from official media sources, however, using the findings from the interviews with representatives of China's elite, this chapter explores the PPA in detail and argues that it still has some barriers to overcome. Nevertheless, the overall achievement is remarkable, and China's performance in terms of providing social assistance is clearly the best among the three areas selected for this study (see Chapters Seven and Eight). Complying with Gough *et al.*'s (2004) theory, social assistance in China is moving away from the institutional structures typical of an informal security regime towards the early stages of a comprehensive social security system. This chapter will first consider the key challenges that faced China before the PPA was fully implemented, paying attention mainly to institutional barriers and cultural-traditional obstacles. The chapter will then briefly discuss the key features of the PPA, and the main strategies that underpin the policy. Finally, the chapter will assess the contemporary outcomes of the PPA – whether it can resolve China's poverty problems by the end of 2020.

### **7.1 Key challenges before the PPA launched**

Chinese poverty reduction programs are affected by several key constraints: first, the Chinese government dominates the anti-poverty programs and other actors such as private enterprises and NGOs rarely have a chance to participate in poverty reduction activities; second, there is a perceived problem of welfare dependency, which many interviewees described as 'wait, dependency and want'; third, difficulties arising from means-testing arrangements, have led to benefits not always reaching those in need; fourth, the existence of two parallel institutions<sup>20</sup>, which fragments the anti-poverty programs; and finally, the fact that the existing anti-poverty programs have no well-designed 'exit mechanism', meaning that when claimants' income moves above the national or local poverty line, there is no obvious way for them to move out of the anti-poverty schemes. In the following subsections, each of these problems will be discussed.

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<sup>20</sup> social assistance and poverty alleviation



### 7.1.1. 'One-man show' in the Chinese poverty reduction

Poverty is a complicated social issue and can be caused, or exacerbated, by a range of factors such as the consequences of a particular economic model, associated choices of methods to deal with a range of potential social risks, and also cultural and geographic factors that can either enhance or constrain the development, and impact, of particular policies (Spicker, 2014; Fitzpatrick, 2014). China has a population of 1.4 billion and the third largest national territory in the world, so the issues confronting Chinese governments are, if nothing else, significant for their size and complexity. Over the past few decades, the Chinese government has played a dominant role in introducing anti-poverty activities and there is no doubt that progress has been made in reducing poverty (*People's Daily*, 2016). Nevertheless, it is clear that the government bears an enormous social burden and has been unable to reduce poverty below the level existing in 2011<sup>21</sup>, as one of the interviewees reveals that the government almost shouldering all the poverty reduction responsibilities:

*In the past, enterprises and other social organizations did not participate very frequently in poverty alleviation. These actors only treated anti-poverty as a charity-related issue ... Now, the Chinese government persists in playing a one-man show in the anti-poverty area, it will be both a regrettable and a useless action. (Interviewee I)*

In 2013, the number of Chinese people living in poverty was 89 million (NSB, 2013). Some sections of this population have been termed a 'deep poverty population', which refers to the proportion of the poor who live in remote areas and are unlikely to change their living status in any conventional way (Li *et al.*, 2016). If they simply rely on financial support from the government, many in this section of the population are unlikely to move out of poverty. On the one hand, due to the large population, financial support from the government is only enough for basic living needs while, on the other hand, these people lack resources to help them move beyond from their current situation. Without other social actors such as becoming involved in anti-poverty activities, the huge financial burden produced by demands for social assistance will continue to fall on the government alone,

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<sup>21</sup> In 2011, the Chinese government set up 2300 yuan as the poverty line.

with the result that many in the ‘deep poverty population’ will remain in their current situation – and consequently remain vulnerable to continued welfare dependency.

### 7.1.2 Welfare dependency: ‘Deng’, ‘Kao’, ‘Yao’

Welfare dependency is a common, if contested, problem in many western welfare states (Murray, 1984, Mead, 2011; Han and Guo, 2012). Many researchers have concluded that because of low benefit rates, it is unlikely that Chinese people in poverty can rely on social assistance alone for their basic living needs (Gao and Gao, 2009; Han and Guo, 2012). Many interviewees commented on the three most typical phenomena of China’s welfare dependency: ‘Deng’, ‘Kao’, ‘Yao’. ‘Deng’ and ‘Kao’ are more likely to occur in the remote areas in China, which are strongly related to people’s traditional cultural and lifestyle, while ‘Yao’ is more likely to be a feature of other areas where there are significant loopholes in poverty reduction activities.

‘Deng’ in English means ‘wait’, which refers to those in poverty who have the capability to work but are unwilling to find jobs. These people are not motivated to find work and appear content to rely on government support:

*Waiting for the government’s support is very common for many people in poverty, it is one of the principal features of Chinese welfare dependency.*  
(Interviewee E)

*There are many anti-poverty claimants who are quite lazy; whether they have a working capability or not, they are less likely to find a new job because they know that if they wait, the government will always come to help them.*  
(Interviewee X)

‘Deng’ can be perceived as a ‘problematic’ form of welfare dependency because it appears that claimants in this category lack incentives to work and are simply waiting for government support. However, ‘Deng’ is not the whole picture of welfare dependency. Another thorny issue is ‘Kao<sup>22</sup>’, which refers to social assistance claimants and poverty alleviation applicants who are content with their current standard of living. They are vulnerable people who are entrenched in their poverty and have an unquestioning reliance

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<sup>22</sup> Probably best understanding as ‘dependency’

on government benefits. Clearly, it is not easy to distinguish between ‘Deng’ and ‘Kao’, but it is helpful to consider ‘Deng’ as more related to poverty caused by particular personal attitudes or lifestyles, while people who are classified into ‘Kao’ have a more unquestioning, passive acceptance of their position in society and seek to survive merely by ‘getting by’. According to the interviewees, Deng is likely to be more related to ‘laziness’, while the ‘Kao’ lack the personal resources to change their situation and, due to government help, have gradually become used to living on benefits. These people do have some possibilities for changing their life, but are reluctant to make the necessary adjustments; this phenomenon has several causes:

*Some remote areas still continue in a traditional rural economy. People there can be self-supporting and they do not have much connection with the outside world. The government frequently provides aid, and their self-supporting state can be enough for them to survive, so there is no need for them to make changes. (Interviewee D)*

*The dependency is more or less related to the traditional culture. For instance, some minority groups’ lifestyles or culture mean that they enjoy the poverty or stay in poverty; if you change their living status, it means that you have to act against their culture. (Interviewee E)*

These comments show that although ‘wait’ and ‘dependency’ have many similarities, ‘dependency’ is more likely to be a feature of remote areas where the poverty is part of the traditional culture. In many Chinese minority ethnic religions and traditional cultures, poverty is a kind of lifestyle that goes back over generations and they have been educated not to change these traditions. ‘Yao’ refers to many poor people who directly demand what they want, rather than what they might need, from those who support them. Importantly, the benefits that such people claim are not based on an objective assessment of their needs and rights; rather some people blackmail the officials who are in charge of the anti-poverty programs if they are dissatisfied with their treatment – and it is common for such people to create difficulties for officials:

*It is not appropriate to say they [the poor] blackmail or threaten us. But some of them do; they know that our promotion prospects have a close relationship with anti-poverty issues. So these poor people just claim what they want – cash,*

*rice, meat, you name it. If you don't satisfy their wants, it is very likely that you will get into trouble ... The most tricky thing is that they won't use these things to change their life, but just to improve their income. (Interviewee D)*

The 'want' phenomenon is usually restricted to poor rural communities but some relatively well-off people living in poor or remote areas will also behave in similar fashion because they feel jealous of their neighbours, who can obtain state support:

*Many people who are living in poor areas are not poor themselves, but they are jealous of those who are in poverty, and they regard it as inequality when poor people receive government support, but they don't. As a result, they are more likely to make trouble for local officials, who then have to concede to these troublemakers. Otherwise, the troublemakers will put tremendous political pressures on local officials. (Interviewee X)*

On the basis of the above discussion, although social assistance programs and other poverty alleviation initiatives are of a relatively low standard, welfare dependency still exists in China – something that contradicts the findings of some previous studies (Han and Guo, 2012). The comment quoted above shows that the regulation of eligibility for the anti-poverty programs is problematic and that people who are ineligible are nevertheless included in existing anti-poverty arrangements. The three types of welfare dependency discussed above reflect the problems associated with means-testing and also show that China's poverty issues are both complex and entrenched. Issues relating to means testing will be discussed in the next section.

### **7.1.3 Problems of means testing**

Means-testing is an important part of the Chinese anti-poverty programs (Han, 2015). This arrangement plays a gatekeeping role in the determination of benefit eligibility, but means-testing arrangements in China are problematic. Criteria for assessing eligibility are not clear and social assistance programs, for instance, include many different institutions such as *dibao*, *wubao*, medical aid and housing support, and such fragmented programs cause a number of difficulties such as 'multiple protection' and 'zero-protection' (Li *et al.*, 2016; Li and Li, 2015). Multiple protection refers to those who obtain social assistance from more than one scheme whereas zero-protection denotes those who, although they should

be included in the protection schemes, are in fact not protected by any of the systems owing to fragmentation problems (He, 2012).

In addition, these problematic mean-testing arrangements have had a significant impact on current anti-poverty programs because, for example, the poor might not be able to access government help on time (Li and Li, 2015). Primarily, means-testing can determine whether an individual is eligible for the scheme. According to previous studies, there are many eligible people who should be included in the existing programs but are not (Li and Li, 2015; Wang, 2017). Ironically, those who are formally ineligible have been included in the existing anti-poverty alleviation programs – the implication being that means-testing has caused severe problems. One is mis-targeting the genuinely poor; a second difficulty relates to the bureaucratic apparatus involved in the benefits system; a third issue is corruption; and a fourth concerns the fact that political intervention has also contributed to current problems. In the following sub-sections, these four problems will be discussed in greater detail.

#### **7.1.3.1 Mis-targeting**

Failing to identify the genuinely poor is the most significant problem associated with the existing means-testing arrangements. Means-testing is a standard measure used by social assistance programs and other poverty alleviation initiatives in societies across the world (Zheng, 2005). In China, however, it is prone to several problems. First, the precision of means-test measurements is questionable. The current means-testing approach is not consistent because there are no strict quantitative criteria used in the existing social assistance program:

*... the means-testing approach is quite debatable. It does not apply a strict poverty line or other criteria; it relies more on local officials who are working at village level to check people's living status ... this is a very subjective way to measure who is poor and who is not. This method is not a precise approach, and always makes mistakes. (Interviewee R)*

Where the behavior of officials is concerned, these individuals do not have strict criteria for measuring eligibility for the benefits schemes but only measure poverty by informal observation – for example, counting how many animals a person owns, discovering

whether the family has a member who is suffering severe illness, or whether any children are studying at school.

### **7.1.3.2 Bureaucratic regulation**

Mean-testing procedures are overly bureaucratic. For instance, all those who intend to claim social assistance or poverty alleviation benefits are required to fill in a particular form, but the form is poorly constructed with the result that many claimants do not understand what is being asked (Li *et al.*, 2016). One of the respondents pointed this out:

*There is an ironic arrangement that poor people are required to fill in a form, but it does not make sense to the applicants. Because a lot of the poor people are not well educated, they cannot understand these professional terms ...and when they ask help from local officials, it becomes clear that those terms are far too obscure and even the local officials cannot explain the meaning either.*  
(Interviewee Q)

Having to complete a badly-designed form constrains the precision of the anti-poverty programs. This problem means that it is not easy for vulnerable people to express what they want and officials also find it difficult to identify those in need accurately. Another interviewee was also critical of the means-testing process:

*... the nature of the means-testing arrangement is bureaucratic, and officials do not feel sympathy for the poor. Instead, officials only treat anti-poverty or related issues as a job which does not require them to complete it efficiently and accurately, so it does not matter to them whether the arrangement is good or not.* (Interviewee X)

The Chinese means-testing mechanism seems more like a local political tool rather than a governmental service for those in genuine need. County-level or higher-level officials rely heavily on the information provided by the village-level officials. This phenomenon leads to the third problem of the current mean-testing arrangements: corruption.

### 7.1.3.3 Corruption: the cases of ‘*guanxi bao*’ and ‘*renqing bao*’

Take the *dibao* programs as an example of the potential for corruption. There are two types of *dibao*; ‘relationship protection’ (*guanxi bao*), and ‘favour protection’ (*renqing bao*). Relationship protection refers to local officials who help their own relatives, including sons, wives and others who have a good relationship with them (Li and Li, 2015; see Chapter Six) when these relatives are not in real poverty at all. Similarly, ‘favour protection’ mainly refers to local officials showing mistaken respect to their leaders and allowing some of their leaders’ family members or relatives to enroll in the *dibao* programs (Huang, 2015). This type of corruption significantly undermines the protection function of social assistance, as one of the interviewees observed:

*Previous anti-poverty programs are not effective and not transparent. Many officials use it as an opportunity to lick their bosses’ shoes, and some of the local officials use it as a means of private welfare, which leads to those who are really in need being unable to obtain the government’s help. (Interviewee E)*

Relationship protection and favour protection have significantly undermined the legitimacy of the anti-poverty programs and turned China’s anti-poverty strategy into a series of privileged programs. These problems have also led to the paradoxical situation in which anti-poverty programs in China offer more protection to the better off than to the poor. According to a report from a government-run think tank (Wang, 2017), 51% of anti-poverty claimants are not poor at all, 36% are relatively poor, and only the remaining 13% are genuinely poor. One interviewee referred to this:

*Local officials tell lies to their leaders and then turn the anti-poverty programs into a personal asset, or they default to put their boss’s relatives in the schemes. Therefore, some locals officials can provide the fund to anyone they like, and in the end, only a small proportion of the really poor can win these people’s hearts. (Interviewee I)*

Poverty alleviation programs in China therefore have similar issues. First, the problem of being able to assess who should receive government help and who should not. Local officials have considerable discretion to determine who can obtain poverty alleviation benefits. This arrangement leaves many opportunities for local officials to act corruptly:

*... poverty alleviation is a cash transfer from the central government and the local officials, and especially those frontline officials who have significant discretion on how to use the fund might use some tricks to defraud money from the poverty-reduction fund. (Interviewee J)*

Information asymmetry certainly exists between the central government and local officials. Local officials know the local situation better than the central government and this leaves gaps for them to act illegally, such as misreporting the numbers of poor people (Li and Li, 2015). One of the respondents commented on this:

*... information asymmetry is a crucial reason why the central government spent a lot of money but did not achieve what it had expected in terms of poverty reduction. (Interviewee R)*

Corruption of this kind is one of the biggest enemies of the existing anti-poverty programs and allows these programs to become distorted. Another severe problem of the programs is the high degree of political intervention; many local officials use anti-poverty programs as a tool to relieve local political pressures.

#### **7.1.3.4 Political intervention**

The most prominent cases of political intervention can be found in social assistance programs, which are vulnerable to influence by local officials. For instance, there is a particular type of *dibao* claimant who can be either genuinely poor or relatives of local officials. These special '*dibao claimant*' are referred to as 'informal petition' (*shangfang hu*) households. These people might or might not be suffering inequality, but they do not seek legal means of claiming their rights. Instead, the informal petition households use more radical ways of protesting, such as heading to Beijing to demonstrate against the Chinese leadership. For local officials, this causes tremendous political pressure. To prevent such people from seeking help from the central government, local officials have to use the *dibao* as a tool to meet these people's demands, thereby reducing the significance of means-testing. This type of *dibao* is called *weiwen bao* (Li, 2016). One of the respondents explained that:



*... weiwen bao, in reality, damages the function of social assistance, because means testing is not a gatekeeper anymore ... The more political intervention means the more unreliable the poverty alleviation becomes, and people who are really in need might be excluded from the government's support. (Interviewee H)*

Damaged by political intervention, in some regions, the anti-poverty programs have become a tool for local governments or local officials to maintain power. Because of the factors discussed above, the anti-poverty programs still have a large gap to fill if the government intends to achieve better outcomes. In addition to these problems, what makes things more complicated is that, with *dibao* and *weiwen bao*, there are two different kinds of poverty reduction program in operation, which effectively fragments the whole system and leads to frequent conflicts between the two systems. The following section will focus on this particular issue.

#### **7.1.4 Fragmented institutions**

Social assistance and poverty alleviation do have some differences. Social assistance standards strictly comply with local conditions (Leung and Xu, 2015; Ngok and Deng, 2017) and their target is the new urban poor whose diminished circumstances are caused by economic reforms; as a result, the welfare standard and fundraising capabilities vary among different areas (Leung and Xu, 2015; Leung and Xiao, 2015). What makes things more complicated is that local governments have the discretion to set up local social assistance lines, which are a criterion of eligibility for *dibao* application.

For poverty alleviation, this program is only targeted at poor rural populations and regions, the central government sets a national poverty line for this. However, as one interviewee pointed out:

*The national poverty line and the local poverty line in many cases are quite different, which means that poverty alleviation sometimes is far from addressing the local conditions, and the national poverty line is higher than the local line, which sometimes causes the local social assistance to be disabled. (Interviewed X)*

In this case, the target groups of social assistance and poverty alleviation are sometimes overlap and different. For instance, some rural population who have support from poverty alleviation is not included in social assistance programs. Similarly, some population who have enrolled in social assistance program is not covered by poverty alleviation schemes (Liu and Han, 2016:9). Fragmented social assistance plus fragmented poverty alleviation lead to an even more fragmented social protection threshold for poor people. Fortunately, because anti-poverty initiatives are closely related to economic development, at the macro level, the overall result of poverty reduction is positive because growth has meant that the average income of the total population has increased dramatically (Ravillion and Chen, 2009). One of the interviewees pointed out, however, that if the Chinese government continues to allow the two existing anti-poverty programs to work independently, there will eventually be chaos:

*We cannot use the old arrangement to deal with the new situation when absolute poverty is not the most severe problem anymore. What we should do now is avoid the existing poverty reduction programs working separately. Otherwise, some problems will remain, and some new problems will emerge. Now there are some places which are already suffering some problems of the poverty alleviation programs conflicting with the social assistance programs. (Interviewee F)*

From this comment it is clear that because of the fragmented arrangements, the existing anti-poverty programs do have conflicts, particularly in some overlapping areas. Consequently the government needs to reform existing institutions comprehensively in order to make the system more coherent. In the following sections, the current reform strategy will be clarified and the current outcomes will be assessed.

#### **7.1.5 The lack of a strict exit mechanism**

In addition to all the problems already discussed, the fact that there is no exit mechanism for those poor people whose life has improved is another severe problem of the existing anti-poverty programs in China. Ideally, when an individual's income rises above the

poverty line, that person should move out of the anti-poverty schemes. Unfortunately, although ways of leaving the schemes do exist, China does not have a clear mechanism via which people can exit the government support systems when their circumstances improve. As one of the interviewees pointed out:

*We do have an exit mechanism for the poor when their life gets better. However, the poor will not report their status voluntarily, and no-one emphasizes the exit mechanism. So the poor will not treat this as a serious issue and we also do not want to push them too hard. (Interviewee D)*

This emphasis on the voluntary reporting of improved circumstances is clearly problematic. Because poor people want to continue to receive state support, there is no incentive for those who experience improvements in their life to report their new status. At the same time, local officials lack incentives to check which people should be moved out of the poverty reduction scheme. As a result, it is difficult for the government to monitor the poorest population closely with the consequence that the poverty alleviation fund works less efficiently than it should:

*Without a strict exit mechanism, we waste a lot of money supporting those who are not in danger. (Interviewee X)*

The Chinese government set up a comprehensive reform initiative for poverty reduction to deal with the problems which have been discussed above. In 2016, President Xi has stated that “poverty reduction will be and ought to be the indicator that China has achieved a moderately prosperous (*xiaokang*) society” (Xi, 2016;2017). In the following sections, China’s reform program will be discussed in detail.

## **7.2 Key reform: Precise Poverty Alleviation (PPA)**

In 2013, the Chinese government set in motion a new nationwide anti-poverty movement known as ‘Precise Poverty Alleviation’ (PPA) (Lu and Huang, 2016)<sup>23</sup>. The nature of PPA is a combination of various policies; it is a comprehensive reform initiative that is designed

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<sup>23</sup> Also translated as targeted poverty alleviation, but the researcher assume that PPA might better grasp the nature of the new poverty reduction reform in China.

to correct the existing problems that have been discussed in this chapter. PPA requires all levels of government in the country to eliminate all kinds of poverty by 2020 and is best understood as a series of policies: PPA is not a single policy or reform strategy; it is a combination of various social policies and other public policies. (Interviewee X). PPA is comprised of several different strategies: industrial development, ‘fuzhi’<sup>24</sup> and the creation of a social safety net (Wang, 2017). The aim of industrial development is to increase the income of the poor and enable them to have a relatively sustainable way of preventing them from slipping back into poverty (Lu and Huang, 2016). The industrial development policies also targeted to stimulate the rural poverty areas’s economic development. Those industries in general includes two types: enterprises that specifically hire those who are in poverty; and start-up programs lead by poor people themselves. More important, these PPA-related industries are expected to serve the need of seeking a new economic growth point for the Chinese government. The aim of ‘fuzhi’ is to provide greater opportunities for the poor to change their lives; for example, ‘fuzhi’ includes some vocational training in order to help those in poverty to find jobs more easily (Liu and Han, 2016). But more importantly, ‘fuzhi’ is also intended to help many poor people understand that aspects of their lifestyle, including elements of ‘negative mindsets’ such as the ‘enjoyment’ of poverty (see above) are not necessarily a good thing. Finally, by constructing a social safety net, the PPA aims to integrate various programs and poverty alleviation institutions such as medical aid programs, social assistance programs and other kinds of poverty relief to create a comprehensive social protection system that will prevent people from falling further into poverty (Huang and Qin, 2015). These three dimensions reflect the special nature of the PPA initiative.

Compared with previous poverty reduction arrangements, the PPA can be distinguished in the following ways. First, as discussed, it is designed to integrate elements of the existing

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<sup>24</sup> This term could be understood as education but the meaning of ‘fuzhi’ is far more complex than education, it is neither a general higher education nor vocational education.

anti-poverty programs and make both the social assistance and poverty alleviation schemes operate more coherently. Second, the policy is expected to boost the development of the rural areas and regions where poverty exists and contribute to an increased rate of economic growth by supporting the PPA related industries' development. Third, it is anticipated that the PPA will introduce more precise targeting and exiting mechanisms; and, finally, that it will help to reduce corruption through the supervision of PPA by specific anti-corruption departments.

The first new feature of PPA is that it is going to refine the current poverty reduction delivery system, in particular by using 'big data' to supervise the process of delivering poverty alleviation. To this end the central government now requires that all the local governments establish a local poor population database. The data should identify each individual rather than each area or household and should also record who uses the poverty reduction fund, how the person uses the fund and how much each person receives from the fund:

*We are heading to a big data-based society, internet + anti-poverty is one of the tools we use to improve our delivery system. (Interviewee X)*

With new technology being used in the process of poverty reduction, China's anti-poverty policy is expected to have a more efficient delivery system, which will resolve the fragmentation problem by enabling the two existing anti-poverty schemes to work together. Integrating parts of both social assistance and poverty alleviation has therefore become a significant feature of PPA. As interviewee Y observes:

*PPA aims to create a more efficient social protection floor and better help the poor to get out of poverty, so making the social assistance and poverty alleviation schemes work more coherently will be a worthwhile change. (Interviewee V)*

One feature of the PPA is that the government is not the only actor involved in the process of poverty reduction. According to a document issued by the Chinese government, more

social actors are being encouraged to become involved in the anti-poverty programs (SC, 2013; 2016):

*PPA has some new features. For me the most impressive part is that social actors can get involved in poverty reduction. The government is doing the right thing by not shouldering everything and asking more businesses and organizations to participate in anti-poverty activities so that social investment and social capital will be activated. (Interviewee E)*

The involvement of more actors such as private companies and non-government organizations (NGOs) in the poverty reduction process means that the burden on the government will be greatly relieved. Take the private companies as example, some of them donate money and set up local poverty alleviation funds, while other companies will send working groups and require each of their staff helping targeted households or individuals. With regard to the NGOs, they either help poverty people design their own business, or help these poverty population collecting social donation such as money and living materials. There are some young individuals called ‘Maker (chuangke)’, who are came from urban areas aims to start-up their business in rural areas have made undeniable contributions. These ‘makers’ brought many new ideas to remote areas that in some ways brought about social innovation for local areas and job opportunities for rural poverty population. Also, more private companies and other organizations particularly NGOs involved in the poverty reduction process means that private sectors have started to take certain social responsibilities to the country, which also helps China’s welfare system to move towards a welfare-mix framework (Powell, 2007) which, in turn, can make better use of the resources and expertise provided by the state, the market and voluntary organizations such as the Red Cross like charity based NGOs.

If the Chinese government can establish a more coherent social protection floor for the poor, then fewer people will be exposed to the risk of poverty. But as one of the interviewees commented, simply protecting the poor is not a sustainable way to support them in the long-term:

*... the sustainable way to reduce poverty is to find inclusive economic growth points, however, in the past few decades, the economic driving forces are in*

*urban China, so now we should require a new economic growth rate to enable poor [rural] people become richer. (Interviewee H)*

Poverty reduction is by no means an easy problem to resolve in the short term (Qin, 2016), and without sustainable, inclusive economic growth, it will be challenging for a country to deal with poverty issues (Goulden, 2016). To achieve this goal, the Chinese government should attempt to boost the development of rural and poor areas. Chief among the strategies being used in this regard is education. As already discussed, many Chinese poor people are badly educated and low-skilled. Notably, some regional cultures actually encourage people to continue living in poverty. As a result, ‘fuzhi’ has become a crucial strategy for the government to help the rural population and people who live in poverty. The Chinese government sent many officials both from central and local governments stay in these poverty village and helping those targeted poverty population moving out from poverty trap (more details in section 7.2.3).

Finally, the PPA is intended to help poor people to build up their assets by encouraging PPA-related industrial development and encouraging the poverty population to strengthen their families and communities through working in PPA industries. Improving poverty people’s assets is considered to be a win-win solution both for the poverty of people as well as for the government. On the one hand, with the poverty population’s assets increasing, those in poverty will have more capabilities to deal with social risks such as illness, aging and unemployment. On the other hand, with more assets held by the poor, people are more likely to buy services or goods from the market and this increased consumer power can help to boost economic growth.

It can be seen, then, that the PPA is an ambitious plan which is designed to correct or avoid the weakness of the previous poverty reduction institutions. It is a significant attempt to help the poor more effectively:

*The biggest difference between PPA and the previous poverty alleviation model is the word ‘precise’. Compared with the previous arrangement, there is a significant difference between the PPA and existing anti-poverty programs. The key to the development of poverty alleviation is ‘help’, which aims to ensure a basic standard of living for the poor. Social assistance is very similar. But both social assistance and poverty alleviation have created a vicious cycle for the*

*poor. Instead, PPA is not only intended to help people in their time of need but also to make a dramatic change in their life. (Interviewee H)*

This comment makes it clear that the PPA initiative is a more active social policy for helping the poor – for example, the nature of the PPA resembles aspects of the social investment strategy that has emerged in certain European welfare states' labour market policies over the past twenty years such as the UK and Germany (Morel *et al*, 2012). Furthermore, PPA will not only create a safety net for the vulnerable population but will also encourage people to change their life in the long run. Mainly, the aim of the PPA is to prevent people from returning to poverty (Lu and Huang, 2016). In addition, the PPA is illustrative of the strong political determination of the CCP. President Xi made a promise at the 2015 Global World Poverty Reduction Conference that China will eliminate poverty by the end of 2020. To fulfil this pledge, all levels of Chinese government, social organizations and companies are devoting their energies to ensuring the success of PPA:

*The PPA is a remarkable plan [of a kind] which I have never seen before; the whole country, all social groups will participate in the anti-poverty campaign. This [PPA] is the outcome of the firm determination of the CCP and the Chinese government. (Interviewee O)*

*PPA is quite an ambitious plan which aims to solve all the poverty problems in a fixed time; it could be an unprecedented model for global community reference. (Interviewee E)*

The PPA is characterized by a broad range of participation from central to local areas. Some non-CCP members are also participating in this campaign to facilitate poverty reduction across the country. Many companies and work units have set up cadre stations in specific poverty areas, which although not itself a new strategy, is nevertheless distinguished by new forms of implementation. For instance, the career promotion of officials will now be widely determined by the success with which they achieve poverty alleviation. This new arrangement has clearly put tremendous pressure on local officials:



*PPA requires officials to accept ‘no up pick the cap [the poverty label], no leave [their current position]<sup>25</sup>’ and ‘without resolving the poor people’s problem, no promotion’, and this arrangement makes officials have no choice but to pay greater attention to the poverty reduction issues. (Interviewee I)*

In the past, the central government issued labels for all poverty areas such as ‘poverty village’ and ‘poverty county’ (Lu, 2012) and many officials used to use the metaphor of a ‘poverty hat’ to refer to these labels. In the past, many villages and counties – far from being ashamed of these labels - actually competed to obtain them (Li *et al.*, 2017). This type of practice hardly testifies to the existence of a good performance management system in the area of poverty reduction, so it is perhaps not surprising that, in 2013, President Xi claimed he would end this tradition and that poorer areas would be expected to take all measures to remove these labels. As a result, the PPA set up a new performance management arrangement that poor areas should get rid of the ‘poverty hat’ and, of course, the efforts to get rid of the label, in addition to other anti-poverty activities, have been strongly linked to the activities of officials, including their prospects of promotion. That this policy approach has had results is not in doubt: officials in Zhejiang province were forced to return to their previous positions because they failed to complete their anti-poverty targets, while in Heibei Province, many officials lost their jobs and were punished because of their negative attitudes to the PPA (Legal daily, 2017).

Of course, the success of poverty alleviation in and of itself is not the sole purpose of the PPA. The further motive relates to the government’s aims of compensating for the weakness of the current socio-economic structure as some interviewees made clear:

*We are experiencing a structural reform on the economic aspect, which means that the previous socio-economic context also needs to transform to some extent. To achieve this goal, rural and other poor people are the biggest weak point, so the Chinese government has to introduce the PPA. (Interviewee H)*

From this comment, it can be seen that the PPA has an economic function because it is intended to stimulate the consumer power of poorer sections of the population. Another

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<sup>25</sup> This is a metaphor.

respondent commented that the PPA is expected to encourage the development of rural areas and increase consumption capacity:

*... because of the less developed status of the countryside, many people lack the capability of consumption, and what is more, poor people, no matter whether they are in urban or rural areas, lack this ability, and this situation might seriously constrain China's economic development as well as the development of social welfare. (Interviewee G)*

In addition to the focus on social assistance and growth, the PPA is also targeted at the previous barriers encountered by earlier anti-poverty programs. The first and most important strategy is to encourage the poor to establish their own industries or to find jobs in specific sectors. In the following sub-sections, more details about specific policies of the PPA initiative will be considered.

### **7.2.1 Creating unique industries for the poor (CUIP)**

Creating unique industries<sup>26</sup> for the poor (CUIP) is one of the primary strategies of the PPA initiative (State Council, 2016). The intention is to build jobs for poor people because the Chinese government believes that only working can sustainably help them get out of poverty. One of the elite interviewees stated that:

*... the underlying logic of this strategy is that working can generate income; it is better than simply giving money to the poor. (Interviewee E)*

To be more specific, the CUIP is based on the files containing data on individual poor people. In this database, the poor state the biggest challenges they face and clarify their future plans, such as what kind of job they want. Because many poor people live in rural China, the majority of their aspirations will be based in agricultural industries. There are two types of CUIP: one involves the poor establishing their own industries with the government's financial and/or material subsidies, and the other involves both private and SOEs setting up local industries which can employ all the poor people working in that

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<sup>26</sup> Here has various meanings: on the one hand, it means various industries such as restaurants, hotels and

sector. It should be noted that ‘industries’ in this context refers not only to manufacturing but also some service-oriented industries such as restaurants and hotels:

*The CUIP-related industries have various categories: planting, breeding, hand-made manufacturing, local services, internet-related business and other types of industry. These industries have changed people’s lives. (Interviewee X)*

In reality, if poor people want to run their own CUIP industry, they will receive materials from the government and loans from the financial organizations. Previously, the government provided cash directly to these people and economic organizations continued to fund them, but never considered gain or loss and this simply increased the possibility of welfare dependency.

Despite its advantages, however, the CUIP is not the only solution for the Chinese latest anti-poverty law, education and the construction of a social protection floor are more relevant to social policy and these will be discussed in greater detail in the following subsections.

### **7.2.2 ‘Fuzhi’**

‘Fuzhi’, has its origins in traditional Chinese society and refers to situations in which people who are helping others move out of difficult circumstances such as poverty should also be helping those people to change their ‘minset’. In PPA, ‘fuzhi’ is best understood as a special educational policy the key aim of which is to change poor people’s attitudes to their lifestyle and to prevent them from falling into the trap of welfare dependency (Lu and Huang, 2016). The education intended in this program is not designed to enable those in poverty to go to university or to public schools; rather it is a question of persuading them to believe that their previous lifestyle or situation can be changed if they willing to change it themselves. In other words, the policy is intended to encourage poor people to take responsibility for making their own way out of poverty (State Council, 2016). The policy also aims to provide opportunities for the poor to receive a vocational education, which is expected either to

facilitate job prospects, and particularly employment opportunities in urban areas, or to encourage people to run their own businesses:

*We are not going to push them [poor people] into schools. They obey the order, we just want them to realize that they can change their life, and that they must change their life. Therefore, we shall send people [officials] to persuade them and train them and make them believe in themselves; to give them the confidence to find a job. (Interviewee X).*

Another interviewee also stated that education is the key to encouraging people to get out of poverty in China:

*Anti-poverty should help those people to set up a target in advance and make them to believe they can change. Otherwise, we cannot assist them to move out poverty. (Interviewee E)*

These comments make it clear that the education provided in PPA is unlikely to entail conventional forms of education; the key point is to facilitate ‘activation’ and encourage people to move out of poverty by gaining new skills and expertise that can be taken into the workplace. It also shows that PPA is attempting to use more active ways to achieve its welfare outcomes.

### **7.2.3 Establishing a social protection floor: combining the social assistance and poverty alleviation systems**

The third strategy of the PPA is creating a more coherent social protection floor (SPF) by boosting the development of public services, and this will be discussed in greater detail in the following sections. Building the SPF involves combining the existing social assistance programs such as medical aid, *dibao* and *wubao* schemes, and integrating the older poverty alleviation and social assistance programs (see above). The government believes that the

CUIP can create job opportunities but that without a comprehensive SPF, the poor will still be exposed to social risks. The government has therefore taken both the short-term policy effects and also the long-term impacts of its social assistance reforms into consideration:

*Poverty alleviation is temporary, but social assistance is a long-term institution. The PPA grasps the short-term socio-economic effects of poverty reduction but also seeks the long-term protective effect of social assistance. (Interviewee F)*

Indeed, it may be that poverty alleviation institutions could be abolished once all those who are currently in poverty are living above the national poverty line, while, because they remain as the basic protection safety net and are therefore more important in the long term, the social assistance programs, will need to be embedded in the modern national governance system as the core element of the Social Protection Floor for low income groups. Specifically, the government wants not only to combine the institutions of both poverty alleviation and social assistance but has made some visible changes to the system. For instance, the means-testing arrangement of the PPA is now more reliable and precise. Local governments have much greater knowledge of local conditions because they are now required to gather more detailed information on individuals and households that record in detail how people got into poverty and what kind of aid they need from the government. One of the interviewees described the changes of the PPA:

*The PPA uses more accurate criteria to judge whether a person is eligible for the project, and we are also trying to make full use of the internet platform to record people's real situations; who is eligible and who is not will be very clear. (Interviewee X)*

With the use of new technology, the system will work more transparently and the data will be easier to identify. So, in sum, the efficiency of social protection management has been

increased dramatically. One of the elite interviewees pointed out that the implementation of the PPA will stimulate the integration of poverty alleviation and social assistance:

*It is apparent that the PPA is integrating both the social policy function of the poverty alleviation and social assistance programs; this will help the Chinese government to move out of the fragmentation trap. (Interviewee F)*

#### **7.2.4 Targeting and exiting mechanisms**

Because the existing anti-poverty programs have frequently mis-targeted the genuinely poor, the government is considering making changes to improve the accuracy of the targeting mechanism in three ways (Wang, 2017). First, as discussed above, recording more information about the poor and their eligibility for the scheme such as *Dibao* and Poverty Alleviation, will lead to better-targeted support for these people. Under these new criteria, local officials will have to submit more information to the higher-levels of government. Second, the government has clarified *who* is actually going to help the poor. In other words, where previously the ‘helper’ just meant the Chinese government and several government departments, with all the complexities and confusion this caused, the central government now requires that local governments devolve specific tasks to a specific department. For instance, the anti-poverty office at village level is now in charge of gathering information about the poor. Third, developing support for those in poverty will now involve basing calculations about resources on the big data that have been gathered and the ability to design a detailed plan for each poor person in order to help them to move out of their current situation. As one of the interviewees explained:

*We are going to help real poverty, we are not carrying out fake anti-poverty measures. To achieve this, we have to resolve the three questions which President Xi asked: who needs help? who provides help? and how to help? Only by answering these questions can we have a more precise targeting mechanism. (Interviewee X)*

Setting up this targeting mechanism is a core element of the PPA’s criteria. Also, to overcome the existing barriers a more scientific and more accurate exiting mechanism will be needed. There are four requirements for the PPA’s exiting mechanism (Xi, 2015; 2017):

the first is setting up a timetable which will be used both to prevent the postponement of exiting the scheme and the too-hasty rush to reduce poverty, which could result in fake poverty alleviation problems. The second is to allow a transformation period for the new policy to settle down. This requirement has several considerations and will to some extent relieve the pressures on the local officials because, as already discussed, the PPA has created a clearer link between the career promotion of local officials and the anti-poverty campaign. However, in reality, provincial officials still make significant demands on their lower levels officials and, as a result, the latter, especially those in the front line of the anti-poverty policy, continue to feel unprecedented pressures when carrying out President Xi's ambitions.

Nevertheless, the policy is being pushed forward and when it is fully implemented, there will time to review its outcomes and consider who local officials have responded to the challenges raised by the implementation of the program. Some of the interviewees referred to this:

*If we push the anti-poverty process too hard, we shall damage it; that is why we need a transformation period. (Interviewee E)*

*Local officials shoulder tremendous pressures, if we do not leave a moment for them to breathe, they will do something wrong, such as fabricate poverty reduction data. (Interviewee G1)*

Leaving time for local officials to implement the new local policies will ensure that the PPA is on track. In addition to these two requirements, the third requirement is that higher-level authorities will frequently send groups of officials to check the working process, and the central government will send working groups to double-check the progress being made in the local areas towards the elimination of poverty. The final requirement is to use members of the public themselves as 'supervisors' to check whether each poor person is moving out of poverty. For instance, with smartphone has become increasingly popular and people can record and upload images or videos from poverty areas, which will trigger public discussion and attract governmental attentions. These arrangements are more radical than any previous attempts to tackle poverty.

The PPA is a well-designed reform, but after three years implementation, what is the current stage of poverty reduction in China? What are the achievements and challenges at this stage? Can the government fulfill its goal by 2020? These issues will be discussed in detail next.

### **7.3 Can the Chinese government meet its poverty reduction goal by 2020?**

#### **7.3.1 The achievements of the PPA**

Several prominent results can be found as a result of the implementation of PPA. First, the incomes of the poor have increased dramatically, sometimes by two or three times the previous level (*People's Daily*, 2017b). One of the interviewees commented:

*After three years, people's incomes have greatly improved. Many of them are even getting rich.* (Interviewee H)

Indeed, a recent government report (2017) showed that in the past three years the PPA had helped 55 million people to move out of relative poverty. The next three years will focus on the 35 million still in deep poverty:

*We have helped uncountable people to change their life; it will need further efforts to help the rest of the poor people, which is still a tough task.* (Interviewee E)

Poor people also have a stronger determination to change their living status. Before the PPA was implemented, many poor people appeared reluctant to move out of poverty. However, after the PPA was implemented, local officials were empowered to visit people's homes and persuade them to change their life:

*One of the biggest achievements of the PPA is that we changed their mindset; they might be still poor, but at least they want to change, and they have started to consider how to live better. This is invaluable.* (Interviewee X)

If mindsets change, it will become easier for the government to carry out its anti-poverty campaign because the poor will be more likely to want to cooperate with the government's initiative:



*.... in reality, the poor are not worried about losing face, they are concerned about not being able to obtain government aid. The PPA is changing the situation; we are not providing cash for them anymore<sup>27</sup>. We are going to educate them and encourage them to create a job or find a job; you can never underestimate the power of education, after being educated, those poor people are very likely to follow our instruction and do what we want them to do. (Interviewee F1)*

Education has certainly helped the poor to broaden their horizons. As a result, they have started to consider how to change their lives and how to use the current policy to get out of the poverty trap as interviewee F1 commented. Even so, the majority of the poor remain relatively low-skilled and badly educated, and consequently the CUIP cannot guarantee employment for all of those in poverty. In these circumstances, the SPF becomes significant and this arrangement is undoubtedly the third biggest achievement of the PPA.

With the merging of China's health insurance systems (see Chapter Five), the average income under the urban/rural residents' health insurance scheme has risen from 240 yuan to 450 yuan per person per year, and the Serious Illness Insurance system has also been expanding its coverage. Furthermore, the average compensation level of the resident's basic pension has doubled to 105 yuan per person per month – and, taken together, these improvements have created a more generous SPF than previously:

*After the PPA was implemented, we found that the poor spent less money on health and education, which were once considered as the two biggest reasons why many people are in poverty. (Interviewee V)*

A further achievement is the improved performance management of the PPA. Compared with the previous anti-poverty programs, the PPA has enabled the outcomes of the anti-poverty campaign to be a crucial factor in the promotion of local officials, which ensured that these officials had to take the PPA's aims seriously. Furthermore, the PPA requires different levels of government to send working groups to supervise and double-check the

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<sup>27</sup> It worth to note that cash in here is not related to social assistance program, it is related to the previous poverty alleviation programs. The social assistance program still pays cash monthly. The PPA is focused on the provision of resources such as employment opportunities for those in poverty and other more 'active' measures for poverty reduction.

implementation of the system and this has made PPA more transparent than previous anti-poverty programs:

*... the PPA requires higher governments to return to see what is going on about the local anti-poverty issues, which largely reduced the likelihood of corruption.*  
(Interviewee G1)

It cannot be denied that the Chinese government has made a significant contribution to poverty reduction and to the improvement of other social policy areas. Even so, there are still newly emerging challenges before the government can fulfil its 2020 poverty alleviation goals.

### **7.3.2. The challenges emerging from the PPA**

There are several newly emerging challenges that must be considered, of which the first and most problematic is that it is still difficult to identify all of those living in poverty. Although the PPA has narrowed the focus down to individuals (Lu and Huang, 2016), the size of the country makes the process of identification complex. One of the interviewees stated that:

*The most tricky thing in the PPA is to identify the poor, and there are thousands of reasons why people get into poverty, so it is a huge workload for the government to collect every single individual's information.* (Interviewee X)

The second emerging challenge arising from PPA is the pressure of returning to poverty. After the implementation of PPA, the standard of living of the poor has largely improved but for a variety of reasons there is always the prospect of falling back into poverty. For example, although the CUIP has created local industries in many areas, they are of a relatively low standard. Many poor areas have established hotels and restaurants, but they operate at an inferior standard and find it difficult to survive in the face of fierce competition:

*We cannot deny that the CUIP did create many new job opportunities, but these jobs are insecure, and to be honest, the quality of the industries varies, which means that many poor quality industries will be eliminated by the market.*  
(Interviewee G1)

Once these industries become bankrupt, those who worked in them are likely to be unemployed and will consequently be at risk of falling into poverty once more. This has put great pressure on the government and on other social organizations involved in the PPA initiative. Other problems also exist. There are too many players within the PPA initiative. Multi-actors are two sides of the same coin: on the one hand, it is good for the Chinese government to concentrate national resources on solving the poverty problem, but in contrast, too many actors means that there are risks of conflict among departments:

*We use a metaphor of nine dragons controlling water to describe the situation of multiple departments existing. Ideally, the PPA is leading the poverty alleviation office, but in the implementation aspect, too many departments are involved, which makes it very tricky to create a win-win solution to many minor problems, such as how to use the fund. (Interviewee X)*

What complicates the issue is that many enterprises are involved in the PPA and that unlike previous anti-poverty programs, the PPA requires those companies that participated the CUIP to make profits as well as to help the poor to get out of poverty. It is challenging for businesses to balance these two requirements:

*The PPA is not asking companies to give charity to the poor. On the contrary, it is encouraging the enterprises to make profits at the same time as helping the poor. Unfortunately, a dilemma exists: if the companies go too far on profit-making, then it is very likely that they will exploit the poor or eliminate their CUIP competitors, then there will be a struggle among different interest groups. (Interviewee F1)*

Another notable problem created by the multiple-actor model is that in order to prevent people from misusing the fund, the various actors involved co-control the fund management, and this produces a comical situation:

*The PPA pays more attention to preventing corruption. This is good, but sometimes the regulations are too clumsy; for instance, you can use the money to buy sauce but you cannot use it to buy oil or vinegar, which means that people cannot use the money very freely. (Interviewee V)*

Strict management of the fund is beneficial for reducing corruption, but it should allow more flexible and more logical ways of managing the PPA. This situation also shows that the PPA needs better legal backup. If an anti-poverty law provides overarching guidelines for both officials and poverty fund claimants, then it becomes possible for the whole process of poverty reduction to be better regulated and more efficient. Another related problem is that some enterprises only masquerade as poverty alleviation social enterprises and these firms can enjoy the government's preferential policies. Also, in poor areas, companies have lower eligibility requirements for obtaining the Initial Public Offering (IPO)<sup>28</sup> and have a greater opportunity to recruit a cheaper labour force, despite the fact that, in reality, these companies might not be helping poor people:

*... we should be careful that some business pretend they are helping people but they are not, and although such cases are rare, we still need to be careful. Boosting businesses' development is not the wrong decision, but it would be better to make sure that they actually are going to help the poor. (Interviewee G1)*

The problematic management of the fund and the fact that some companies act fraudulently are signs of the limitations of the legal system. Many interviewees pointed out that if the PPA is going to make a difference, then the government will have to enact related laws and make PPA a legally-based and sustainable mechanism in China especially the PPA need be more institutionalized in the whole national governance system:

*The government still needs to establish relevant laws to make sure that people know how to implement the PPA, and people will know what they should not do... (Interviewee R)*

Building up the legal system is important for the success of PPA, but more important is the need to prevent new inequalities from arising among the poor. It is an indisputable fact that the outcomes of the PPA so far are highly promising, but in practice, income inequality in poor areas and among poor people remains a matter of concern. Some villagers who followed the PPA policies closely were the first to lift themselves out of poverty, and some

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<sup>28</sup> Initial Public Offerings: the first time that *stock* in a company is available for the public to buy on the *stock market*

of them even became considerably better off. Unfortunately, however, not everyone is in this position and some villagers have a low capacity to make use of the opportunities on offer. As a result, their lives change more slowly than some of their counterparts:

*... some people with brains know that following the government's steps can change their life quickly and easily, but others are more resistant and won't follow the new trend. As a result, the first group becomes richer and the latter improve far more slowly their neighbours; this is a kind of new inequality but unavoidable. (Interviewee E)*

This newly emerging inequality problem should be recognized as it shows clearly some potential risks which might follow the reforms discussed here. New challenges such as these might prevent the government from meeting its 2020 poverty reduction target which requires all poverty population comply with the national poverty line set up in 2011 move out from poverty situation. Some interviewees commented that the current performance management arrangements might also inhibit the Chinese government's intention to eliminate the poverty problem completely:

*The anti-poverty process is very effective because it will make our country better. It cannot be denied that we are under a lot of pressure and that officials in higher positions will make demands of us, and we have to transfer that pressure to the lower-level governments, which increases the risk of the phenomenon of faking the escape from poverty. (Interviewee X)*

Because President Xi has paid unprecedented attention to alleviating poverty, the central government will push the provincial governments and the provincial governments will put pressure on the city-level governments. The most typical example of this is the deadline for completing the PPA: for the central government the deadline is the end of 2020, whereas for the provincial governments it is 2019, for the city-level governments it is 2018 and for lower governmental levels it was 2017. The task is particularly burdensome for the lower levels of government and this problem might undermine the reality of the PPA and make it impossible for the program as whole to be completed on time.

## **7.4 Conclusion: the future of PPA**

PPA is an ambitious plan introduced by the Chinese government. From the current evidence, the PPA has five targets:

1. reducing direct cash support and helping the poor to boost their own income;
2. delivering an efficient and precise benefits system;
3. using education to change people's attitude and raise the vocational skills of the poor;
4. eliminating the weakness of the socio-economic structure and strengthening families and communities;
5. seeking long-term economic development as the key to the PPA fulfilling its target.

Over the past three years, the PPA has made great progress in China. Fifty-five million people have been moved out of the poverty trap according to the People's Daily (2017). This achievement is mostly attributable to the efforts of many levels of society from the CCP and different levels of government to enterprises and other organizations involved with employment provision, for example. The aim of the PPA is to support every poor person in China and to eliminate poverty by the end of 2020. At the time of writing, however, although the design of the PPA is impressive, there are still some problems that might prevent it from being fully completed by 2020. The identification of those in genuine poverty remains the most difficult issue, and inadequate laws and inefficient performance management add to the problems. Fortunately, there are clear signs that the former poverty alleviation and social assistance institutions are going to merge and that the new combined institution will operate more effectively, with only minor conflicts expected. The anti-poverty program in China is now more institutionalized, and families, communities and other informal resources are starting to play a less important role than the government and the market. It can be argued, therefore, that at this stage, China is beginning to move beyond those forms of social assistance and poverty alleviation that were not effective in reducing poverty and consequently did not reduce the income insecurity of the poor. In this way, the country can be said to be shifting away from its previous position as an informal security regime in this area. Nevertheless, more time is required before the country will be in a position fully to develop and embed the characteristics of a secure social assistance system, which is a key hallmark of a developed welfare state.

## CHAPTER EIGHT: DISCUSSION

There are two core research questions leading this study: the first asks whether the Chinese welfare system as it has developed in recent years can fairly be described as a ‘welfare state’; the second – and related – question asks whether, despite signs of progress in core areas of welfare, China’s welfare regime continues to display the key characteristics of an informal security regime (ISR) as described by Gough *et al.* (2004). Both questions are designed to explore what exactly China’s welfare system looks like and to find out where the country currently stands after its recent ambitious welfare reforms. These two key research questions generated several further sub-questions. With regard to the first key research question, exploring the nature of China’s welfare regime targeted the essential driving forces behind China’s welfare development, and what the government’s key objectives are, what has been achieved so far, what key challenges lie ahead and what key reform strategies have already been implemented became sub-questions to be addressed. Similarly, the second research question generated two important sub-questions: first, does China continue to retain the main features of an ISR cluster? If yes, to what extent? If not, why not? Second, is there evidence to suggest that China is effectively pursuing its own path towards higher standards of welfare provision or does an existing model of welfare development better describe the Chinese path (*see* Chapter Four).

Guided by these research questions, the findings set out in the preceding three chapters have revealed that the major objective of the Chinese welfare reforms since Xi came to power in 2012 has been to establish a more coherent and institutionalized social welfare system, and the removal of obstacles created by the fragmentation problem has been one of the biggest ways of achieving this. Chapters Five, Six and Seven, on health, pension provision and the drive to eradicate poverty clarify and analyze the principal driving forces, aims and challenges of, and proposed solutions, for contemporary China’s welfare development. In Chapter Five, special attention was paid to health-care reforms under Xi. The key problems of the Chinese health-care system and the main target of Xi’s government’s health-care reform were explained. Also, in Chapter Five, the new reform strategies of the Tripartite Health Sectors Reform (THSR) were highlighted – an ambitious plan designed to reform the health insurance, health services and drug administration systems simultaneously.

The focus shifted to China's recent pension reforms in Chapter Six. It was shown that under the impact of the country's rapidly developing aging problem, the government is seeking to create a more effective pension system that balances the needs for sustainability and sufficiency, and also the needs for efficiency and equity. It was shown that the Chinese government treats the development of a unified national social pooling system as one of the major solutions to overcoming some of the previous problems, such as pension inequalities among regions. More important, establishing a real multi-pillar pension system has become one of the most crucial tasks for the government. Interestingly, the government started to address the development of the aging market with the intentions of, on the one hand, satisfying the needs of the aging population and, on the other hand, using social policy as a new driving force for economic development. Unfortunately, the pension reform process is relatively slower than other two selected areas.

In Chapter Seven, special attention was paid to the mechanisms for eradicating poverty. Anti-poverty institutions in China have also suffered from the effects of fragmentation due to the fact that the two existing independent anti-poverty schemes<sup>29</sup> have failed to work coherently. The poor design of the means-testing arrangements left room for rent-seeking and corruption. More important, because of the lack of effective supervisory institutions, the anti-poverty institutions continued to fail to help the really poor. As a result, the government implemented the PPA as one of the key solutions to help the poorest sections of the population move out of poverty by the end of 2020. The PPA is a policy portfolio which combines economic and social policy, and integrates many existing poverty alleviation programs.

Table 20 displays the progress made towards new a more integrated and universal system of welfare to date. It sets out in simplified fashion the key characteristics of the three areas under review 'pre-Xi' and whether, despite earlier reforms, they could still be considered to reflect the features of an ISR. The main reforms are then listed along with a brief commentary. The chapter then examines the issues raised in greater below.

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<sup>29</sup> Social assistance and poverty alleviation



**Table 20 The comparison between pre-Xi era and Xi's era in selected welfare areas**

	<b>Key characteristics pre-Xi</b>	<b>Still an Informal Security Regime?</b>	<b>Key reforms under Xi</b>	<b>New welfare model?</b>	<b>Comments</b>
<b>Health</b>	<p>Fragmentation (see Chapter Five, e.g.):</p> <ol style="list-style-type: none"> <li>1. <i>Hukou</i> related regional inequalities &amp; urban-rural division</li> <li>2. <i>Hukou</i> barriers caused unprotected migrant population</li> <li>3. Lack of policy continuity</li> </ol>	<p>Yes – state institutions remain relatively weak (e.g. low health insurance coverage)</p> <p>Family provision and other informal mechanisms are still the main source of support for welfare need (poor affordability).</p>	<p>Tripartite Health Sectors Reform</p> <p>(details see Chapter Five)</p>	<p>Still ISR but moving towards comprehensive health care</p>	<p>Very ambitious, particularly targeting the fragmentation problems though the tripartite health sectors reform. This reform is indicative of a move away from the current ISR situation – but progress is likely to be gradual.</p>
<b>Pensions</b>	<p>Fragmentation (see Chapter Six, e.g.):</p> <ol style="list-style-type: none"> <li>1. Various social pooling levels</li> <li>2. Various decentralised organisations</li> <li>3. Regional, gender and occupational inequalities</li> </ol>	<p>Yes – state and market provision are relatively marginal</p> <p>Family and other informal welfare mechanisms play a crucial role for welfare needs in retirement.</p>	<ol style="list-style-type: none"> <li>1. Unifying the social pooling account</li> <li>2. Integrating the WUP and UEBPS</li> <li>3. Addressing market-based pensions arrangements for older people</li> </ol>	<p>Still ISR but new policy directions suggest a move towards greater universal provision</p>	<p>Pensions arrangements are the subject of fierce debate but there are early signs of a move away from fragmentation towards a more integrated state pensions pillar with reforms to other pillars on the horizon.</p>
<b>Social Assistance</b>	<p>Fragmentation (see Chapter Seven, e.g.):</p>	<p>Yes - because state plays limited but dominant role together with family or</p>	<p>The Precise Poverty Alleviation</p>	<p>Evidence of a basic universal social protection floor – a</p>	<p>The most ambitious programme and displaying the most progress among three selected areas. An extensive basic</p>

<p>1. Regional differences in terms of welfare standard</p> <p>2. Dibao and poverty alleviation working incoherently</p>	<p>individual support for those in poverty.</p>	<p>(see Chapter Seven)</p>	<p>significant movement towards a 'welfare state'</p>	<p>social safety net is under construction.</p> <p>Formal institutions such as the state and market become increasingly important, but the family's role has not yet been fully replaced.</p>
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Before Xi came to power, the main features of three selected areas was the fragmented social policy landscape (see table 20 above). In the health area, the fragmented welfare system, caused by hukou-related problems (see Chapter Five), has constrained the development of a comprehensive welfare state --- the state and other formal elements of welfare provision played a relatively marginal role in welfare provision. As a result, people have to rely on family and other forms of informal welfare provision for the satisfaction of their health needs. Poor affordability in health consequently became a severe problem for Chinese people's daily life. Xi's regime is, on the one hand, committed completing the tasks left by the Hu-Wen regime. On the other hand, Xi and his government simultaneously intend to implement more ambitious health insurance reforms, particularly the Tripartite Health Sectors Reform (THSR) relating to the healthcare service and the drug management system. The underlying reason behind these reforms is that Xi and his government aim to resolve several negative impacts caused by the fragmented health security system----poor affordability and poor accessibility. In other words, the Xi government is attempting to reduce the health burden currently borne by Chinese families by reducing health care costs and increasing access to health care (see Chapter Five). A similar position exists in relation to pensions, where fragmentation is mainly attributed to institutionalized difficulties created by the hukou and work unit systems. Although pension reform is still in the discussion stage, the reform proposals indicate that the Chinese government intends to give both the state and the market stronger welfare provision functions so that individuals'

reliance on the family can be reduced (See Chapter Six). In the anti-poverty area, the welfare mix has been changed dramatically, from state-family to state-market-individual + family -- the pointed being that the government is committed not simply to providing unconditional support for those in poverty but also to ensuring that individuals in poverty help themselves. For this reason, more market actors such as enterprises have been invited to join the anti-poverty campaign. In other words, the Xi'era is witnessing the creation of formal welfare mechanisms overseen by the state and also supplied by market actors, which are expected to play an increasing role in the provision of social assistance. However, in the short term, the family will continue to act as a significant welfare provider even as the social protection floor gains in capacity. There is, then, still a sense in which social assistance in China reflects the ISR model – however, it is equally clear that in this are at least, prospects for a clear move towards universal forms of provision are very good.

It is not accurate to say that the era of Xi Jinping is simply one of comprehensive reform and innovation. Rather, Xi inherited and has subsequently improved upon some specific social policies and strategies from the Hu Jintao era – actions that have set China on a path towards extensive social policy reform. In China's current social and economic system, with its weak but growing civil society, incomplete market economy, fragmented and immature labour market, and insufficiently embedded legal system, there is little to support government social policy development, apart from the exercise of sheer political power – and it is through the use of such power that Xi has unleashed a wave of reforms across China. From the table above, Xi still needs to address the adverse effects of some institutional arrangements inherited from the planned economy era, such as hukou, work unit and population policies, just as his predecessors did. However, Xi and the CCP appear determined to establish a moderately prosperous society in all respects and achieve China's "two centenary goals" (i.e. to double the 2010 GDP and per capita income by 2020; to build a prosperous, stable, democratic, culturally advanced and harmonious modern socialist

country; and to complete the social and economic renewal of the Chinese nation by the middle of the century). To fulfil these goals, Xi and his party are reducing dependence on the family and informal sources of welfare in favour of a strengthened role of state and market provision, which confirms the developmental trend towards universal provision proposed by Ian Gough.

The three finding chapters summarized above indicate that the government is actively seeking to eradicate the chaotic problems of fragmentation. As a result, integrating some of the existing social welfare programs has been a priority for the government (*see* Chapters Five and Seven). This study of three social policy areas has also revealed that due to the uneven development among the three selected welfare areas, China's welfare regime still retains the major characteristics of an ISR. More important, China will not succeed in removing these ISR characteristics until the fragmentation problem is significantly reduced. In addition, the findings reported in the three previous chapters have shown that social policy in China is no longer a series of policies which only function as a passive safety net; by contrast, current Chinese social policy takes the form of a series of policy portfolios that are designed to support both the economic needs of the country and the social needs of the population. In sum, although it is very tricky for the government to reform its welfare system, social policy has taken on an increasingly important role in the country's contemporary development. Some examples from the three selected fields (health-care, pensions and poverty reduction) provide evidence that social policies in China are treated as a type of combined policy which both fulfils economic objectives and satisfies the social needs of the general public.

The intention in this chapter is to answer the research questions by summarizing the main findings of this study by reflecting on the reviewed literature. This will be followed by a discussion that considers how the fragmentation legacy can best be understood through the lens of path dependency - and the potential 'stickiness' of path-dependent institutions. Following this, the third part will present an interpretation of the nature of China's welfare development through the country's unique political system and political legitimacy. Finally, in the last part of the discussion, I shall explain how China's welfare system is moving from chaotic fragmentation towards a rational decentralization.

## **8.1 The impact of China's fragmented social and political system in three key areas of social policy**

The fragmented welfare system in China has complex features which are a result of chaotic decentralization and a path-dependent adherence to decentralization that has been a hallmark of Chinese policy-making certainly since 1949 (*see* Chapter Three). China's fragmented social and political system has had several major impacts on the three selected social policy areas: the first of these impacts is the inequalities in welfare standards, such as regional and group inequalities; the second is the poor affordability which is the consequence of various problems such as the uninsured population (*see* Chapter Five); the third is poor accessibility, which means that many social groups have had little or no access to welfare services when needed; the fourth is the poor risk-sharing functions because financial sufficiency and sustainability, plus the risk-avoidance function, have been largely undermined; the fifth is the fact that the fragmented welfare system led to a situation in which it was difficult for the central government to enact an unifying plan for all local governments, and also therefore to implement its policy goals.

The fragmented welfare system caused inequality of welfare standards. The most notorious inequality has been, and remains, the rural/urban divide. One of the root causes of the fragmented welfare system was the unique Chinese household registration system known as *hukou*. The *hukou* system led to a dual-track welfare arrangement with urban and rural areas running separate welfare systems (*see* Chapter One). Because urban areas are more prosperous than rural areas, urban governments have more capabilities and resources to build up better welfare arrangements. As a result, the average urban welfare standards are better than those in the rural system. What makes things worse, however, is that *hukou* has acted as a barrier preventing people from having access to local welfare services (*see* Chapters One and Three). As a result, people's welfare standards have been constrained by their *hukou*, particularly in the urban areas, where those migrant population cannot easily access local welfare services.

Similarly, the fragmented welfare system also meant that people from different areas could not enjoy the same welfare standards. For instance, people living in prosperous cities such as Beijing and Shanghai enjoyed better welfare standards than those who lived in inland provinces or cities such as Changsha and Xi'an, and the inland areas in turn enjoyed better welfare standards than remote areas such as Tibet and Xinjiang. This spatial inequality has

contributed to the government's difficulty in creating an overarching welfare system for all areas because prosperous local governments were not willing to share their welfare resources and welfare standards with less developed areas. More important, the work-unit system has also increased the complexity of welfare standard inequalities. Different work-unit types had different welfare standards and even the same work-unit type could have a variety of welfare standards because of regional differences (*see* Chapters One and Three).

Another significant problem created by the fragmented welfare system was poor affordability. The fragmented welfare system had many loopholes which meant that those in real need could fail to be included in specific schemes, so they had to rely heavily on their own pockets to be able to afford access to welfare services. The migrant population and the new emerging employment sector related to the online economy are typical examples of this (*see* Chapter Five). The increasing migrant population in recent years has meant that more local governments started to address the unprotected status of these people and to attempt to include them in local welfare systems. However, these solutions also caused problems of multiple enrolment because many migrants were enrolled in various social health insurance schemes simultaneously (*see* Chapter Five). This multiple enrolment on the one hand increased the management costs of government, and on the other hand meant that those who were really in need might be neglected by these schemes (He and Wu, 2016; Gu, 2017). In addition, because of their low willingness to make contributions, some eligible members of the migrant population still failed to enroll in the existing social welfare system (*see* Chapter Six). What made things even more complicated was, as mentioned briefly above, the new type of employments brought about by the internet-based economy (*see* Chapter Five). People who committed their working life to internet-related business could have only a vague employment relationship<sup>30</sup> which in reality shakes the current welfare system and causes it to become even more fragmented (*see* Chapter Five).

The fragmented welfare system has also contributed to the problem of poor accessibility. This problem is in fact closely related to both the *hukou* and the work-unit constraints (*see* Chapter One). The poor accessibility problem in the health-care system was attributable to

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<sup>30</sup> There is not any law or policy document related to people who working for the online economy in China, as a consequence, these people do not have legal endorsement for participate in the UEBHI and UEBPS even they have job. As a result, they have to either join the urban resident welfare schemes or

the poor resource allocation system; the three-star health organizations consume far more of the available resources than the primary- and secondary-tier health systems. The underlying reason why the three-star hospitals in China receive more resources is because they were more likely to have higher work-unit administrative ranks. The government has therefore been seeking the best way to reform its current public hospitals system, which has been labelled a de-administrative reform in the public hospitals (*see* Chapter Five). Poor accessibility was therefore closely related to the problem of poor affordability (*see* Chapters Three and Five). For all of these reasons, the fragmented welfare system has also led to a relatively low standard of welfare for most Chinese people.

One of the worst consequences of the fragmented welfare arrangements has been the low risk-sharing function. A typical example can be seen in the public pension arrangements. The Chinese public pension was notorious for its various different social pooling account levels (*see* Chapters Three and Six); in some provinces, the social pooling account was managed by county governments and in others it was managed by municipal governments. This arrangement directly constrained the risk-sharing function of the whole welfare system due to the fundraising capabilities will be weakened (*see* Chapter Six). With this low risk-sharing function, many scholars (for example, Frazier, 2010; 2015) have pointed out that the welfare system had an insufficient redistributive function. More important, the fragmentation problems also led to the problem of empty individual accounts which has largely threatened the financial adequacy and sustainability of the Chinese welfare system (*see* Chapters Three and Six).

In addition to the problems discussed above, the fragmented social political system in China has also made it difficult for the central government to enact an overarching policy framework for all the local governments. This problem is attributable to China's unique system of decentralization (Qian and Mok, 2016): the central government has consistently conceded too much discretion to the various types of local government. Moreover, the previous 'GDPism' led to local governments prioritizing economic competition with other local governments (*see* chapter One). Additionally, the central government gave more responsibilities but less financial power to local governments with the result that local governments have consistently had to negotiate with, or try to second-guess, the desires and intentions of central government. It is therefore not an easy task for the central government to fully implement its policy goals in all levels of local government. For the local governments, the central government's policy targets might not be considered

appropriate for local conditions, and as a result the local governments can be reluctant to fully implement the policy goals of the central government. The fragmentation problem is arguably the most thorny issue that the Chinese government has to deal with if it intends to move the welfare system forward. From the discussions in the previous chapters and the sections above, it can be understood that path dependency is probably one of the most suitable theoretical lenses for understanding the fragmentation problem in China's welfare system.

## **8.2 Understanding of the legacy of fragmentation through the lens of path dependency**

The concept of path dependency (see Chapter Two), first devised by the American economic historians David (1985) and Arthur (1994), has its origin in economics as an idea that “a small initial advantage or a few minor random shocks along the way could alter the course of history” (Page, 2006: 87). In this sense, the notion is primarily associated with the concept of ‘increasing returns’ (Pierson, 2000). Path dependency has both broad and narrow definitions. In broad terms, Sewell (1996: 262-263), for example, suggested that path dependency refers to the fact “that what happened at an earlier point in time will affect the possible outcomes of a sequence of events occurring at a later point in time”. Pierson (2006) argued that Sewell's definition was not rigorous enough because it only emphasized the importance of the historical occurrence and failed to show that it is difficult to move away from a previous path. In the narrower definition of path dependency, Levi (1997: 28) suggested that “once a country or region has started down a track, the costs of reversal are very high. There will be other choice points, but the entrenchments of certain institutional arrangements obstruct an easy reversal of the initial choice”. This narrower definition of path dependency is definitely more suitable for understanding the case of China because Chinese welfare reform is largely constrained by some historical institutional legacies associated, for example, with *hukou* and work units. To change these institutions arrangements, is both ambitious and costly.

Path dependency also requires researchers to pay special attention to the phenomena of increasing returns or self-reinforcement, the critical juncture, historical-lock in and contingent events (Fioreto and Fallitis, 2016). This current study has focused particularly on the increasing return dynamics and the critical juncture. China has sought to move from a planned economy to a market-oriented economy (see Chapter One), but unfortunately,



even after four decades, these reforms have not been fully completed because many historical policies, arrangements and institutions have significantly constrained governmental ambitions. The result to date has been that a developed market economy has not yet been fully established. In a similar manner, the Chinese social welfare system has also been confronted by institutional constraints that have threatened efforts to reform it. Xi's government has expended substantial effort on key areas of welfare, but numerous barriers still remain. As discussed, these barriers largely caused by fragmentation problems, which themselves owe their existence to the institutional legacies of *hukou* and the work-unit system. In addition, these problems have also been compounded by previous attempts to deal with population issues – such as the one child policy.

Three fundamental levels of barriers are currently preventing the Chinese welfare system from changing and these barriers are strongly related to the fragmentation problem. First, the country's vast population and territory have significantly constrained any attempt at welfare reform. The huge population means a significant (potential) welfare burden for the country and at the same time creates a wide diversity of social needs. Former Premier Wen Jiabao stated that all of China's remarkable achievements would only be a small step forward if the population is divided as a result (Wen, 2009). So improving the standard of welfare while ensuring financial sustainability is challenging for the government. These problems are exacerbated by the rapidly aging society. Pensions are an example; an increasingly aging population means more pensioners in the future, which in turn means that the government must spend more on social security schemes. Moreover, individuals and enterprises lack the willingness to contribute to social security schemes due to the high burden of taxation for enterprises and a lack of trust in the system on the part of the people themselves (see Chapter Six). These factors further undermine the sustainability of the current welfare system and intensify the associated risks.

The country's vast territory means that governing China is likely to be a complicated endeavour. The cost of developing an overarching welfare framework is expensive, and given the uneven regional development across China, it is difficult to find an approach that is capable of balancing the needs of all social groups. Take the healthcare system as an

example: government in prosperous regions such as Beijing and Shanghai are more likely to invest more of their budgets to realize the Hierarchical Healthcare System (HHS) owing to their stronger financial capabilities. Similarly, their stronger financial position means that it is more likely that these prosperous local governments will be able to integrate all the existing social health insurance management systems. Unfortunately, remote areas are less likely than their wealthy urban counterparts to achieve the same welfare outcomes. Therefore, although the Chinese government is clearly attempting to address the wide-ranging fragmentation problem, the inevitable unevenness of the reforms causes new types of fragmentation, which means that the Chinese welfare system is at risk of ending up in a vicious circle with fragmentation never being fully resolved. The structural issues of a vast population and massive territory have forced the government to adopt a decentralized governance model. Unfortunately, this model has been superimposed on top of already fragmented social and political arrangements so has further reduced the possibility of China decisively moving away from the current position of ‘fractured’ welfare arrangements in the short term.

The second tier of the barriers comprises the many institutional legacies, particularly some of the legacies of the planned economy such as the *hukou* and the work-unit systems, and these increase the complexity and uncertainty of Xi’s welfare reforms because, as discussed, both *hukou* and the work-unit system increased the level of the fragmentation problems. To become a welfare state, China must design an overarching framework for its welfare reforms and this is no easy task for Xi’s regime. Inevitably, reforming both the *hukou* and the work-unit systems will involve highly significant discussions among a variety of interest groups. For instance, those who are covered by the work-unit welfare system are unwilling to change their current welfare arrangements. Notably, within the pension system, it is difficult to expect work unit staff to lower their welfare standards, something that also pertains to other types of urban employee, who work for non-work unit organizations such as private companies. Similarly, the Urban Employees Basic Health Insurance scheme (UEBHI) could be integrated with the Urban-rural Residents Basic Health Insurances (URRHI) in the near future, meaning that urban employees who contribute more should enjoy the same welfare standards as those who might previously have contributed less (see Chapter Three). In the long term, these new reforms can be expected to help China create a better welfare system; in the short term, however, many contradictions of the kind mentioned here are likely to occur.

Additionally, reforming the *hukou* system means that some ministries have to negotiate over management rights and responsibilities. For example, reforming the *hukou* involves a redistribution of power among various ministries and also means that the responsibilities and interests between central and local governments will have to be reallocated. Reforms to the *hukou* entail the participation of, and cooperation between, several powerful ministries (for example, the Ministry of Finance, the Ministry of Police, the Ministry of Human Resources and Social Security, the Health Committee and the Ministry of Civil Affairs), all local governments, and six hundred million rural citizens. These ministries must negotiate the allocation of management responsibilities following *hukou* reform while, simultaneously, Xi's government must also shift this fragmented management system away from multi-channel governance to single-channel governance (*see* Chapters Five and Six). Of course, many ministries and commissions will lose power following such reforms and it is likely that ministries will consequently have to compete with each other to retain more power. As Yu (2016) has argued, whether an organization is authoritative or not determines its capacity for rent-seeking as well as its wider influence within the policy-making process.

For local governments, especially those in prosperous cities such as Beijing and Shanghai, the *hukou* system is one of the most useful tools for controlling population growth, which affects local resource allocation. Abolishing the rural *hukou* means that the rural population would increasingly move to the urban areas. Prosperous cities such as Beijing have the highest standards of welfare compared with less prosperous cities and regions (Yang, 2018). Previously the rural population has experienced relatively low welfare standards and many urban governments have been worried that integrating urban and rural welfare schemes would not be fair to members of the urban population who contribute more to the local welfare systems. In addition, local governments would be likely to treat these incoming residents as a potential social burden, so the governments of Beijing and Shanghai, for example, have implemented many regulations to restrict the issuance of local *hukou* to outsiders (BJG, 2017; SHG, 2015). Consequently, although Xi wants to create a welfare system in which the *hukou* system has minimal influence, local governments, in order to preserve their local interests, will not fully comply with such a strategy. If non-compliance rates are high, it is far from clear that Xi can actually achieve his desired welfare reforms and quite likely that any changes achieved will not fundamentally alter China's current welfare arrangements.

It is also important to acknowledge that, whatever the potential difficulties in the cities, *hukou* reform would also affect the benefits of rural populations. In the existing system, a rural *hukou* is an endorsement for rural residents to own a piece of collective land; each year, the government subsidizes land for rural residents based on the amount of acreage. Abolishing the rural *hukou* system means that rural residents would lose their legal right to claim collective land. Similarly, many other rural preferential policies, such as rural subsidies, would also be abolished. Moreover, urban governments would continue to use *hukou* as a barrier to control access to urban opportunities and welfare services by rural migrants. Hence, the rural population is far from enthusiastic about *hukou* reforms (Lu, 2016).

In summary, the *hukou* system has constrained welfare expansion and has pitted various institutions and populations against each other (such as local populations *versus* migrant populations and rural populations *versus* urban populations). In addition, the fact that *hukou* continues to play a role in Chinese society means that it also continues to create fundamental difficulties, the resolution of which is a key driving force behind the desire to reform China's welfare arrangements. Furthermore, the work unit system is one of the significant institutional legacies which has constrained the Chinese government's efforts to equalize welfare standards among different social groups.

Reforming the welfare arrangements of the work-units is also a difficult task for the government. Of the three areas examined in this study, public hospital reforms and WUP reforms are two challenging examples. Public hospitals belong to one of the types of work unit and doctors within these hospitals have a status that means they are covered by the governmental financial budget, which requires low contribution rates in return for a relatively high standard of welfare (see Chapter One). However, the possession of status in this way makes the Chinese welfare system more unequal, more complex and consequently more fragmented. The existence of different administrative and professional ranks, and even the fact of belonging to different hospital departments, means that doctors within same hospital are likely to enjoy very different welfare standards (see Chapter One). Interestingly, owing to the low contribution rate, even those doctors in low administrative ranks are still unwilling to give up their work unit status, and this difficulty constrains the speed of health service reform.

Similarly, although the Chinese government is currently reforming the Work Unit Pension (WUP) system, and attempting to integrate the system into the Urban Employees's Basic Pension Scheme, at least two changes need to be made where work unit staff are concerned. First, those individuals who made lower contributions in the past need to be persuaded to make higher contributions in the future. Second, in order to address the 'status problem' those who have hitherto enjoyed privileged status must in future be treated in the same way as those who are working in the private sector. Clearly, any such change is likely to be difficult because work unit staff are effectively in a higher social class compared with majority of private sector workers(Lu, 2003). Even after several rounds of reform, work-units still operate as 'iron rice bowls', a Chinese term that refers to a relatively permanent employment status (Leung, 2003). For many people, achieving a work-unit status means better health-care and a more stable pension scheme with a relatively low personal contribution. In addition, an individual's social class is determined by his/her administrative rank in the work unit: the higher the administrative rank, the higher the social class. This is the reason why every year millions of Chinese graduate students attempt the civil service examinations (*People's Daily*, 2016d).

Further complicating the situation, the work-unit institutions have led to the emergence of a few powerful interest groups which are gradually learning how to act as veto points. For example, although the government is seeking to reform public hospitals by reducing the administrative burden on doctors and allowing the doctors who work in public hospitals to move freely between different types of hospital (*see* Chapter Five), doctors who have work-unit status are unwilling to move because this would result in a change in their status; they worry that losing this identity would lead to a decline in the welfare standards that they receive. Hence, within health-care reform, doctors serve as a strong veto point, which is one of the reasons why public hospital reforms are progressing at a relatively slow pace (*see* Chapter Five). At the time of writing (Autumn 2018), the State Council has issued new guidelines relating to adjustments to the work-unit status in non-governmental work-units, indicating the start of de-administrative reforms in China's public hospitals.

Similarly, within pension reforms, many work-unit employees, such as employees of universities and state-owned enterprises, act as veto points. Many civil servants are also part of different interest groups and the central government's desire to partly integrate work-unit pensions into urban employee pension schemes has been regarded as an interference in employees' choices about pension arrangements (*see* Chapter Six).

According to the State Council (2017), work-unit employees who joined the units after 2015 will retain both the public pension and the occupational annuity. Therefore, employees who joined the units after 2015 are concerned that the reforms will affect their benefits (*see* Chapter Six) and thus they have the potential to act as a veto point. This capacity to inhibit change is one of the reasons underlying the slow progress in pension reforms.

The third tier of barriers confronted by Xi's government is formed by other path-dependency-related factors such as culture and traditions. For instance, the culture of many remote areas of China is that the inhabitants have become used to poverty, believing that poverty is simply part of their daily life (*see* Chapter Seven). Helping them to move out of poverty implies that the government will have to find ways of changing some minority groups' traditional culture. Undeniably, some cultural values have also constrained welfare development in China. China has a wide diversity of cultures and values, and, moreover, new cultural values are emerging in the wake of modernization, and the increasing combination of traditional and modern lifestyles is leading to a unique form of path dependency in China, as discussed in the following section.

### **8.2.1 Cultural factors: a uniquely Chinese path dependency**

A traditional culture of self-dependency, together with the less-developed welfare system, has triggered a strong preference for personal savings. People prefer to build up substantial personal savings as cushions against financial emergencies (Hu, 2012) and this strong preference for personal savings has had several negative effects on welfare reforms. For example, people are unwilling to make a defined contribution to insurance schemes, even to government-endorsed public social insurance schemes (*see* Chapters Five, Six and Seven). Furthermore, people trust banks more than they do private insurance companies, which explains why the Chinese non-public pensions and commercial insurance markets are developing slowly (Zheng, 2014; *see* Chapter Six).

Chinese culture is also reflected in the country's political arrangements. China has traditionally preferred a strong central government over a wider societal governance model (Zheng, 2007). This model is one of the foundations on which successive governments has maintained an authoritarian regime (*see* Chapter One). In particular, Confucian values train people to obey elites and the government. This cultural trait is the underlying reason behind

China's increasingly strong middle class and still-small newly emerging civil society (Lu, 2016). Without a robust civil society, the nature of China's welfare regime cannot be interpreted as protecting civil rights but it can nevertheless be understood as serving people in order to reduce the threats posed by several risks. This risk-avoidance model is primarily intended to maintain the leading political party's legitimacy.

The influence of Confucian culture is not conducive to the development of a wider appreciation of what a welfare state actually is (Jung and Park, 2011). During Jiang's regime, for example, the Chinese government stigmatized the welfare state because the tendency is to treat welfare as a type of generosity on the part of the government rather than a way of protecting rights (Chen, 2012; He, 2012; Wong, 2011) – and it is partly for this reason that, up to the present day, the idea of a welfare state has not attracted widespread support (Deng, 2013). It was for these reasons, in addition to economic considerations that, before Xi's presidency, Chinese governments delayed the process of institutionalizing the welfare system. Lacking a clear set of demands from 'below', leaders simply did not realize the potential importance of social policy. All that was required was that the government of the day ensured that the most vulnerable people and the most influential interest groups did not become veto points (Yang, 2015). Nevertheless, the stigmatizing of the welfare state by previous administrations had some advantages: given the lack of public demand for social welfare, the government could indeed focus entirely on economic construction. However, with its eye on the need to develop domestic demand as well as improve the living standards of its people, the current government understands the importance of removing the stigma around welfare, and the need to educate people about their individual rights to key goods and services – so long as they fulfil specific responsibilities.

### **8.3 Interpreting the nature of China's welfare development through the lens of political legitimacy (GDPism)**

Xi's welfare reforms are not entirely different from those of his predecessors, especially the Hu-Wen regime (2002–2012), if his reform strategies are understood in terms of a need to maintain political legitimacy. For example, aspects of Xi's health reform strategies are inherited from Hu-Wen's strategies, with the Xi administration coining some new terms such as 'THSR' and 'Health China'. Therefore, Xi's welfare reforms can be understood as

aiming to complete the tasks left unfinished by the Hu-Wen regime. However, as the findings of this study have made clear, Xi's welfare ambitions lie far beyond simply completing a few programs left unfinished by his predecessor. What Xi is doing is, on the one hand, attempting to complete those unfinished tasks left by Hu-Wen regime, while, on the other hand, undertaking more ambitious plans and policies such as integrating both urban and rural residents' health insurance, developing a long distance payment health insurance system and creating a Hierarchical Health System (HHS) similar to the UK's NHS(see Chapter Five).

In the pension system, Xi and his government are continuing certain policies of predecessors such as Jiang (1989-2002) and Hu-Wen (2002-2012) --- for example, creating a multi-pillar pension system for all. Unfortunately, the pension reforms had not really begun by the time of writing (see Chapter Six). With reference to Poverty Alleviation, Xi's government has clearly innovated rather than simply continued with previous policies. Xi is trying to reform previous anti-poverty institutions, for example the means-testing system, in an effort to build a more targeted, effective, integrated and therefore more 'institutionalized' system to combat poverty. To this end, Xi has set a deadline by which all of those in poverty will have moved out of this situation — an objective that was never mentioned by Xi's predecessors. In general terms, the examination of selected policy areas undertaken in this thesis shows that Xi's welfare strategies, while clearly having connections with the policies of previous administrations, are also developing in new ways. In certain areas of healthcare and most obviously in the anti-poverty area, the Xi era has been marked by policy innovation as much as policy continuity.

Issues of political legitimacy are involved here. There is a consensus that the Hu-Wen regime remain used economic policy as a tool for political legitimacy, which was considered to be the most effective means of ensuring the continued political status of the CCP at that time (Nie, 2011; 2013). But the role of social policy in Hu-Wen regime became increasingly important(Mok and Ngok, 2012). The core purpose of ensuring political legitimacy is of course to secure the power and authority of a particular political entity over the long term (Yan, 2004). In contrast to earlier regimes, social policy has become a key element of the political legitimacy function in Xi's regime, with efforts being made to institutionalize systems and make them more comprehensive and inclusive than was the case in the past. Perhaps unsurprisingly, this strong pursuit of political legitimacy in Xi's



regime relates to his concern about his own personal and political standing within the CCP and in Chinese government and society generally.

Max Weber (1974) classified political legitimacy into three types: traditional, charismatic and legal rational legitimacy. Xi's welfare reform involves a charismatic legitimacy strategy with some evidence of moving towards legal rational legitimacy (*Economy*, 2014:261) because Xi is trying to replicate Chairman Mao's powerful governance model (*Financial Times*, 19 March 2018) while also aiming to legalize certain institutions such as the structure of the health-care system. Xi's welfare reforms comply with three fundamental principles. First, as discussed throughout this thesis, social welfare reform should serve economic objectives on one level, but social policy is no longer considered as subordinate to economic development. Given China's current declining economic performance, Xi's government cannot, of course, overlook the importance of economic stability. Moreover, because the global environment has changed and is showing signs of moving away from a relatively unquestioning acceptance of globalization to a perspective that questions its supposed benefits, it is important that China devises and develops new strategies to stimulate economic growth by focusing on its domestic market. In this regard, of course, an 'immature' social welfare system cannot foster people's financial security, with the result that people are altering and reducing their patterns of consumption, which in turn acts negatively on China's economic growth. Consequently, to develop a robust market-oriented economy, Xi and his administration must stimulate the development of the welfare system as an essential safety net.

Promoting social policy is particularly important as a tool for securing political legitimacy (Xia, 2014). Seeking legitimacy inevitably draws attention to the state of the economy and consequently risks highlighting social problems, including extensive inequality (Ngok and Chan, 2015). Xi's strategy is therefore to use social welfare reforms to boost economic growth thereby maintaining party legitimacy – a strategy that effectively 'industrializes' social policy, as has been argued in this thesis. Furthermore, as China becomes wealthier, the needs of the Chinese people will inevitably become more complex, specific and urgent; people are beginning to have higher expectations of the CCP government and even of President Xi himself because he has deliberately ensured that he is regarded as the most powerful leader since Mao (*Financial Times*, 1 Sep 2017). However, the problems associated with the aging population, health-care and the reduction of poverty all require considerable time to solve. Moreover, with the recent economic downturn, previous models

of economic legitimacy pursued by Deng (Nie, 2013) and Hu-Wen (Nie, 2011; 2015; Mok and Qian, 2017) can no longer ensure the CCP's continued domination. Therefore, as it has become increasingly clear that social welfare provides a means of facilitating economic development and consequently maintaining legitimacy, social policy has almost *had* to become a choice for the CCP.

Over the long term, the Chinese 'economic miracle' has been linked to the country's unique political organization as a single-party regime (Ren, 2011; London, 2013; Yu, 2015). The expansion of welfare provision in recent years has also had an impact on China's political institutions. For instance, the centralized nature of China's key political institutions has helped the country to concentrate its economic resources as much as possible within a limited period (Yu, 2014). It is, of course, possible that the centralized political system could constrain welfare state development (Bolesta, 2015) not least because China lacks the democratic institutional arrangements, that played a significant role in the development of welfare states in Western – especially West and North European – countries (Esping-Andersen, 1990; Baldwin, 1990; Flora and Heidenheimer, 1981; Pierson, 2005; Walker and Wong, 2005; 2013). However, despite the absence of democratic political structures, China's political institutions are now playing an increasingly significant role in welfare policy, with the government accelerating welfare reform particularly after 2013. Clearly this attempt to establish greater compatibility between welfare state development and China's core political institutions suggests that the government intends to use welfare reform to mitigate potential political risks that could threaten the legitimacy of the CCP (Bolesta, 2015; Kongshoj, 2015).

What are these risks? According to the experience of western welfare states, growing demands for civil rights stimulate the development of the welfare state and *vice versa*. In recent years, China's middle-class population has been increasing and it is now paying more attention to civil rights issues (Goodman *et al.*, 2014). With the growth of the middle-class, there is a greater likelihood of a robust civil society emerging. As a result, it is highly

likely that political institutions will experience specific challenges. From the current welfare reforms, such as health-care and pension reform, it can be seen that the government is facing a dilemma: reforming the current institutional arrangements can resolve certain social problems such as poor accessibility and pension inequality, but the extent to which these reforms will lead to changes in political institutions (such as work units) is far from certain (*see* Chapters Five, Six and Seven). If the current political system cannot be maintained, it will be more difficult for the CCP to maintain its power. It is also uncertain whether the newly established welfare system could resolve the existing social problems.

In summary, Xi's strategy is to use social welfare reforms to boost economic growth and then achieve the goal of maintaining party legitimacy. Therefore, social policy and economic policy have come to be treated as equally important. Accordingly, the nature of the welfare regime is now as follows: social policy is regarded as an important driver of the new economic growth, economic growth makes people wealthy, and wealthier people are content and therefore more likely to approve of and be strong supporters of the CCP leadership. Although social welfare reforms in China are certainly intended to improve the quality of life of the Chinese people, it is political legitimacy which remains at the core of rationale behind all the reforms. Although Chinese welfare provision still relies heavily on family provision, especially perhaps in pension schemes, where commercial pension systems remain underdeveloped and people are consequently forced to rely on personal cash or bank savings, attempts are being made to address these problems. Efforts to reduce the fragmented nature of Chinese welfare system by allowing the state and market to 'regularize' provision is an indication that the Chinese welfare system is beginning to move away from the Informal Security Regime towards a system that has the potential to develop into a more comprehensive welfare state, especially in Health and Anti-poverty sectors. There may still be some way to go, but the general direction of travel appears to be set.

#### **8.4 From chaotic fragmentation to a rational decentralized welfare regime?**

This chapter has presented answers to the fundamental research questions set out at the start of this thesis. The nature of the Chinese welfare regime is that it serves economic development because economic development is the key foundation of the CCP's political legitimacy. There is now a perceived need by the Xi government to support social policy

because of the recognition of how it can support economic and political legitimacy. Without an effective social policy, economic development would go no further and, more important, social problems such as poverty and persistent inequalities might damage the trust of people in the Communist Party. Undeniably, there are nevertheless rays of hope because clear progress has been made on social assistance and President Xi has plainly understood how important social policy reform is for the Communist Party, the Chinese economy and the Chinese people. In its drive to reduce poverty, the Xi government has helped fifty million relatively poor people to move out of poverty and Xi is confident that China can eliminate all forms of poverty by the end of 2020 (*see* Chapter Seven).

Even so, the task is immense because path-dependent tendencies combined with various significant structural problems (such as population size and institutional barriers) are conspiring to keep key areas of social policy in an ISR. Informal welfare provision such as from within the family continues to play a crucial role in Chinese people's lives. In the area of health, for example, even though health insurances have been upgraded in recent years, the fragmentation problem means that the need to pay for health services from individual and family resources has become inevitable (*see* Chapter Five). Similarly, in terms of pensions, people cannot simply rely on public pension schemes provided by government, but the older commercial security schemes are still less popular (*see* Chapter Six). This situation can be labelled as 'chaotic' in the sense that the institutionalized foundations of fragmentation – *hukou*, the work-unit system – alongside the governance structures that maintain them lead individuals and families to act in ways that compound and perpetuate the fragmented nature of the system itself. It is in this sense, above all, that, fragmentation needs to be understood as the biggest factor preventing China's welfare regime from moving decisively away from an ISR.

'Decisive' is important here because arguably China can only go in one direction given the need to maintain economic progress through, and alongside, the social policy changes that have been identified as crucial for continued political legitimacy – and this is forward. Nevertheless, this general direction need not necessarily culminate in a comprehensive welfare state organized on western lines. It is possible that the emerging Chinese welfare system might best fit into what Sharkh and Gough (2010) have labelled a 'proto-welfare state'. In the context of this thesis, as opposed to the 'chaotic decentralization' of the pre-Xi era, I shall call this emerging model a 'rational decentralized welfare regime', which refers to the fact that the Xi government is trying to address the wide-ranging fragmentation

problems by establishing a more integrated and more targeted institutionalized welfare system that is nevertheless organized through decentralized systems of governance that have clear institutional and administrative relationships with central government. To address embedded fragmentation, the government must alter numerous institutional arrangements, not only laws and regulations but also existing localism.

During Xi's first term as president, various integration reforms have been implemented. For example, as discussed in this thesis, the government is currently integrating urban and rural residents' health insurance schemes, developing a national social pooling arrangement for public pensions and increasingly integrating the institutions which focus on poverty reduction. At the time of writing, the government has just established a new national department, the National Health Insurance Security Bureau, which is responsible for all types of health insurance in China, thereby integrating the two separate ministries that were responsible for health insurance management (*see* Chapters Three and Five). Similarly, the State Council has confirmed that a national adjustment fund will be established for achieving and managing national social pooling for pensions (*People's Daily*, 15<sup>th</sup> of June, 2018). Thus, the welfare system in China is clearly becoming increasingly better integrated while inevitably remaining 'decentralized' at points of delivery.

Where social security is concerned, the government has adopted two major strategies that relate to the two most crucial problems that need to be addressed: the creation of a more effective management system and an improvement in the outcomes of the current system. To address the fragmentation problem, moving towards a more integrated welfare system has become the optimal choice for the Chinese government; without such an integrated system, the government will not be able to satisfy people's increasing needs. For example, resolving the fragmentation problem in the area of social security has, under Xi's government, meant the development of a more targeted welfare system. It is thought that targeting welfare allows provision to be directed towards specific social groups through more precise policies in order to deal with specific problems. More important, a targeted welfare system also aims to deliver only to those people who are deemed really to be in need. Several examples discussed throughout this study confirm that the government is establishing a more targeted social assistance system, with PPA being the most typical policy example. As explained in Chapter Seven, the aim of PPA is to overcome the limitations of the existing poverty reduction institutions, especially by addressing the problems of mis-targeting aid, such as *renqing bao* and *guanxi bao*. Without these efforts,

the poverty reduction programs cannot ensure optimal results as some eligible people could be excluded from the coverage of specific institutions. In addition, the absence of reform leaves room for corruption, and the greater the incidence of frequent corruption, the more likely it is that the political legitimacy of the CCP and the government will be undermined (Yu, 2015).

Because of the path dependency model, China is still an informal security regime, and the next destination of the country's welfare regime is not entirely certain, but it can probably best be described as a 'rational decentralized welfare regime', which means minimizing the fragmented feature of China's welfare arrangements.

## **8.5 Conclusion**

This chapter has presented a discussion of several important factors related to the nature of China's welfare arrangements: first, fragmentation is the core challenge which the government has to deal with, and the fragmentation problem in China is far more complicated than in its counterparts over the world. The fragmentation problem is not only constraining the welfare performance of the existing welfare system in China, it also causes incalculable losses for both the government and individuals. Second, I have used the path-dependency theory to clarify the complexity of the China case. The path-dependency perspective shows that China is not just following the route taken by western states (Goodman *et al.*, 1998), but has its own unique version of institutional challenges. If China aims to establish a welfare state, then it first has to remove the major institutional barriers. On the other hand, although the government is trying very hard to establish a more institutionalized welfare regime, I have suggested in this chapter that China remains a long way from being a fully-fledged welfare state. Gough *et al.* (2004) suggested that China might more appropriately remain as an ISR. Although Gough *et al.*'s (2004) theory has its limitations, it has been confirmed as contributing to a new understanding of the core tendency of China's welfare construction. Third, I have explored the core objectives of China's welfare regime, which is to maintain political legitimacy by using social policy both as a new economic engine and a support for the previous economic legitimacy model. In other words, economic development still plays a priority role in the government's agenda, but social policy is no longer subordinate to economic policy. Fourth, the welfare aims and welfare reform strategies in China today are expected to minimize the impact of fragmentation. However, it is extremely difficult for a researcher to predict the next

destination of China's welfare regime, because there are still many uncertainties within the country.

## CHAPTER NINE: CONCLUSION

The findings of this study have shown that China is on its way to improving its welfare system which now more or less matches the features of a welfare state. Unfortunately, due to many institutional constraints and other factors, it will take time for China to move away from the current situation -- a successful informal security regime. It is not absolutely certain whether becoming a welfare state is the next destination for China's welfare development because of the uncertainty of its political leadership and future policy tendencies. However, social policy was one of the key endorsements made by the CCP to maintain its political legitimacy during President Xi's first term in office (*see* Chapters Seven and Eight). In this chapter, I shall summarise the key contributions which this study has made to knowledge from three specific aspects, the theoretical, the empirical and the methodological aspects. The major limitations of the study will also be discussed, and finally a brief discussion of the implications of the study and potential suggestions for future studies will be presented.

### 9.1 Fundamental Contributions

#### 9.1.1 Theoretical contributions

This is one of the few studies which has adopted Gough *et al.*'s (2004) comparative welfare regime framework (CWRF) to understand the nature of a specific country. It is one of the first studies to adopt the CWRF to explore China's welfare regime. The majority of existing welfare regime studies, particularly for China, have followed Holliday's (2000) productivist welfare regime theory, whereas other scholars have preferred to follow Jones's (1993) Confucian welfare cluster. Some of the existing studies have also continued to follow the same path as Esping-Andersen's three categories of welfare capitalism (*see* Chapter Two).

It should be noted that although this study adopted the CWRF framework, it has moved beyond that framework to some extent because of the fact that Gough *et al.* did not use the most suitable variables or social policy areas as the key benchmarks for understanding developing countries such as China (*see* Chapter Four). Moreover, the cluster analysis method adopted by Gough *et al.* (2004) is quite sensitive to data so because the data varies, the cluster results might also have obvious differences. So for this current study, the idea



of the ISR was borrowed from the CWRP rather than following precisely the same path as Gough *et al.* (2004) or Sharkh and Gough (2010) to test whether China is currently moving away from the successful ISR category.

The findings have shown that in order to understand the nature of China's welfare regime, it is first necessary to make sense of the country's unique political system. In other words, the political driving force is probably the most crucial driving force to push China's welfare systems to keep moving forward. In particular, after Xi came to power, his strong ambitious in social policy development in reality pushed China's social welfare system to become more institutionalized. The findings also show that it is not appropriate to continue to label China as a '(dual-) productivist welfare regime' as Mok and Ngok. (2012) and Kim (2016) suggested because the view of the selected Chinese elites is that there is a clear tendency that Chinese social policy has an increasingly important economic position; in many circumstances, social policy is economic policy and *vice versa*. Put another way, social policy is no longer a subordinate production of economic policy. Some good case studies can be found in Chapters Five, Six and Seven showing that the Chinese government uses social policy to solve many incoming social problems such as health, aging and poverty.

Unfortunately, these positive changes in China's social policy did not bring immediate changes in the country's welfare construction because there are still many problems such as fragmentation ahead, and if the government attempts to resolve the fragmentation problem within the social political system, then some institutional barriers such as *hukou* and work units will have to be reformed first. But reforming these institutional barriers has largely been constrained by various path dependency issues, in particular because these institutions have been deeply embedded in Chinese people's lives, so it will by no means be an easy task for China to move on from the current situation. The only thing which can be certain is that China's welfare system will continue to improve during the following years under Xi's governance.

### **9.1.2 Empirical contributions**

Increasing numbers of research studies have attempted to use quantitative research methods to explore developments in China's social policy since Xi came to power in 2012 (Gao *et al.*, 2013; Kongshoj, 2015; Mok and Kuhner, 2017; Guan, 2017; Yang, 2018). This research

has been quite successful in identifying the outcomes of specific social policies in China and has also been persuasive in the exploration of the similarities and differences between Chinese approaches to welfare state development and those of other countries (Gao *et al.*, 2013; Yang, 2018). Even so, there is a lack of knowledge about the nature of China's welfare regime during Xi's first presidential term that qualitative research can help to reduce – and this current study has attempted to fill this gap by adopting methods of research that are suited to understanding the perceptions and motivations of elite politicians, administrators and academics as they engage with the most pressing issues and policies currently affecting China's welfare regime.

This study has mapped out the complexity of the fragmentation problem and analyzed the key solutions which Xi's government has adopted, finding new approaches to welfare that indicate that Xi's strategies differ in some ways to those of his predecessors, particularly Jiang (1989-2002). Xi's welfare objectives cannot easily be identified as 'productivist' because social policy has taken an increasing important independent role in Chinese policy making. Further, his welfare strategies cannot be understood in terms of a market-regulated welfare system because privatization and marketization are not considered to be the optimum strategies for resolving social problems.

China's recent welfare strategy is similar to the newly emergent social investment states (SIS) in certain western countries in recent years. In many ways, both Chinese recent welfare reform and the SIS are trying to balance economic and social demands. However, the SIS focuses more centrally on human capital investment and long-term economic competition to the point where social policy goals are sacrificed in order to maintain economic competitiveness (Morel *et al.*, 2012) whereas the Chinese government's welfare approach uses social policy as an economic driving force, integrating social and economic policy in a single portfolio.

As demonstrated in this thesis, quantitative research methods are not the only means of exploring China's welfare development empirically. The qualitative elite interview research technique is useful for gaining an in-depth understanding of what is going on in contemporary China. Additionally, qualitative elite research also facilitates the exploration of China's unique socio-political system and helps the researcher to make sense of how the system works in terms of social policy design as well as policy implementation. Interpreting the mindset of social-political elite respondents is a useful means of better understanding the current and future trajectories of China's social welfare development because the country's unique political system means that many policies rely particularly heavily on top-down administrative and power relations. Interestingly, at present, many empirical studies of China's welfare system have adopted the bottom-up perspective (Deng, 2016; Yang, 2018), so this current study has contributed some exploration and innovation in empirical research on China's welfare regime.

### **9.1.3 Methodological contributions**

This thesis is one of the few studies that have adopted the qualitative elite interview technique for understanding contemporary welfare development in China, and the findings have revealed new possibilities and pitfalls for researchers conducting data collection in China. During the field work, it was found, for example, that if researchers comply strictly with western ethical codes of research when conducting elite interviews in China, they are likely to encounter a number of difficulties. First, it is not an easy task to gain access to people holding high positions without the endorsement of the Chinese unique social network, the *guanxi* system. *Guanxi* in many ways has been regarded as 'ritual capital' for Chinese people on a daily basis (Ruan, 2015). Without the support of a *guanxi* network, it would be unrealistic for a PhD student to identify the 'big guys', far less actually talk with them. Second, because of changes in the domestic political situation, Chinese elites have become extremely sensitive about having their conversations recorded. It is difficult, for

instance, to persuade elites to consent to having a whole interview recorded. Indeed, some elite interviewees require researchers to leave all electronic devices, including even their glasses, in the secretary's room during an interview. They worry that such recordings might be used as potential evidence for others to attack them.

Third, the requirement of obtaining a participant's signature on the consent form cannot be taken as a sign that an interviewee has agreed to participate in the research. China has a different political culture and signing a consent form can cause uncomfortable feelings or feelings of insecurity for both participants and researchers. If a researcher insists that participants must sign a consent form, they are likely to bring the interview to an abrupt halt. Because of the wide impact of *guanxi*, if one potential interviewee feels uncomfortable, other potential participants in the same relationship network might subsequently refuse to participate.

A further issue highlighted by this study is the fact that pursuing elite interviews can potentially cause some harm, or at least inconvenience, to researchers. This can occur because elite individuals normally have higher social positions than a researcher and are consequently in a position to create problems such as abnormally long waits, frequent changes to agreed meeting times or places and ultimately, a refusal to meet with the researcher at all. A further problematic tactic, which can be used to evade having to be interviewed involves the researcher being asked to complete tasks or favours in exchange for an interview but then withdrawing cooperation and refusing to arrange an interview time with the researcher. Again, potential interviewees can express impatience about contributing to someone else's research because of the extra workload involved and might deliberately inconvenience the researcher as a means of showing their irritation.

Although it is every participant's right to withdraw from the research at any time, deliberately wasting the researcher's time and misleading the research, or playing tricks on

a researcher in order to flaunt their power, is clearly a source of frustration. These examples provide an indication of some of the potential risks of using *guanxi*. It is very difficult to evaluate how reliable a *guanxi* is. As a result, it was found during this study that the best solution for avoiding the sorts of behavior described here is to make full use of the *guanxi* system but to prepare back-up plans for dealing with any urgent or untoward situations that might arise. For the reasons started here, however, researchers should not rely solely on *guanxi* as the only way to try to ensure the success of their field work in China.

## **9.2 Limitations of this research**

There are several limitations to this research. First, the qualitative elite interview technique might not be easy for other PhD students or mature researchers with a western background to replicate because achieving an elite interview in China relies heavily on *guanxi* as the key endorsement. Also, elites' responses and the length of an interview might vary depending on who is conducting the interview. Second, because the time of the field work was close to the end of year, which is one of the busiest times for many key social and political elites, some potential elites were not available. For instance, many of the ministers and deputy-ministers could not spare their time to participate in the research. More important, during the time of the field work, there was a scandal which broke out within one of the key ministries, the Ministry of Civil Affair. Within the MCA, the minister and a few vice-ministers were under investigation for suspected corruption, which led to all the potential identified elites in MCA refusing to participate in the research. This was particularly significant because the research sought to expand the social assistance policy to all the anti-poverty institutions in China.

Third, the research was more focused on the top-down perspective, so too much attention might have been given to the policy design process and policy implementation might have not been fully considered. More important, during the field work, many reform strategies were in the early stage of their implementation, so it was very difficult for the researcher to evaluate the welfare outcomes of these strategies. Fourth, because of the researcher's lack of experience, some potentially valuable elites were not fully used. For instance, during the interviews, especially at the very beginning of the field work, the researcher did not control the whole procedure in order to minimize the impact on participants' work. As a result,

some of these interviews were very short, less than half an hour. Also, some interviews were frequently interrupted by the participant's colleagues because these selected elites had given time from their working life for the interviews. As a consequence of these interruptions, they had to keep on rethinking what they had already said, which considerably reduced the quality of some interviews.

### **9.3. Further study**

This study might have put more focus on the politics behind China's welfare regime and concentrated the majority of its attention instead on the policy-making system and key welfare arrangements and the related institutions. As a result, the financial system underlying welfare development is still a relatively untouched area. More important, during the research, several new issues were identified, such as the impact of new technologies and new types of economy, and these could be topics for further study.

Turning to finance, first, the future of welfare state funding in countries with an aging population is no doubt one of the most crucial parts of social policy research (Morel *et al*, 2012). Indeed, welfare development needs sustainable financial support, so it is crucial to carry out more research into China's financial system. In Chapter Six, it was stated that the Chinese government had paid special attention to the construction of the financial market in order to ensure that there will be a sufficient rate of return from pension investments. Research into the financial system should not only include the financial market, it should also put more focus on the fiscal system, such as taxation. At the time of writing (Autumn 2018), the Chinese government had enacted a draft for a new income tax in which there is a special chapter on a deduction for personal welfare expenditure. In other words, if the new income-tax law is implemented, individuals who spend money on social security, child care, care of the elderly, health and education will enjoy a guaranteed proportional tax exemption. There are also some new policy documents which show that the central and local governments are changing their financial responsibilities for welfare expenditure. These changes might provide further evidence to support the main arguments of this thesis,

and it can be reasonably concluded that China is making some preparations for the construction of a welfare state.

Where the new technologies are concerned, China has already enacted a development plan for 2025, known as ‘Made in China 2025’, which focuses on the area of artificial intelligence (AI). AI is a significant technological innovation for the whole world and it will definitely improve the social productivity rate in China, but the employment structure and its related institutions will be confronted with great challenges in the near future (Cai, 2017). China has not yet fully established a mature welfare system to deal with long-standing social conflicts such as inequality, aging and other social problems, and AI will certainly trigger new social problems such as a new type of unemployment and new demands for social security (Liu and Wang, 2018). It will be necessary to pay special attention to the rapid development of AI and its implications for the social welfare system.

In Chapter Five, some of the elite interviewees referred to the impact of the online economy on China’s welfare system in that it will create a new type of uninsured population; in fact, e-business has already not only changed the employment structure in the country, it has also challenged traditional ways of funding the whole welfare system. Chief among these impacts is the effect of the online economy on the taxation system, and other related institutions may not be well prepared for the new changes brought by the online economy. Indeed, to some extent online platforms have expanded the capabilities of social services such as child education and elderly care, but there are still new risks which might have a large impact on the core elements of China’s welfare system, even affecting the transition to a full welfare state (Liu and Wang, 2018)

#### **9.4 Summary**

This research study has reviewed the recent history of China’s welfare development and has clarified the nature of the country’s current welfare regime, with the intention of

understanding how best to characterize it. In doing this, the thesis has answered the two key research questions set out in the Introduction: what is the nature of China's welfare regime and to what extent does the designation of China as an Informal Security Regime by of *Gough et al.* grasp the complex nature of Chinese social policy? These questions were pursued by using qualitative elite interviews and data from documentary sources to illuminate key areas of Chinese welfare policy with a view to analyzing the nature and significance of current attempts to reform them. The thesis first argued that China's aim is indeed to move forward with welfare development. Second, it showed that the government has to deal with the complicated problems of fragmentation, which are the results of various historical legacies and other institutional barriers. Third, Gough *et al.*'s (2004) framework has been used as a heuristic device against which to understand the realities of China's welfare development. Overall, the evidence suggests that Chinese social policy continues to display significant characteristics of an ISR; however, the story certainly does not end here because it is equally the case that considerable strides are being made to move Chinese welfare towards an increasingly comprehensive 'welfare state'. The road is a long one, as has been seen, but the journey is certainly not over.

There are inevitably some limitations of this research, but it has nevertheless made a number of contributions to the issue of welfare development in China both empirically and theoretically. China's welfare development is led by strong political determination underpinned by the fact that the search for political legitimacy is a core driving force behind contemporary welfare reform. Second, the country's economic policy has been integrated with social policy, which means that social policy and economic policy are 'two sides of the same coin' in president Xi's governance strategy. Third, China is on its way towards moving away from the so-called 'successful ISR', but it must be remembered that path dependent barriers remain. Finally, China plainly 'needs' social welfare, and the government has clearly realized that without an effective social policy, the leading party might not be able to maintain its position in the political game.



# LIST OF ABBREVIATIONS

Informal Security Regime (ISR)

The Chinese Communist Party (CCP)

People Republic of China (PRC)

Republic of China (ROC)

State Owned Enterprises (SOEs)

Household Responsibility System (HRS)

Rural Collective Medical program (CMS)

Gross Domestic Product (GDP)

The New Rural Cooperative Medical Scheme (NRCMS)

Scientific Development Perspective' (SDP)

Urban Residents' Basic Pension Scheme (URBPS)

Urban Employees Basic Pension Insurance (UEBPI)

The Urban Employees' Basic Pension System (UEBPS)

Asian Development Bank (ADB)

Organization for Economic Co-operation and Development (OECD)

National Statistical Bureau (NBS)

Labour Insurance Scheme (LIS)

Pay As You Go (PAYG)

The Work Units Pension Scheme (WUPS).

The New Rural Residents' Pension Scheme (NRRPS)

The Collective-Owned Enterprise (COE)

The Urban-Rural Residents' Basic Pension system (URRBPS)

The Urban Employees' Basic Health Insurance (UEBHI)

The Urban Residents' Basic Medical Insurance (URBMI)

The World Health Organization (WHO)

The Severe Illness Health Insurance (SIHI)

The National People Congress (NPC)

The Chinese Political Consultancy Conference (CPCC)

The Chinese constitutional Law (CCL)

The Ministry of Human Resources and Social Security (MOHRSS)

The Ministry of Civil Affairs (MOCA)

The National Health and Family Planning Committee (NHFPC)

The Ministry of Education (ME)

The Ministry of Housing and Construction (MHC)

The Ministry of Finance (MF)

The Commission of Development and Reform (CDR)

The Ministry of Industry and Information  
Information Communication Technology (ICT)

The National Poverty Alleviation Office (NPAO)

The Department of General Administration (DGA)

The International Monetary Fund (IMF)

The United Nations Development Project (UN)

The World Bank (WB)

The International Labour Organization (ILO)

The Chinese Academy of Social Science (CASS)

The Computer-Aided Qualitative Data Analysis Software (CAQDAS)

The Research Centre for Social Science (RCSS)

The State Council (SC)

The Multiple Channel Management (MCM)

The China National Food and Drug Administration Bureau (CFDA)

The Tripartite Health Sectors Reform (THSR)

The Beijing Government (BJG)

The Shanghai Government (SHG)  
The Hierarchical Health-care System (HHS)  
The Essential Drug List (EDL)  
The Human Resource Social Security (HRSS)  
The Precise Poverty Alleviation'(PPA)  
Targeted Poverty Alleviation (TPA)  
Targeted Poverty Reduction (TPR)  
Non-Government Organizations (NGOs)  
Creating unique Industries for the Poor (CUIP)  
Social Protection Floor (SPF)  
Initial Public Offering (IPO)  
Artificial Intelligence (AI)  
Comparative Welfare Regime Framework (CWRF)

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## APPENDIX A: NOMINATED INTERVIEWEES FROM THE NPC AND ITS RELEVANT SUB-COMMITTEES

Sub-Committees	
The National People’s Congress (The Standing Committee of the NPC)	The Legal Work Committee
	The Internal and Judicial Affairs Committee
	The Education, Science, Cultural and Health Committee
	The Agricultural and Rural Areas Committee
Total Interviewees	4-8 people



## APPENDIX B: NOMINATED INTERVIEWEES FROM THE MOHRSS

Ministry	Departments/offices	Potential Interviewees	Total number of interviewees
The Ministry of Human Resources and Social Security (MOHRSS)	The Department of Policy Analysis (DPA)	All the Directors and/or Deputy Directors within each Department or Office/Bureau	12-26 people
	The Department of Law and Regulation (DLA)		
	The Department of Working Injuries Insurance (DWI)		
	The Department of Wages and Welfare (DWW)	The Minister of the MOHRSS and/ or the Deputy Minister	
	The Bureau of the Social Insurance Fund (BSI)		
	The Department of Pensions (DP)		
	The Department of Rural Social Insurance (RSI)		
	The Department of International Cooperation (DIC)		
	The Department for Migrant Workers (DMW)		
	The Department of Health Insurance (DHI)		
	The Department of Unemployment Insurance (DUI)		

	The Department of the Retired Cadre (DRC)		
<b>Total</b>	<b>12</b>		

## APPENDIX C: POTENTIAL INTERVIEWEES FROM THE NHFP AND THE MCA

Ministries/ Committees	Departments/ Bureaus	Potential Interviewees
The Committee of National Health and Family Planning	The Bureau of Planning and Information	All the Directors and/or Deputy Directors of each Department or Office/Bureau  The Head of the Committee and the Minister and/or Deputy Head and Deputy Minister
	The Department of Law and Regulation	
	The Department of Institutional Reform	
	The Bureau of Health Policy and Management	
	The Bureau of Primary-tier Health Management	
The Ministry of Civil Affair	The Department of Social Welfare and Charity Promotion	
	The Department of Social Assistance	
	The Department of Social Affairs The Department of Policy and Regulation The Department of Pacification and Resettlement	
Total number	Ten Departments or Bureaux	10 – 24 interviewees

## APPENDIX D: ADDITIONAL NOMINATED DEPARTMENTS

Committees/ Ministries	Departments/ Offices	Potential Interviewees
The Committee for Development and Reform (CDR)	The Department of Planning	All the Directors and/or Deputy Director of each Department or Office/Bureau.
	The Department of Institutional Reform	
	The Department of Society	
	The Department of Investment	
The Ministry of Finance	The Department of Social Security	All the Ministers/Heads and/or Deputy Ministers.
	The Budget Department	
The Bureau of Chinese Medicine and Management The Health Reform Office	No specific Department  No specific Department	8 -20 interviewees

## APPENDIX E: THE INTERVIEW GUIDE

<i>Interviewee's name :</i>	<i>Gender :</i>
<p>The title of this study : Is China moving towards a welfare state?</p> <p>Interview topics : 1. Welfare development in contemporary China</p> <p style="padding-left: 40px;">2. The future of China's welfare development</p> <p style="padding-left: 40px;">3. Health policies and current reforms</p> <p style="padding-left: 40px;">4. Pension and current reforms</p> <p style="padding-left: 40px;">5. Social Assistance</p>	
<p>Introduction: the purpose of this research</p> <p>This aim of this research study is to provide an in-depth understanding of the nature of China's welfare system. Following a broad historical overview of developments in Chinese social policy, the thesis will focus particularly on the new strategies undertaken by President Xi. A further aim is to measure the extent to which existing welfare regime theory can explain the Chinese case. To this end, attention will be given to the key drivers of China's welfare regime, key government aims, the main achievements of the current government and the challenges which face China as the country develops new social policy solutions. In order to narrow down the research, three key social policy areas have been selected, pensions, health and income maintenance.</p>	
<b>Introductory questions</b>	
<p>Are you familiar with the idea of the 'welfare state'?</p> <p>Do you think China can be described as a welfare state? If so, why?</p>	
<b>Intermediate questions</b>	

***Question for the elite in the Ministry of Finance:***

1. In recent years, the Chinese government has increased expenditure in a range of areas such as health, old-age pensions and income maintenance. What are the reasons for this greater attention to social welfare in your opinion?
2. In the context of global economic austerity, China has experienced a number of challenges associated with the country's economic development. In view of the ongoing impact of globalisation, why is China continuing to develop its social policies and improve the performance of its social welfare systems?
3. Looking at the recent attempts to improve China's welfare system, what do you regard as the key examples of the government's effort to enhance Chinese welfare?

***For the elite in the Commission of Development and Reform:***

1. In the 2016 guidelines of the CDR, it states the bottom lines as social stability and people's welfare; could you please explain the criteria which are being used to define this 'bottom line'?
2. What are the bottom lines for the people's welfare?
3. The first half-year report of the CDR shows that social investment has become increasingly important in China's economic development. However, the focus of social investment is still concentrated on infrastructural development rather than on plans to enhance social welfare programs; why?
4. The Chinese government wishes to standardise key elements of the country's welfare systems such as health, pensions and other social services; what exactly is the standard of China's health-care system?

***For the elite in the National Health and Family Planning Commission:***

1. There are three thorny problems (health inequality, accessibility and affordability) which present key challenges for China's health policy. Do you think that the 'Internet plus' program is a panacea for China's health reform?
2. Can you talk about the newly established family doctor institutes in China? What, in your view, are the effects of these institutes on the Chinese health system?
3. In recent years, the Chinese government has accelerated its process of integrating urban and rural health insurance, but the health system remains fragmented. What policies are required to accommodate and balance the interests of the different interest groups?

***For the elite in the Ministry of Human Resources and Social Security:***

1. China is moving to an aging society. How will the government ensure that increasing numbers of rural residents participate in public pension insurance?
2. In China, private old-age pensions insurance is less developed; do you think that current reforms to the pensions system will stimulate private insurance provision?

3. Why has the Chinese government attempted to merge civil servants' pensions with the social pension insurance system?
4. There are many approaches to Chinese pension reform. Why has the government decided to delay the introduction of the proposed retirement age plan? What are the challenges here? Are there any examples of successful retirement age plans from which lessons can be learned?
5. The current pension schemes are voluntary participation schemes; do you anticipate that voluntary participation could adversely affect China's welfare system?

***For the elite in the Ministry of Civil Affairs:***

1. Can the standard of subsidies improve?
2. What measures would you propose that could increase the living standards of families and individuals whose income places them just above the poverty line?

***Some questions for all the elites:***

- Do you think that the new process of urbanization is forcing China to pay more attention to people's welfare? If so, why?
- Do you think that the new structural reforms designed to benefit the Chinese economy mean that China's welfare system is likely to develop further as a result?
- Currently, the Chinese government wants to integrate both urban and rural welfare systems in health and pensions. What challenges do you see for the government?
- In the health, pensions and income maintenance arenas, the Chinese government encourages social participation; how does this ability to participate in policy arenas affect the nature of welfare development in China?
- Social investment in key areas of social policy recently became increasingly important. Why does the government attempt to use social investment as a strategy for developing social policy provision as opposed to tax-based government expenditure?

**Closing Question:**

If you were asked to rate China's current welfare system in terms of provision for pensions, income maintenance and health-care, which areas do you believe have improved the most and for what reasons?

## APPENDIX F: SELECTED OFFICIAL ARCHIVES AND DATABASES

Archives/Database	Website
Chinese central government (State Council)	<a href="http://www.gov.cn/">http://www.gov.cn/</a>
The Bureau of Chinese Statistics	<a href="http://www.stats.gov.cn/tjsj/ndsj/">http://www.stats.gov.cn/tjsj/ndsj/</a>
The Ministry of Human Resources and Social Security (China)	<a href="http://www.mohrss.gov.cn/">http://www.mohrss.gov.cn/</a>
The Committee of National Health and Family Planning	<a href="http://www.nhfpc.gov.cn">http://www.nhfpc.gov.cn</a>
The Ministry of Finance	<a href="http://gjs.mof.gov.cn/mofhome/mof/">http://gjs.mof.gov.cn/mofhome/mof/</a>
The Ministry of Civil Affairs	<a href="http://www.mca.gov.cn/">http://www.mca.gov.cn/</a>
The National Development and Reform Commission	<a href="http://www.sdpc.gov.cn/">http://www.sdpc.gov.cn/</a>
The Ministry of Industrialisation and Information	<a href="http://xxzx.miit.gov.cn/">http://xxzx.miit.gov.cn/</a>
IMF	<a href="http://www.imf.org/external/index.htm">http://www.imf.org/external/index.htm</a>
OECD	<a href="http://www.oecd.org/">http://www.oecd.org/</a>
WB	<a href="http://www.worldbank.org/">http://www.worldbank.org/</a>
ADB	<a href="http://www.adb.org/">http://www.adb.org/</a>
ILO	<a href="http://www.ilo.org/">http://www.ilo.org/</a>



## APPENDIX G: DE FACTO INTERVIEWEES' DETAILS

Name	Work Place	Position	Contribution	Interviewing Duration
Interviewee A	The Human Resource and Social Security	The Vice director of Law and Regulation	General Picture of the China's social security system/ Pension Reform/ Health Insurance Reform	40 minutes
Interviewee B	The Human Resource and Social Security	The Vice-Director of the Department of Pension	Several Topic about Pension Reform	35 minutes
Interviewee C	The Human Resource and Social Security	The Director of the Department of Health Insurance	Health Reform/ Help me find someone else as my interviewee	Nearly 30 minutes
Interviewee D	The Human Resource and Social Security	The Vice Director of the Department of Policy analysis	Challenges for the Chinese government / All the welfare areas	45 minutes
Interviewee E	The Think tank under Chinese National the Anti-poverty	N/A	Anti-poverty policies, challenges, aims, education/ social assistance/ Gough et al's theory	50 minutes
Interviewee F	The Remin University, China	Professor of Labour and Human Resource	Pension Development/ Social Protection/ How to use Gough et al's theory/ Health Reform	45 minutes
Interviewee G	The Peking University, China	Professor of Government and Management	Health Policy and Whether China is moving towards a welfare state? How to measure it? /Some case studies/ Social quality	1 hour

Name	Work Place	Position	Contribution	Interviewing Duration
Interviewee H	The HenDa Company	CEO/NPC	Health reform and Private Pension Development	30 minutes
Interviewee I	The Human Resource and Social Security	The Director of the Department of Health Insurance	The future of China Health Reform	30 minutes
Interviewee J	The Commission of Development and Reform/ SOE	SOE-CEO/ NPC member/ PCCP member	The future of China's welfare system/ Urban and Rural Pension/ Health reform	30 minutes
Interviewee K	The National People Congress(NPC)/Company	Former official of the Human Resource and Social Security/ Owner of One of Biggest HR Company in China/NPC/ CPCC	Occupational Annuity/ Urban and Rural Pension/ Health Reform/ Social Assistance	30 minutes
Interviewee L	The Contributor of the Chinese Social Security Law/ NPC member/ CPCC member/	NPC member and CPPC member/CEO	Social insurances/ Social Assistance/ Whole welfare systems	36 minutes
Interviewee M	The University of Yunnan/ China Social Science Academy(CSSA)	Professor	Health Policy Reform	45 minutes
Interviewee N	The Beijing Normal University	Professor/ Former Dean of the Government Management	Pension Reform / Health reform	35 minutes

Name	Work Place	Position	Contribution	Interviewing Duration
Interviewee O	The CSSA	Professor	All kind of pension development/ Welfare state and China/ Civil Right	23 minutes
Interviewee P	The CPCC	CEO/CPCC member	High-tech and its application to health reform/ pension/ Social Assistance	1 hour
Interviewee Q	The Peking University, China	Professor/ Sociology	Whether China can became a welfare state?	30 minutes
Interviewee R	The Hunan University/The Tsing Hua University	Professor/ Dean/ Director International Program / Top adviser and Key law maker	Whole three areas and even the political institutions are covered	50 minutes
Interviewee S	The CSSA	Professor/ Director of Public Policy Research Centre	Health Reform/ Social Security/ Social Assistance	40 minutes
Interviewee T	The Xinyuan (Zhejiang) Company	CEO	Health Reform/ Pension Reform/ Elderly Care	25 minutes
Interviewee U	The NPC	NPC member	Private pension/ Health care	25 minutes
Interviewee V	The NPC/ The Commission of Development and Reform	NPC member/Former official	Welfare system reform	40 minutes

Name	Work Place	Position	Contribution	Interviewing Duration
Interviewee W	The Commission of Development and Reform	Vice-director of Policy analysis	Public expenditure/welfare reform/National Planning	1 hour
Interviewee X	The National Anti-poverty Office	Vice director	Anti-poverty policies, challenges, aims, / education/ health insurance/ rural pension reform	30 minutes
Interviewee Y	Chinese Political Consultant Conference	CEO	Health policy/ Pension reform	45 minutes
Interviewee Z	The Human Resource and Social Security	Vice Governor of Hunan Province	All kinds of topic about Pension/ welfare reform	25 minutes
Interviewee A1	The Ministry of Finance	Vice-director of Department of Social Security	Public expenditure/welfare reform/	35 minutes
Interviewee B1	The Ministry of Finance/	Think Tank member/ Former vice-mayor/ Vice President of Open University	Public expenditure/welfare reform/	35 minutes
Interviewee C1	The Peking University, China/ CSSA	Professor	Pension/ Social Assistance/ Rural-urban integration/Health policy	40 minutes
Interviewee D1	The National Health and Family Planning Commission	Official/Researcher	Health Policy/ Welfare reform	30 minutes

Name	Work Place	Position	Contribution	Interviewing Duration
Interviewee E1	The National Health and Family Planning Commission	Director /Researcher	Health insurance/Health Policy/Welfare reform	35 minutes
Interviewee F1	The CSSA/Advisor	Professor	Rural welfare system/ Pension/ Social protection/ Welfare regime	45 minutes
Interviewee G1	The National Health and Family Planning Commission/ Healthcare Company	NPC and CPCC member/Former official/ CEO	Pension/Health reform/ Welfare reform	45 minutes
Interviewee H1	The NPC and the Renmin University	Professor/ member	Social security, policy analysis, social policy	30minutes
Interview I1	The Remin University	Professor	Social security, social policy	30 minutes

## APPENDIX H: POLICY DOCUMENTS

Document name	Year Issued	Areas	Organization
Labour insurance regulation	1951	Pension, health care etc	State Council
The Decision of establishing the Urban Employees Basic Health Insurance	1998	Health Insurance	State Council
The Notice about several questions to Health in People's Communes	1959	Rural Healthcare	Ministry of Health
The Chinese constitutional Law	1978, 1982	People's rights	National People's Congress
The Rural Cooperative Medical Regulation (draft)	1979	Rural healthcare	Ministry of Health
The Notice of Establishing New Rural Cooperative Medical Scheme	2003	Rural health insurance	Ministry of Health+ State Council
The Notice about expanding pilot programs of the Urban Residents Health Insurance	2007	Severe Illness based Urban Residents' Basic health insurance	State Council
The Notice of Integrating Urban and Rural Residents Basic Health insurance	2016	Integrating urban and rural health insurance schemes	State Council
The Notice of enhancing the Hospital Economic management pilot regulations	1981	Hospital Management	The ministry of Health
The opinions of expanding healthcare services	1989	Healthcare reform	The ministry of Health etc
The Opinion of deepening reform institutions of healthcare and drug management	2009	Healthcare system reform and drug management reform	The State Council

The guidance opinion of pushing Hierarchical Health System	2015	Healthcare system	The State Council
The Opinions of further expanding deepening healthcare reform experiences	2016	Healthcare system	The State Council
The Notices about establishing a nationwide minimum living standard protection scheme	1997	Social assistance, poverty alleviation	The State Council
The regulation of Urban Resident Minimum Living Standard Protection	1999	Social Assistance/ Poverty Alleviation	The State Council
The Notice of Further enhancing the urban residents' minimum living protection	2001	Social assistance, poverty alleviation	The State Council
The Notice of further improving urban resident's Minimum Living Standard Protection	2010	Social assistance, poverty alleviation	The Ministry of Civil Affair
The Opinion of accelerating the rural social security system construction	1996	Rural social assistance	The Ministry of Civil Affair
The Notice of Establishing National rural minimum living Standard protection	2007	Rural Social assistance	The State Council
The State Council's Decision about the Urban Employees Basic Pension	1991	Urban public pension	The State Council
The State Council's Notice on Deepening Reform the Urban Employees' Pension system	1995	Urban Employees Basic Pension Scheme	The State Council
The State Council's Decision about Establishing unified Urban employees' basic pension system	1997	Urban Employees Basic Pension Scheme	The State Council
The State Council's Decision on Improving the urban Employees' basic pension system	2005	Urban Employees pension	The State Council

The State Council's Notice on Provincial Social Pooling and local pension fundraising management	1998	Urban Employees Pension	The State Council
The People Republic Of China's Social Insurance law	2010	Social Insurances (health, pension etc)	The National People's Congress
The Regulation of Rural Communes (draft)	1978	Rural pension, healthcare	The CCP
The CCP's decision about improving the socialist economic institutions	2003	Rural pension	The CCP
The CCP's Decision on constructing socialist harmonious society	2006	Urban rural social security system	The CCP
The State Council's notice on guiding the new rural pension scheme's pilot program	2009	The rural pension system	The State Council
The Opinion on proceeding the urban resident's basic social pension pilot programs	2011	The Urban resident pension	The State Council
The temporary arrangement to workers and urban employees' retirement	1958	The work unit pension and retirement arrangement	The State Council
The Temporary arrangement for old, weak, sick and disable cadre	1978	The work unit pension and retirement arrangement	The State Council
The arrangement of retiring and retired work units' staff	1993	Work unit retirement arrangement	The State Council
The Notice on pilot programs on improving urban social security system	2000	The urban social security	The State Council
The pilot plan of work unit pension system reform	2008	The work unit pension system	The State Council



The State Council's decision on work units' staff pension system reform	2015	The work unit pension system	The State Council
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