From state monopoly to welfare mix with Chinese characteristics: the political economy of social policy reform in China

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FROM STATE MONOPOLY TO WELFARE MIX WITH CHINESE CHARACTERISTICS:
THE POLITICAL ECONOMY OF SOCIAL POLICY REFORM IN CHINA

XIAOYE SHE

A Dissertation
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Department of Political Science
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DEDICATION

To my beloved father, Guang’an She
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ABSTRACT

China’s social policy discourses have increasingly shifted towards a rights-based approach emphasizing equity and social justice. Under Xi Jinping’s leadership, the party-state promises to play a leading role in protecting the “basic rights” of housing, healthcare, and elderly care for all Chinese citizens. What does it mean for the urban poor and rural migrants, given the country’s deteriorating income inequality and widening rural-urban divide? How can we explain regional and local variations despite China’s authoritarian political structure?

This study examines the subnational variations of welfare mix in China by comparing social policy reform outcomes in two hubs of export-oriented growth, Shanghai and Guangzhou. Building on theories of subnational capitalism and local state authoritarianism, I argue that in response to common policy directives and pressures from above, disparities in local growth strategies have interacted with decentralized policy processes in generating “embedded” subnational welfare mix models, with varying articulations of state, market and family in welfare production.

Specifically, Shanghai has favored a stratified social insurance approach and relied on state-owned enterprises in service delivery, which are compatible with its growth strategy of state-sponsored transnational technology and financial complex. By contrast, Guangzhou has preferred a more inclusive social insurance model and pluralized service delivery, which are consistent with its growth strategy of pro-market, manufacturing-based dormitory labor system. Social policies are thus used as “implicit social contract” to support economic growth and create local definitions of insiders and outsiders. These two case studies show that despite rhetorical emphasis on “top-level design”, social policy reform in China has resulted in a welfare mix model with significant subnational variations.
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CHAPTER 1
INTRODUCTION

Introduction

After 40 years of reform and open-up (Gaige Kaifang), China has achieved significant economic growth and human development. To a considerable extent, the gradualist approach prevented China from suffering short-term economic turmoil and social unrest that occurred in post-communist countries such as Russia, Central Asia and Eastern Europe. Moreover, China has made noteworthy progress in terms of achieving United Nations Millennium Development Goals (MDG), with strong track record in poverty reduction and improvement of living conditions for both urban and rural residents. The proponents of “Beijing Consensus” or a Chinese variety of capitalism therefore attribute these achievements to China’s state-led development model. With strong backing from Chinese government, they suggest that this model can be a viable alternative for developing countries to replace the highly controversial Washington Consensus. At 19th Party Congress, Xi Jinping, the sixth-generation leader of the party-state, announced that China’s model, or “socialism with Chinese characteristics”, can offer “a new option for developing countries who want to speed up their development while preserving their independence (Xinhua 2017).

A closer look at China’s model, however, reveals not only first signs of trouble in maintaining high economic growth, but also persistent underlying issues in human development, which together may undermine the model’s viability in the long run. On the one hand, economic growth is slowing down, forcing Chinese government to accept “the New Normal” and adjust its growth strategy from labor-intensive production and export-oriented growth, to a “knowledge economy” where the state incentivizes research and technology innovation and use a package of policies to domestic demand. On the other hand, the sustainability of Chinese model has been
questioned due to issues such as rising inequality and social stratification.\textsuperscript{3} The state-led economic reform, massive urbanization, and the retreat of the state in social sectors have resulted in increasing income gap between the urban rich and poor, as well as widening urban-rural divide.

As China has become increasing urban, this has resulted in what Liu, Wu, and He (2008) describe as the emergence of the “new urban poor”, which covers “losers” of market mechanisms such as laid-off workers and unemployed persons with urban residence registration (\textit{chengshi hukou}), and low-income rural migrants who are excluded from urban safety nets due to institutional forces.\textsuperscript{4} Economic reform without political transition in China has therefore created new forms of inequality while preserving elements of social stratification inherited from the legacy communist welfare system. In rich, coastal provinces, such patterns are particularly salient, as social policy reform has resulted in increasingly stratified welfare provision that favors local “insiders”, particularly public-sector employees and to a less extent other urban employees and residents with hukou.

To address these issues, it seems that China is in urgent need for a new round of reform, to promote not only further economic restructuring but also to search a more inclusive growth model for all citizens. However, there seems to be lack of consensus on what direction should the reform take, more government responsibility or societal participation. The UNDP’s recommended solution to address these problems was to better integrate civil society in the development process, which can be viewed as an implicit critique of “strong state, weak society” in these domains (UNDP 2015). By contrast, domestic scholarly and policy debates in China often blame these issues to “retreat of the state” or over-marketization. Such disagreements are not surprising, as the party-state often stresses its guiding role in promoting economic growth and protecting social rights at the same time.
Since late 2000s, China’s social policy discourses have increasingly shifted towards a rights-based approach emphasizing equity and social justice. At national level, it seems that there is growing consensus among policymakers that excessive marketization needs to be undone, and social policy reform will help boost domestic assumption and private investment in national economy. Under Xi Jinping’s leadership, the party-state promises to play a leading role in protecting the “basic rights” of housing, healthcare, and elderly care for all Chinese citizens. What does the new social policy reform mean for the urban poor and rural migrants, given the country’s deteriorating income inequality and widening rural-urban divide? Is there a true “return of the state”, and if so, will it address the issue of persistent inequality?

The existing literature on comparative welfare state and Chinese capitalism has not provided a clear answer. On the one hand, the emphasis on “power resources” in existing welfare capitalism literature and the focus on “hybridization” in post-communist welfare development may provide some useful insights, but their effects are yet to be fully examined in the context of economic reform without political transition. On the other hand, the vigorous debate around Chinese state capitalism focused exclusively on the party-state’s guiding role in economic reform, with little attention to the state’s evolving role in social policy regimes. Limited attempts to characterize welfare state developments often look at negative impacts of marketization and the resulting insecurity, while advocating for a “return of the state” to address these issues. At the same time, subnational welfare development was often characterized as unequivocally developmental and entrepreneurial, as though more “top-level design” (dingceng sheji) will resolve all the issues.5

This study challenges these common perceptions and the assumption that a “return of the state” will result in a more equitable growth model, by looking at emerging subnational variations
at local level and their relation to national reforms. Building on existing comparative capitalism and Chinese politics literature, I argue that in response to common policy directives and pressures from above, disparities in local growth strategies have interacted with decentralized policy processes in generating “embedded” subnational welfare mix models, with varying articulations of state, market and family in welfare production. Instead of producing a coherent national paradigm towards “return of the state”, China’s new social policy reform has resulted in a welfare mix model with significant subnational variations.

**From State Monopoly to Welfare Mix: The Evolving Role of the State**

Admittedly, the still ambivalent and evolving role of the party-state and its subnational affiliates in social policy is much more difficult to theorize, in comparison to their more clearly defined guiding roles in economic reform. In economic realm, the party-state has played not only guiding roles in formulating development plans and industrial policies, but also direct intervenes in the economy by keeping the “dominant role of public ownership” while “developing diverse forms of ownership side-by-side”. The “socialist market economy” is a de facto a decentralized mixed economy, where state-owned enterprises (SOEs), collective enterprises, and mixed-ownership enterprises compete with private actors on semi-competitive local markets. By contrast, such “state guidance” has been absent in social spheres, where the retreat of the central party-state created new forms of informality and insecurity, which were not readily filled by subnational state or societal actors. Before 2000s, “economic growth over everything else” was the doctrine that led China’s departure from one extreme of state monopoly to the other extreme of informality and insecurity, with various degrees of marketization across social sectors and great reliance on family and individual responsibility. Local party cadres and government officials were incentivized to go fully entrepreneurial, paying complete attention in promoting export-oriented growth, attracting
and competing for SOE and private investments, and selling local lands to secure a stable fiscal revenue.

Social policy regimes during this period primarily focused on complementing and expediting economic reform rather than negating its effects on social justice. The “retreat of the state” was prevalent in many sectors such as education, health, housing and elderly care. Individuals and their families, rather than the state or employers, bore primary responsibility to rapidly rising social costs associated with marketization. In a way, these movements in the social sector were very much like neoliberal reforms in post-communist countries that emphasized privatization, marketization, and trade liberalization, even more so than the economic reform itself. With a few exceptions such as public and SOE employees, most Chinese citizens are now under a market-maximized system where access to care are dependent on the ability to pay. At local level, decentralization has resulted in emerging subnational variations in employment-based and residual forms of welfare provision, conditioned by local fiscal capacity, economic structure, and demographic factors.

The state-led economic reform and the accompanying decentralization and marketization measures in social sectors therefore generated profound impacts on welfare transition in China. Predictably, there were increasing societal backlashes in early 2000s, followed a more proactive rhetoric by the party-state. Rising inequality and social stratification can have strong negative repercussions to the image of the state and political legitimacy, particularly in countries like China and Vietnam, where the communist party still holds power. It was after the leadership change in 2003 when the party-state started to divert from “efficiency first” to “more social justice”, with new party ideology lines such as “harmonious society” proposed by Hu Jintao and “Chinese dream” by Xi Jinping. More recently at the 19th Party Congress, Xi Jinping identifies the central problem
of development now as “the contradiction between unbalanced and inadequate development, and the people’s ever-growing needs for a better life”, which he argues is the most constraining factor to China’s road to a “moderately prosperous society” and “national rejuvenation” (Xinhua 2017).

These new party slogans were gradually translated into top-down reform programs that are strong in pro-poor rhetoric, but many have faced obstacles in subnational implementation. During earlier experimentation period, new reform measures were introduced sector by sector, although Many of these programs had foreign roots, often borrowed from universal or employment-based social insurance models from countries such as Sweden, Germany and Singapore. Sweeping reforms were proposed across social security and welfare regimes to revitalize a conditional version of universalism, employment-based social security, and government responsibility for the poor. Nevertheless, the effects of these programs were often contingent upon a variety of factors such as local government response and employer participation. As a result, many of these reform programs fell short of their stated goals and regional variations in policy implementation became increasingly significant.

The most interesting development took place in late 2000s and early 2010s, when the central government began to recognize the ties between social welfare and economic restructuring and promote a more coherent social policy framework. Rather than taking the “either-or” approach as in the past, the party elites have increasingly view the goals of growth and equity as inherently complementary, acknowledging that reforms in economic and social realms need to go hand in hand. In respond to the 2008 Global Financial Crisis, social security reform was used as a counter-cyclical tool with other stimulus measures for the first time. Many Chinese scholars as well as government officials have argued that economic restructuring will require China to move away from export-oriented growth to a more sustainable model driven by domestic consumption. Social
policies are therefore viewed as instrumental for both fostering domestic demand and economic restructuring.

At national level, it seems that there was growing consensus among policymakers that “over-marketization” in social sectors needs to be undone by strengthening state capacity and identifying other ways to reduce individual responsibility. This in turn is expected to boost domestic consumption and private investment in national economy. Meanwhile, the party-state now led by Xi Jinping has signified its very intention to stay in power for the next 100 years and to lead China to modernity and “national rejuvenation”. But political legitimacy and regime survival may well depend on the party’s ability to coordinate these objectives and fulfill its commitments to “Chinese dream” and better quality of life for all. The key question therefore is whether China is truly entering new stage of social policy reform, in which the state at national and subnational level will assume greater responsibility that is commensurate with its guiding role in the economic sector. Such move will presumably result in greater coordination between production and welfare regimes on the one hand and achieving stated goals of basic social protection and equalization of opportunities.

Considering the frequent policy changes occurring at both national and subnational level, answering this question is no easy task. The gradualist economic reform has institutionalized a policy system that is highly experimental with strong emphasis on policy feedback between and within levels. Local experiments do not always turn into nationwide implementation, and national programs implemented are often adapted to meet local needs rather than original goals. A new framework is needed to consider this high degree of dynamism within a gradualist framework, which is hardly seen in welfare typologies in mature developed democracies or even welfare transitions in post-communist cases. Meanwhile, communist legacies as well as earlier economic
reform and welfare state transition has significantly reshaped subnational actors and their preferences, though their agency in shaping the trajectories of local and national reform is still under-theorized. It is in this context that I completed this study to examine the “new welfare politics” in China and its subnational variations.

**Purpose of Research**

At a glance, the problem of increasing inequality and social stratification in China seems to be like other developing and transitional economies. Indeed, some have attributed rising inequality to the intrinsic nature of economic and transition and weakening state capacity as a result (Hamm, King, and Stuckler 2012, Fritz 2003, Johnson and Koyama 2017, Rosser, Rosser, and Ahmed 2000). It is true that any reform can generate winner and losers, but failures to address these social issues may pose a more severe challenge to regime legitimacy for countries with communist legacies. In newly democratizing post-communist states, the issues are more about political backlashes against welfare cuts, the reelection prospects, and future directions of the reform program itself (Cook 2007). In other cases, authoritarian backsliding prevented neoliberal reforms in the first place. Authoritarian leaders seek to gain popular support by leaving the extensive social protection system intact, which is the case in China’s neighbor Tajikistan (Son 2012).

For countries that experienced market reform without political transition, such as China and Vietnam, it is also a matter of regime legitimacy and survival given their maintained ideological commitment to “socialist market economy”. In this regard, China may have outperformed Vietnam in terms of economic growth, but Vietnam has been widely seen as more successful when it comes to a more inclusive vision for human development (Malesky, Abrami, and Zheng 2011, Gao, Evans, and Garfinkel 2013, London 2014). Income inequality in Vietnam
is rising but remains at moderate level in comparison to China. Poverty reduction has been at least as effective through social protection policies for the poor and the establishment of the Vietnam Bank for Social Policies (VBSP). In addition, Vietnam has partnered with international institutions such as World Bank to consolidate and coordinate its social policy institutions and address issues of regional disparities and bureaucratic fragmentation. It is therefore important to understand why China’s gradualist and experimental approach did not lead to a more effective pro-poor social protection system, in comparison to these countries with similar communist legacies or authoritarian traits.

This study focuses on two important questions. First, what does the new social policy reform since 2007 mean for “the new urban poor”, i.e. low-income urban residents and rural migrants? Since 1980s, rural economic reform, SOE reform and the collapse of the “iron rice bowl” lead to dismantling of the communist welfare system and state monopoly of social protection. Fiscal decentralization in 1990s placed greater responsibilities on local governments and in effect reduced public transfer across social protection programs. Economic reform has led to decentralization and fragmentation in social policy regimes that so far have not been reversed. The resulting commodification juxtaposed with institutional legacies from the communist era created increasing disparities in subnational welfare provision. In coastal urban regions, this has led to undersupply of means-tested social protection programs for the urban poor, and varying degrees of exclusion for rural migrants depending on local government capacity and willingness.

In other words, these two groups were largely “losers” of earlier marketization reforms, while civil servants and emerging urban middle class are relatively well compensated and protected even during the marketization era. It is therefore important to assess whether these two groups have truly benefited from the new social policy reform beyond the rhetorical commitments,
and if this is the case why local governments are willing to do so now. Did local governments implement central programs with or without adaptations? How long did it take for local governments to implement the new reform measures? Are there subnational variations in local implementations? And if so, why? Since these groups are unlikely to participate in central or local policy processes themselves, who represent them in policy processes? What are the ultimate objectives of those agents acting on their behalf?

The second question concerns why there are persistent subnational variations despite common pressure from the top. Some may argue that China is simply too vast for a centralized system of any kind. But the history of China as well as other unitary states indicates that strong central government does not inherently contradict institutional flexibilities and local autonomy. And while fiscal decentralization has been in place since 1994, political decentralization has been limited given the authoritarian nature of the state, and the party’s control over local cadres through the cadre responsibility system as well as the selection and promotion system remain strong. Even for economic reform, central government has set economic growth target for local cadres to meet and therefore incentivizes local entrepreneurialism. The question is thus less about the viability of recentralization of social policy institutions, but more about why and how the central government has been carefully balancing between “top-level design” and local flexibilities.

At local level, variations in fiscal capacity and regional political economy has resulted in increasing institutional diversification and pluralized service delivery with varying degrees of state intervention. Therefore, instead of asking whether there is local agency, it is necessary to dig deeper to ask questions about the nature and latitude of local agency. What differs China from the newly democratizing countries is that while there are certain institutionalized channels for societal inputs into central policymaking, such channels at local level are much more limited and often
only involve “insiders” of local bureaucratic politics. When fiscal decentralization created a system of “fiscal federalism” that increases the revenue of central government, it also decreases central government’s influence on local policy processes via fiscal means. Furthermore, new reform programs at central level are often designed with significant ambiguities and flexibilities, giving room for local reinterpretations and adaptations. Intentional delays or negligence of central reform programs were also common when there is lack of financial incentives.

In addition to political institutional factors, emerging regional differences in growth strategies has led to local attempts to develop complementary social policy regimes. Such patterns are commonly seen in advanced industrialized economies, where devolution has led to increasing analytical focus on regional political economies and subnational welfare provision (Vampa 2014, Ross 2002, Peck and Theodore 2007). In the case of China, scholars studying economic geography has studied regional variations of China’s state-led export-oriented growth model (Lim 2013, Peck and Zhang 2013, Zhang and Peck 2016a). Such discussions however often remain separate from the debates on political institutional processes explored above. In this study, the case comparisons between Shanghai and Guangzhou has shown that although growth strategies have played important roles in shaping subnational variations of welfare production, such role is still conditioned by political institutional factors.

The case comparisons between Shanghai and Guangzhou serve to examine these competing causal mechanisms as well as their interaction effects. Specifically, Shanghai has favored a stratified social insurance approach and relied on state-owned enterprises in service delivery, which are compatible with its growth strategy of state-sponsored transnational technology and financial complex. By contrast, Guangzhou has preferred a more inclusive social insurance model and pluralized service delivery, which are consistent with its growth strategy of
pro-market, manufacturing-based dormitory labor system. Social policies are thus used as “implicit social contract” to support economic growth and create local definitions of insiders and outsiders. More importantly, under the common logic of gradualism and experimentalism, these local models have produced significant feedback effects at central level, shaping trajectories of national reforms. Instead of seeing a full return of the state, China is now establishing a welfare mix model with built-in flexibilities allowing for significant subnational variations.

**Scope of Research**

How do we define social policy? Inherently, social policy is an interdisciplinary concept that can be studied with competing or complementing perspectives from political science, sociology, and economics. Broadly, it can be defined as policies that affect well-being and life chances of individuals (Clasen 2004). Beyond political economy approaches, the moral economy and mixed economy approaches have also focused on normative questions regarding how welfare provision should be organized and delivered (Gonzales 2008). The conceptual framework selected thus often has important implications for the research directions and outcomes. Since this study is primarily interested in the interaction effects of political and economic factors in shaping welfare outcomes in an authoritarian state with communist legacies, it adopts a political economy framework that examines the role of the state, state-market relations, as well as state-society relations in welfare production. Following Gough (2006), this research defines social policy as a set of policies within the public spheres to achieve social welfare goals with a variety of political, economic and societal actors involved directly or indirectly in formulating and implementing policies. By adopting a political economy framework, this research identifies the scope of social policy in narrower terms of core social policy programs with direct welfare provision and redistributive functions such as social security, housing, health, and education.
While traditional comparative political economy approaches such as Esping-Andersen (1990b)’s worlds of welfare capitalism and Hall and Soskice (2001)’s varieties of capitalism have provided analytical tools in regard to similarities and differences between China and the West, the concept of welfare state itself has become too value-laden to capture emerging patterns of mixed welfare production with various articulations of state, market, and family. In addition, increasing focus on global and subnational dimensions of welfare provision has challenge the fundamental assumption that our level of analysis should be exclusively focused on national level. Empirical patterns of China’s welfare development in recent decades have demonstrate a highly fluid and evolving mixed production of welfare, where the state’s role has remained ambiguous and worth further exploration. This research therefore builds upon the concept of welfare mix rather than welfare state to examine emerging subnational variations in China.

Although changes in political rhetoric seems to focus on the guiding role of the state, policy reforms on the ground seem to suggest that China is moving towards a welfare mix model with significant institution flexibilities granted to subnational level. In 2017, the State Council announced that China will now promote “basic public service equalization” (jiben gonggong fuwu jundenghua) at national level (State Council 2017). This marks China’s most recent attempt to create a coherent framework for social policy in post-reform era. The full list of “basic public services” covers eight key policy areas, including public education, labor market, social insurance, healthcare, social services, housing security, public culture and sports, as well as disability services. While the new framework promises to strengthen state capacity in policy coordination, regulation and fiscal support, it by no means represents a “restoration of the communist color”. Instead the party-state has made clear that its primary focus is “equalization of opportunities” (jihui jundeng) not equalization of outcomes (pinjunhua) (State Council 2017).
Furthermore, rather than mandating direct state intervention, the new framework seeks to further retreat the state from that role, promoting instead public-private partnership (PPP) in financing and “pluralized supply mechanism” (duoyuangongjijizhi) in service delivery. The subnational dimensions are most evident when the central state has stressed “strengthening of interactive cooperation between central and local, and between government and society” (State Council 2017). Although this framework was officially introduced in 2017, local pilot reforms in Guangdong and other provinces began as early as mid-2000s. Like earlier marketization programs, the new framework thus was a product of years of experimental and incremental reform at local level, rather than a more radical reform based on “top-level design” or a result of political leadership change in 2013.

It is therefore critical to evaluate not only rhetorical changes but also policy implementations on the ground, and more specifically how new reform programs like this impact the two target populations in this study: the urban poor and rural migrants. For this purpose, this study selects two types of policy instruments: social insurance and social assistance. For social insurance, I examine employment-based as well as residence-based instruments such as housing provident fund, urban employee health and pension insurance schemes, as well as urban and rural resident schemes and their more stratified predecessors. In addition, I investigate policy instruments that serve social assistance and protection functions such as the means-tested programs of public rental housing, medical assistance, and elderly welfare subsidies.

To examine the extent and causal processes behind subnational variations, I build on literatures of variegated capitalism and local state authoritarianism and selected two subnational cases of Shanghai and Guangzhou. Both cities are considered as “top-tiered cities” (yixianchengshi) and are strategically important to the central government, but they differ from each other
in two key aspects of political-administrative structures and growth strategies. Specifically, Shanghai is a directly-controlled municipality that has close ties with the political center, given its history of producing national leaders and high influence on national economic policymaking. It also has successfully established a local growth model of transnational finance-technology complex leading the Yangtze River Delta region. Guangzhou on the other hand is a provincial capital and has weaker ties with the central government despite being a major city in the Pearl Delta region, the area which piloted many national economic reform programs. In addition, its local growth model is often labeled as a dormitory labor regime, which relies heavily on manufacturing and has a history of labor protests and contentious collective bargaining processes (Peck and Zhang 2013). These contribute to significant differences on the articulations of welfare mix on the supply side, and the decommodification and stratification effects for urban poor and rural migrants on the demand side.

To capture the full extent of subnational variations, I also investigate three policy areas to examine whether local agency has led to greater institutional complementarity at local level between production regimes and welfare state, and to what extent it is conditioned by political authoritarianism. The policy areas of housing, health and elderly care were selected based on two reasons. First, all these policy areas share similar communist legacies but experienced a varying degree of marketization at the beginning of reform. Second, these three policy areas represent diverse types of linkages between the production and welfare regimes and involve varying degree of local autonomy as permitted by the central state.

For example, housing has been increasingly considered as a “wobbly” pillar of the welfare state across countries, given its close ties with local state entrepreneurialism. the reliance on private market and lack of state commitment to low-income families has made affordability a primary
challenge across post-communist countries (Deng, Shen, and Wang 2009, Logan, Fang, and Zhang 2009, Huang 2012, Malpass 2008). Societal backlashes in this policy area was particularly robust but return of the state was stronger in rhetoric and weaker in actions. Strong local agency is therefore expected in adapting central reform programs to suit local developmental needs. By contrast, healthcare marketization in China initially resembled trends in housing, but was later interrupted by the 2003 public health crisis of Severe Acute Respiratory Syndrome (SARS). The formulation of new national healthcare reform took years, but the outcome was dramatic expansion in health insurance coverage and increasing government spending in medical assistance (Tang et al. 2008, Yip and Hsiao 2009, Meng et al. 2012). This thus can be viewed as the least likely case for local agency.

The last policy sector of elderly care has presented a mixed picture. On the one hand, earlier marketization attempts were largely incomplete, with strong influence of communist legacies and growing reliance on family rather than socialization of care. The more recent national pension reform and community-based care rhetoric resembles similar developments in healthcare, but initial empirical evaluation by other scholars have reached different conclusions (Hu 2012, Yong and Yuan 2014, "60 years" 2012, Liu and Sun 2016). The comparison of these three policy sectors with varying reform trajectories thus allows for a comprehensive examination of coherence of local welfare mix models and complementarity with local growth strategies.

While citizen participation or societal input in policy-making will be treated as a background factor rather than an analytical focus, they will be discussed in the context of national reforms and subnational welfare production. Scholars have long studied the role of representation and deliberation in policy processes in post-communist cases, especially those experienced procedural or substantive democratization (Cook 2007, Aidukaite 2011). However, in the cases of
China and Vietnam, such deliberative processes or societal inputs are often limited to elites or “insiders” at each level of government. At national level, the legislative branch may play some role in policy deliberation, and in recent years central government has increasingly used public comments as a tool for collecting societal inputs. The effectiveness of these institutional channels is often in question, but they do provide channels for direct citizen participation in policymaking at least theoretically. But such institutional mechanisms may diminish once we move down to localities where policy implementation relies heavily on the bureaucracy, which is directly controlled by the party-state. As I will discuss in later chapters, the pluralization of financing and service delivery at local level has not prevented local government from dominating in the decision-making process at local level nor undermining their ability to determine who participates and who benefits. The authoritarian nature of local state and its interactions with regional growth strategies have created varying “corporatist” framework at local level, and policies are frequently used as tacit consent between local government and more privileged social groups such as civil servants and urban middle class.12

**Contributions**

This research contributes to the existing literature of comparative political economy, welfare state, and social policy in several ways. First, this study challenges the conceptions that welfare states are inherently static and that authoritarian welfare states should be viewed as a residual category. Most scholars studying welfare regimes in developed or developing context tend to focus on regional patterns rather than specific causal factors. This has led to a proliferation of welfare state typologies at regional and global levels. Such typologies are useful in understanding the outcomes of social policy reform in developing and transitioning context but are less so when it comes not the processes through which these models become assimilated and adapted. Even
though the post-communist welfare state literature has identified common trend of “hybridization” across post-communist cases, such concept may disguise the significant variations in causal processes among these cases despite their shared communist legacies and reform outcomes.

In China’s authoritarian context, traditional emphasis on the role of legislative process, labor unions and politics of the left is less applicable in comparison to the newly democratized post-communist countries at either national or subnational level. Furthermore, the logic of gradualism and experimentalism is dominant and the domestic political and economic considerations remain paramount, no matter in earlier marketization reforms or more recently in the development of welfare mix. In other words, communist legacies, market reform, as well as decentralization all need to be contextualized to understand how they work together to shape a different trajectory of social policy reform in China, which has resulted a more stratified, less inclusive model for growth. By examining causal processes behind the emerging welfare mix in China, this study investigates the authoritarian variations of post-communist welfare development.

Second, this study contributes to the existing literature by moving beyond the dominant focus on national level of analysis in varieties of capitalism and comparative welfare state literature. Instead, this study pays attention to subnational reform politics in authoritarian context despite common top-down pressure. In recent years, scholars of economic geography have challenged the varieties of capitalism framework by focusing on subnational varieties and fluidity of capitalism in both developed and developing countries. Scholars studying Chinese political economy have applied the framework of “variegated capitalism” into analysis of regional political economy models in China (Zhang and Peck 2016a, Lim 2013). On the other hand, scholars of local state authoritarianism have challenged the assumption that national and subnational politics are “mirror
images” by identifying growing subnational variations in politics of policy processes (Jaros 2016,

Nonetheless, there has been little attention to how these models of local political economy
may interact to shape trajectories of social policy reform in China. The analysis of “variegated
capitalism” cannot be implanted in China without considering the controlling effects of the party-
state and its highly fixed political institutions. At the same time, subnational variations in China’s
welfare development cannot be fully explained by traditional models of local authoritarianism that
focuses on fiscal capacity and authoritarian control of the party state, without taking into the
economic and social logics of subnational welfare production. It is thus essential to understand
how these political and economic forces are interacting at subnational level to shape regional
patterns as well as national reform trajectories.

Finally, this study contributes to broader debates regarding development paradigms in a
post-Washington Consensus era. In particular, this research challenges the claim that China’s
development model, often labeled with various names such as state capitalism, Beijing Consensus,
or market Leninism, provides a viable and sustainable alternative to the once-dominant
Washington Consensus. Specifically, China’s welfare development has been highly embedded in
its context of economic reform without political transition, with significant subnational variations
despite a common reform rhetoric at national level. A coherent national paradigm is yet to emerge
in social policy, and persistent inequality remains a significant challenge to not only model
viability but also regime legitimacy.

At least in the social policy domain, it is still too early to discuss exporting this model to
other developing countries, an idea Chinese leader Xi Jinping has promoted in recent years. In
addition, by identifying policy learning patterns at national and subnational levels, this research
explores the connections between China’s social policy reform and social development models promoted by various international institutions such as World Bank, World Health Organization, United Nations Human Settlements Program, and International Labor Organizations. While elements of these social development models are present in reforms across policy sectors, these elements have been significantly adapted and assimilated into competing national and subnational reform proposals promoted by various bureaucratic and societal actors.

**Chapter Outline**

The specific chapters will be organized as follows.

Chapter 2 reviews the theoretical literature and establishes the theoretical framework. It first reviews the existing literature on welfare regimes and social policy and discuss how social policy reform in China can be placed in the broader comparative context. It then defines the key concept of welfare mix, by introducing the related comparative literature and then discuss why we need to contextualize it into a case-appropriate analytical concept. Following the review of an emerging literature on China’s welfare development, the chapter discusses the importance of looking at subnational variations while using national reform as context rather than analytical focus. The final part of this chapter establishes how this welfare mix model has emerged in China and discuss the nature and causal processes behind subnational variations.

Chapter 3 applies the theoretical framework to the case of housing reform. It starts with a brief review of national reform trajectories and how they created enabling effects for local agency in more complete marketization and later the construction of welfare mix. The chapter then introduces two policy instruments that theoretically cover rural migrants and the urban poor: the contributory social insurance program of housing provident fund, and the means-tested social assistance program of public rental housing as well as its predecessor cheap rental housing. In both
cases of Shanghai and Guangzhou, each type of instrument serves to complement production regime reform and a distinctive growth strategy. In Shanghai, for example, SOEs rather than private actors have dominated local affordable housing provision. At the same time, the employment-based housing provident fund was first experimented in Shanghai and then implemented nationwide. While there has been a general trend moving away from marketization towards a welfare-mix approach, there is strong local agency in defining eligibility and access. In this regard, Guangzhou has taken a more inclusive approach in mandating employers to contribute on behalf of rural migrants.

Chapter 4 examines empirical patterns in healthcare reform. The case of healthcare is particularly interesting because it took the most dramatic turn from the marketization approach due to the SARS crisis. In other words, healthcare seems to be the outlier across all cases where the “return of the state” has been less ambiguous in expanding of national health insurance coverage as well as increasing government spending in medical assistance. Beyond these progress, nonetheless, the marketization and localization of service delivery has continued and resembled the trends in other policy sectors, resulting in an emerging welfare mix model. For example, Shanghai has maintained a stratified approach for urban poor and migrants, while in Guangzhou rural migrants have been incorporated into existing urban social insurance and medical assistance schemes. The dominance of public hospitals in local service delivery has also resulted in “crowding out” of private participation in Shanghai, in comparison to Guangzhou’s increasing emphasis on private and community participation.

Chapter 5 explores the case of elderly care reform in context of an emerging aging crisis. The greater commitment by central government on a limited form of universalism has been overshadowed by “low contribution, low pay” in residence-based schemes, and persistent
subnational variations in elderly care financing and service delivery. Similar to earlier chapters, policy changes at local level are traced with focus on two policy instruments: the contributory social pensions, and the means-tested elderly care subsidies. Each type of instrument serves as an important pillar for the welfare mix model increasingly favored by local governments. In Shanghai, a highly stratified pension insurance model was developed and partially maintained despite nominal integration following national mandates. Elderly care subsidies are only available for urban residents with hukou. Service delivery patterns in Shanghai also confirms the preference of a state-led approach with dominance of public service providers and encouragement of SOE participation in the emerging “silver economy”. By contrast, Guangzhou has again adopted a more inclusive approach and relied more on private and community-based organizations in service delivery even in earlier marketization era. In addition, policy learning and diffusion was more evident in Guangzhou’s case, in which case the municipal government not only borrowed extensively from the Hong Kong model but also sought inter-jurisdictional collaboration among governments and civil society organizations.

Chapter 6 summarizes the findings of previous chapters and explains how China’s welfare mix model has emerged through a process of “domestic two-level game” and examines conditions for local agency in this context. Due to the gradualist logic and increasing pluralization of policy processes, the top-down central pressure is often limited in comparison to increasing “local state capacity” in adapting national reform programs to their own ends. On the other hand, both local models of Shanghai and Guangzhou has produced significant feedback effects at central level. These two levels of analysis are thus inherently connected and should be analyzed in relation to each other. The more participatory and inclusive approach in Guangzhou has gained increasing attraction at national level, while Shanghai’s ability to project national influence seems to be
waning due to lack of consistency between central and local reform objectives. The last part of this chapter discusses the limitations and directions for future research, which highlight further subnational comparison as well as cross-national comparison in authoritarian states with shared communist legacies such as Vietnam and Russia.
CHAPTER 2
FROM STATE MONOPOLY TO WELFARE MIX: POLITICAL ECONOMY OF SOCIAL POLICY REFORM IN CHINA

Introduction

The role of state and market in welfare provision remains a constant theme in academic and policy debates across countries with various levels of economic development and across regime types. At international level, a series of crises have challenge the leading role of the state in both economic development and welfare provision and the rising tides of neoliberalism: the crisis of Keynesian welfare state associated with Atlantic Fordism in the 1970s; the collapse of the Soviet bloc and socialist planned economy; the Latin American Debt Crisis and the Asian Financial Crisis that led to the implementation of structural adjustment programs in emerging economies. According to scholars studying neoliberalism, the traditional models of varieties of capitalism and welfare state have given away to forces of globalization and we have witnessed a global convergence of neoliberalism.

At first glance, China seems to have followed this global wave in 1980s, 1990s and early 2000s. Economic reform took shape as early as 1978 and social policy reform followed a decade later. The transition to market economy was accompanied by the gradual dismantling of the communist welfare state marked by state provision of housing, healthcare, pension, among other social programs provided by work units as “mini welfare societies”. Bottom-up market institutions were carefully introduced through gradual experiments throughout 1980s. But it was the massive top-down reform of state-owned enterprises (SOEs) in 1990s that marked the official end to the “iron rice bowl” (tiefanwan) and the beginning of a new marketization era of key social sectors.
There are questions, however, regarding whether neoliberalism truly weakens the capacity of the state, and whether we are overstretching the concept when trying to apply it to every context, developed or developing, democratic or authoritarian, transitioning or not. Furthermore, neoliberalism as both an intellectual strand and a policy framework has generated strong criticisms and societal backlashes. By early 2000s the global development discourses have to some extent turned away from neoliberalism and embraced a variety of human-centered and community-based approaches. These new approaches seek to revive the long-existing concept of “social development” that has existed in the field of international development for decades, in attempt to address the rising inequalities and new forms of poverty as a result of neoliberal programs. On a global scale, a new wave of policy reforms and experiments, particularly in social policy realms, now focus on developing contextualized pro-poor and participatory type of reform programs to replace the one-size-fit-all neoliberal ones. Intergovernmental organizations such as International Monetary Fund and World Bank, while still promoting “best practices”, are now adopting a more relaxed attitude in considering contingencies and flexibilities in implementing conditionality.

Looking back to China, one could argue that a similar trend has been occurring. Since Hu Jintao and Wen Jiabao took office in 2003, the introduction of “harmonious society” (hexie shehui) and “scientific development” (kexue fazhanguan) in party ideological lines seems to indicate that the party was shifting its focus from growth to equity to address varying forms of rising inequality, across regions, between urban and rural, and among different segments of population particularly in urban areas. While some have attributed these rising problems to the intrinsic nature of economic transition and the resulting weakening of state capacity, this view nonetheless overlooks the impact of communist legacies, the political logic behind China’s reform and thus mischaracterizes the political economic processes of both market reform and welfare transition.
This research seeks to detangle these counteracting trends in social policy reform by tracing the domestic political economic processes in China through which these competing development paradigms were borrowed, internalized, and adapted. It seeks to understand the evolving role of the state as well as shifting patterns of state-society relations through the study of emerging subnational models of welfare production. Specifically, I argue that under the seemingly similar logics of decentralization, marketization and privatization, the political logic of reform has been a strong intervening force in shaping trajectories of welfare transition in China. The commonly seen elements of welfare mix such as decentralization, competition and choice are highly conditioned by central and local state agency. The result was a system of subnational welfare mixes “with Chinese characteristics” that is characterized by coexistence of hierarchy and pluralization in financing and service delivery, as well as increasingly stratified provision where policy is frequently used to serve dual objectives of economic growth and political legitimation and cooptation.

**Social Policy, Welfare State, and Welfare Mix: Does China Fit in?**

How do we define social policy? More often than not, social policy is treated as a “diffuse, residual category” to economic policy (Wilensky 1985). By its nature, social policy is a multidisciplinary concept that can be studied with different disciplinary lens such as political science, sociology, and economics, or defined in broad terms of policies that affect well-being and life chances of individuals. It is a loose concept that is often subject to contextualized interpretations, ranging from welfare states in western contexts, hybrid regimes in post-communist contexts, to informal and insecurity regimes in developing countries (Wood and Gough 2006b, Aidukaite 2009, Gough 2004). The conceptual framework selected thus has important implications for the research directions and outcomes and are often determined based on several factors such
as political regime type, level of economic development, models of production, as well as any transitions or changes occurring among them.

The debates over what constitute social policy are also reflected in efforts to classify types of welfare state or social policy regimes. In his canonical work *Three Worlds of Welfare Capitalism*, Esping-Andersen (1990a) establishes a three-way typology of welfare states in advanced capitalist countries based on two dimensions of decommodification and stratification: liberal welfare capitalism represented by United States, corporatist welfare capitalism represented by Germany, and social democratic capitalism represented by Sweden. While this typology of welfare state capitalism has been criticized as incomplete, Esping-Andersen raised an important point that social policy can be used as tools for stratification rather than serving the ideal function of decommodification. The distinction between these functions are highly relevant in analyzing social policy reform in China, in which there has been significant disjuncture between decommodification policy rhetoric at central level policy design and de facto stratification outcomes in local implementation.

Scholars studying developing and transitioning economies have sought to move beyond these western ideal-typical models and their efforts to identify new types of social policy systems. Such typology efforts can be divided into two broad types of approaches. The first is the more encompassing approaches that consider not only the highly formal and institutionalized models but also informal and insecurity regimes in developing and transitioning contexts. Wood and Gough (2006b) for example argues that developing countries often have to rely on informal security regimes based on community and family relationships, or insecurity regimes with institutional arrangements that generate insecurity themselves.
The second approach seeks to develop middle-range theories that contextualize social policy or welfare regimes based on forms of capitalism, democracy, and related transitions. Scholars studying post-communist countries tend to focus on path-dependent communist legacies as a key determining factor in “hybridization” of welfare regime development (Aidukaite 2009, Hamm, King, and Stuckler 2012, Cerami and Vanhuysse 2009). Others such as Haggard (2008) take a complementary view on the linkages between economic and social policy institutions, and argue that development strategies often determine the orientation for social policy development and reform. In particular, China’s East Asian neighbors have often been characterized as “productivist welfare capitalism” or “developmental welfare state” with significant state-led export-oriented growth complemented by a human capital investment approach in welfare development (Holliday 2005, Wood and Gough 2006b).

These new additions to the traditional western-centric typology approaches may provide interesting parallels for studying social policy reform in China, by offering some insights on post-communist legacies and regional political economy clusters. It is however important to distinguish between China and its post-communist peers and East Asian neighbors. First, the gradualist approach of market reform without political transition in China differs most significantly from post-communist countries in Central and Eastern Europe, and to a less extent from Russia and the post-Soviet states. The gradualist approach in China somehow has permitted greater political and economic stability, but also created issues of institutional incompatibility between the newly emerged market institutions, the enduring communist political institutions, and the remnant economic and social institutions from the era of a planned economy before 1978. Social policy reform therefore faces the dilemma of serving the dual objectives of promoting market reform and
maintaining regime legitimacy and survival. This is particularly evident after 2000s, with the return of the statist rhetoric at national level and increasing emphasis on social justice.

On the other hand, there have been constant debates on to what extent the trajectories of market and social policy reform in China resembles such trajectories in its East Asian neighbors. Scholars that argue for resemblance find similarities in state-sponsored development of state-owned enterprises (SOEs), coexistence of public and non-public ownership, high rate of savings, and export-led growth strategy with strong state intervention. Despite some resemblance, however, there are important distinctions that need to be make. Given the highly incremental and experimental nature of China’s economic and social policy reform, the institutional complementarity that is often seen in western type or Asian developmental state is less evident in China’s reform trajectories. While the price, fiscal and financial reform started as early as 1980s, social policy reform took a much slower pace and nationwide implementation of key programs started only in 1990s. Even after that, there has been struggles with remnants of pre-reform institutional legacies and different and sometimes even conflicting attempts in seeking new models. Such patterns were similar to other countries with similar communist legacies. Furthermore, state-society relations and state-market relations under a communist regime significantly differs from other authoritarian systems or illiberal democracies, such as periods of personal dictatorship and military regime in South Korea, semi-authoritarian system in Malaysia, and the dominant one-party system in Japan. Building on a communist ideology, China’s state intervention takes a much more direct approach even during post-reform era with a strong political logic of maintaining regime legitimacy and survival.

Even in Vietnam, a neighbor of China that shares the communist legacies and geographic proximity, the processes of reforming social policy seem to take somewhat a different path. In
comparison to China’s bold marketization moves in 1990s followed by a reluctant return of the state, redistribution and poverty-reduction has been some constant themes in the Doi Moi (renovation) process. For instance, London (2009) discussed the differences between these two states and argued that Vietnam’s economic reform has a social policy focus from the beginning and has been more redistributive in its nature. It is therefore important to understand why China’s social policy reform has been less consistent, with almost constantly changing directions and paces from delayed reform at the beginning, to a drastic retreat of the state in the 1990s, and then to a reluctant and highly debated return of the state since 2000s.

**Economic and Political Logics and Consequences of Social Policy Reform:**

**A Comparative View**

In general, social scientists have been divided on the underlying logic of social policy reform and effects on inequality and poverty. The classical Kuznets Curve suggests that there is a u-shape pattern in the relationship between economic growth and income inequality. If Kuznets Curve can be applied to all countries without variations as it claims, it is only a matter of time for this inequality trap to be overcome through industrialization. However, this has been challenged by the empirical literature, which finds that the causal connection between economic growth and inequality tends to be intermediated by a wide range of causal factors, such as political regime type, the existence of strong left-wing parties or strong trade unions, relative autonomy of the state, an emerging civil society, or the intervention by supranational institutions.

The literature on the relationship between political institutions and social policy regimes is abundant. It is worth noting that the proliferation of typology literature was largely built on a dominant causal theory of welfare politics, i.e. the “power resource model” by (Korpi 1983) that focuses exclusively on democratic institutions and working class mobilization in advanced
democracies. A second institutional approach that also looks at typologies but often not discussed together is the “varieties of capitalism” (VOC) framework by Hall and Soskice (2001). The concept of institutional complementarity in Hall and Soskice’s framework provides a strong analytical focus on coherent national frameworks in coordinating spheres of economic and social policymaking among other dimensions. Similar to criticisms of welfare capitalism approach by Esping-Andersen, Hall and Soskice’s model has been long criticized for its narrow scope and exclusive focus on institutional stability. As an extension to these comparative capitalism frameworks, the debates over the “Asian Developmental State” and “productivist welfare capitalism” often focus on state intervention in labor markets and use of education policies to support export-oriented growth (Johnson and Rogers 1982, Kim 2016).

Studies that focus on causal relationship between regime type and redistributive social policies often argue that competition or consideration for re-election, as well as the influence of interest groups are the primary reasons for expansive social spending programs in democracies (Haggard 2008, Przeworski 2009). Within capitalist democracies, however, many argue that there are great variations due to state capacity, the strength of left-wing parties and other collective actors, and recently forces of regionalization and globalization (Gough 2004). According to Mares and Carnes (2009), two kinds of problems of regime type studies emerge when they are applied to the developing context: first, variables such as left-wing parties and trade unions are no longer statistically significant or have many outliers that cannot be explained by the general trend. Second, treating authoritarian regimes as a residual category ignores that nondemocratic regime types are often associated with greater variations in social spending and policy programs that cannot be explained by these factors. It also takes less into account the changes in direction, scope and
magnitude of social policy programs within a country over time, which frequently occur in developing and transitioning countries.

In fact, many variables that are considered as relevant in studying advanced capitalist democracies may become conditioned in the developing or transitional context. One strong candidate for such intervening variables, in particular, is the role of the state. In *Protecting Soldiers and Mothers*, Skocpol (1995) argues that new ideas of social policy only work through structural factors such as political institutions and policy legacies, and the adoption of comprehensive social insurance in Europe was a result of strong legacy of state intervention. Scholars studying state capacity or autonomy in East Asia often emphasize the availability of public expenditure provided by strong fiscal state, or the autonomous role of policy bureaucrats in designing and implementing social policy programs compatible with economic development strategies (Holliday 2005). By arguing for a strong state, however, the statist approach sometimes creates an ideal-typical image of a unified state that has its own agency, or a rational, bureaucratic strong state that is dedicated to economic and social development. However, even though countries like China that has historically been a unitary system with a relatively strong central authoritarian state has experienced significant level of decentralization in recent decades, resulting in blurring boundaries between state, market and society. While the political institutions remain highly centralized, policymaking and implementation now relies heavily on local agency and constant feedback processes between central and local decision-making. Furthermore, just like neoliberal reform elsewhere, the authoritarian party-state has proven to be quite conducive to marketization reforms when it decided to prioritize economic growth over social development. The fiscal reform in 1990s for example was intended to strengthen central fiscal capacity while transferring the welfare burden to local governments, firms, and individual families.27
By contrast, those studying the role of civil society with the view that strong state is not a panacea to welfare provision, argue that a more participatory approach is often associated with more universal or pro-poor social policies. This approach often emphasizes that civil society serves as important sources of social trust and will promote social rights for the underprivileged people. Indeed, some evidence can be found in China regarding growing patterns of participatory process at local level, with increasingly important involvement of civil society organizations sometimes in policy processes and service delivery. However, the extent of public participation in policy-making process is still extremely limited and tends to vary across policy areas. Furthermore, it is questionable whether we can view civil society in China as having some autonomy or independence from the state. For example, when studying local public goods and welfare provision, Tsai (2011) find that Chinese local officials tend to selectively co-opt certain types of non-state actors and this type of asymmetric cooperation becomes sources of social control.

The review on the existing literature therefore raises the question of where China fits into these existing approaches. First, many typologies provide a relatively static view on either regional clusters or shared institutional characteristics. The original welfare state literature is often based on the assumption that there is positive correlation between economic development, democracy, and welfare state development. But the literature itself is divided between those who focus on “power resources” and mobilization of social classes, and those who focus on the concept of complementarity between economic and social institutions. Because such concepts originated from the study of advanced capitalist democracies, they emphasize institutional stability over change by nature. More recent efforts to categorize Latin American or Asian models often fall into over-generalization of these regions with only limited consideration of within-region or subnational variations. The only exception is the post-communist literature where varying degrees
of “hybridization” was considered the result of differentiated democratic transition and evolving domestic electoral politics (Aidukaite 2009). Nonetheless, the term “hybridization” itself somewhat signals that the typology literature is facing increasing challenges as these transitioning countries cannot be readily grouped into existing ideal types based on advanced industrialized democracies, particularly those either has maintained or fallen back to authoritarian rule.

Second, mainstream causal approaches may not provide sufficient explanation for China’s social policy reform trajectories. For scholars who are interested in domestic politics, political regime types, democratic institutions, and class mobilization have been the dominant if not the only causal explanation for variations in social policy outcomes or reform efforts. Such explanations however may not be readily applied to China, given that political transition was absent, and the party-state structure was largely intact. In other words, politics and even power resources may matter, but they will take very different forms. For those who argue for a convergence thesis or a crisis-driven reform approach, policy changes are often considered as taking drastic forms and punctuated by forces of globalization or external shocks rather than some internal causal processes. Unsurprisingly, this approach is often at tension with the statist approaches that emphasize state capacity and/or autonomy, and in particular authoritarian regimes and models of state capitalism. They are also at odds with the society-centered approaches that look at domestic factors such as devolution and power resources of domestic social groups.²⁹ While China indeed benefited from export-oriented growth and globalization, the incremental and experimental nature of market reform somewhat invalidates the convergence thesis or a crisis-driven approach as it highlights the absence of a coherent national model, and the ambiguous role of the state somewhat in between proactive and reactive stances.
Finally, most of the comparative welfare state and social policy literature have focused exclusively on the national level of analysis, and subnational and local processes were deemed less important unless systemic waves of local demands feed into national reforms until recently. There are, nonetheless, emerging debates about to what extent we should still focus on national level in a time where state sovereignty has been increasingly challenged by supranational institutions and devolution. On the other hand, latest trends of emerging nationalism and populism around the globe has been also generating new debates about to what extent state sovereignty, autonomy, and capacity has indeed been undermined. These questions are particularly interesting when applied to the context of China, an authoritarian party-state that seeks to maintain regime legitimacy by blending Marxist-Leninist ideology with capitalist modes of production and development. In the reform process, decentralization and marketization has inevitable led to growing importance of subnational politics and political economy. However, there are several potential forces that may potentially reverse this course: the growing emphasis of “top-level design” in policy reforms, and politically the return of strong man and its potential policy implications. It is therefore important not to assume the primacy of national or subnational politics but to examine their relations and interactions empirically.

The comparative politics field has been increasingly interested in addressing these aforementioned challenges including blurring boundaries between existing ideal types, institutional changes in less drastic forms, as well as interactions between global, national and local. In the comparative welfare state and social policy literature, such developments are most evident in the literature of European welfare states and with some extension to the analysis of social policy in Latin America and post-communist Central and Eastern Europe. China so far however has been treated largely as an outlier in existing welfare state and social policy literature,
given its authoritarian past and its emphasis on state capitalist development. Limited attempts to define Chinese welfare state or social policy regimes often treats China as a distinctive model that cannot be readily compared to others. However, it is critically important to evaluate China’s social policy reform and identify its core elements, before treating it as an outlier case, or trying to fit it into one existing categories and risk the danger of comparing apples and oranges. This research thus provides a preliminary evaluation of the nature of China’s social policy reform and whether China is moving towards its own “welfare capitalism”, an existing model, or towards convergence with models promoted by international institutions. In other words, where does China truly fit in? How does economic reform and welfare transition without political transition work? What does “hybridization” and state capitalism mean in such context? In broader terms, how can we bring China back to comparative politics, and particularly the field of comparative welfare state and social policy?

A Chinese Variety of Capitalism? The Missing Link of Social Policy

In 2004, Joshua Cooper Ramo proposed the “Beijing Consensus” and three theorems of state capitalism as an alternative paradigm of development to the “Washington Consensus” by John Williamson (Williamson 1993, Ramo 2004). The timing of this proposal coincides with a global wave of criticisms and societal backlashes on neoliberalism on the one hand, and within China a major shift of party ideology on the other. While Ramo and Williamson disagree with each other on which model is more viable, they seem to agree on some key ingredients of China’s model: incrementalism, innovation and experimentation, export-oriented growth, state capitalism, and political authoritarianism (Ramo 2004, Williamson 2012). The global financial crisis and the European Debt Crisis further intensified the debates around the proper role of the state in development. Given China’s previous economic miracle, its relative success in meddling through
the Asian Financial Crisis and the Global Financial Crisis, and its expanding global ambition, it is not surprising that various models of Chinese capitalism has been proposed and debated in recent years.

In some ways, these new models are largely driven by empirical observations of a single but important case of post-reform China. Such observations without reference to existing comparative framework however has only limited contribution to our understanding of China in broader comparative context. For instance, some of these models share key arguments of the Asian developmental state and productivist welfare regime, with common attentions to steering role of the state in driving economic growth, crisis management, and investment in human capital formation. McNally (2012)’s argument about trust in unitary state rule, social norms of reciprocity, stability and hierarchy resonates with the preexisting cultural arguments for East Asian miracle. However, key differences still exist between China and the rest of East Asia when it comes to the absence of democratic transition following high growth period, the increasing reliance on reform and performance legitimacy, and the nature of state-market relations when more direct state intervention is legitimized via an evolving “socialism with Chinese characteristics” (zhongguo tese shehui zhuyi) ideology.

Interestingly, the proliferation of literature on Chinese capitalism focused almost exclusively on the stories of growth and expansion. This is in sharp contrast with the relative dearth of interest in social policy and welfare transition in China until very recently. As I mentioned earlier, the existing literature on comparative welfare state however has put great emphasis on the triangular relationship between political institutions, production regimes or development strategies, and welfare state or social policy regimes. Such triangular examination however is missing from the recently emerged Beijing Consensus or other Chinese capitalism models, as they only looked
at two of the three poles: authoritarian party-state and export-oriented growth. Even though Ramo (2004) has argued that Beijing Consensus represents a “more equitable paradigm of development that countries from Malaysia to Korea are following”, there has been little empirical evidence supporting his thesis. In fact, the market reform has generated mixed effects on poverty and inequality, two indicators that directly related to the concept of inclusive growth.\(^{32}\) On the one hand, China has made significant achievements in terms of reducing poverty in both urban and rural areas and implementing UN Millennium Development Goals (MDG). One the other hand, the market reform has also introduced new forms of inequality and social stratification.\(^{33}\) According to World Bank, China’s poverty headcount ratio has decreased dramatically from 66% in 1990 to 1.4% in 2014 (World Bank 2018d). By contrast, the Gini coefficient as an indicator for economic inequality has risen from 30.95 out of 100 in 1981 to 49 in 2009, with a moderate decline in recent years down to 46.7 in 2017 (Ravallion and Chen 2007, National Bureau of Statistics China 2018).\(^{34}\) This is according to official government and World Bank estimates while the unofficial numbers estimated by various research institutions have been even higher.\(^{35}\)

The Communist Party has been trying to the issue of rising inequality and social stratification at national level. Since 2003, under the leadership of then secretary general Hu Jintao and Premier Wen Jiabao, the party and the State Council has significantly changed their political and policy discourses, away from “crossing the river by groping the stones” (mozhe shitou guohe) and “efficiency first” (xiaolv youxian), to “top-level design” (dingceng sheji) and “more attention to social justice” (gengjia zhuzhong shehui gongping). This was a significant breakaway from the marketization period between early 1990s and 2000s, when the party-state was fully committed to marketize the social sectors to support the growth engine. At least rhetorically, the party state has
somewhat restored its old socialist color by recognizing key social rights that should be protected by the state, such as housing, education, employment, medical and elderly care.

Figure 1 Growth and Inequality in China


Such change of political and policy discourses can be illustrated by a comparison between the policy responses to the Asian Financial Crisis (AFC) between 1997-1999 and the Global Financial Crisis (GFC) between 2007-2009. The orientation of crisis management measures in relation to social policy was significantly different. During AFC, the central government expedited the marketization processes that already began before the crisis across social policy areas such as education, health, housing with the goal of retreating the state in direct financing and service delivery. By 2000, China has largely completed the dismantling of the communist welfare state and marketization reform across all social sectors. In sharp contrast, China adopted a Keynesian response to the GFC, with a $400 billion stimulus package that largely focused on infrastructure
but with a sizable portion distributed to social sectors. The response to the crisis marked a “return of the state”, although to a varying degree across economic and social sectors and between urban and rural areas. The crisis management plans include welfare expansion in areas of education, social security, healthcare, and affordable housing, although the actual government spending patterns favors infrastructure investment over social expenditures ("Four Trillion Yuan").

Given the rhetorical changes, many expected that there would be significant reforms in social policy to control rising inequality and the state would intervene heavily to achieve such goal. Indeed, numerous new reform initiatives were announced, experimented and then implemented across the country since 2003. In the housing sector, such reforms include the introduction of new affordable housing programs targeting the rural migrants and college graduates, as well as “sandwich households” (jiaxinceng) that are above the strict national poverty lines but cannot afford commercialized housing by themselves. In the health sector, a comprehensive reform plan was carefully drafted with consultation with domestic research institutions and the World Health Organization (WHO) between 2007 and 2009. The program has been gradually rolled out since then, and there have been moderate achievements in terms of reducing out-of-pocket payments and increasing government expenditure. In the areas of pension and elderly care, the central government has made attempts to break the silos between localities and integrate the existing pension schemes.

Nonetheless, the World Bank estimates show that China’s Gini Coefficient has been persistently high since late 2000s. On the other hand, the introduction of new social policy reform programs mentioned above have generated at best mixed results. Recognizing the ongoing challenges, Xi Jinping, the party secretary general announced at the 19th Chinese Communist Party Congress in 2017 that the party will now focus on addressing the “contradiction between
unbalanced and inadequate development, and the people’s ever-growing needs for a better life” and proposed to “expand the size of the middle-income group”, to “help those most in need” and to “build a tightly woven safety net” (Xinhua 2017).37 Similarly, Premier Li Keqiang in his 2018 Government Work Report recognized that “the disparities in development between rural and urban areas, and in income distribution remain substantial… People still have a lot of complaints about air quality, environmental sanitation, food and drug safety, housing, education, healthcare, employment, and elderly care” (Li 2018).38 While Xi and Li’s reports were well received by their intended audience, it also represents the party’s implicit recognition of its failure to address these issues that were first admitted 15 years ago.

This research seeks to understand why social policy reform in China has failed to address rising inequality and social stratification in urban areas, despite significant changes in political discourses since 2003 and achievements in poverty reduction especially in rural areas. Theoretically, this research explores the underexplored link of social policy in existing literature of Chinese capitalism, with the goal of bringing back China to the comparative welfare state and social policy literature through a triangular analysis of political institutions, economic reform, and welfare transition. Specifically, I am interested in understanding why strengthened state capacity and changing policy rhetoric did not result in intended outcomes of reducing inequality and improving affordability and access across localities. For each policy area, the following questions will be asked: Has earlier marketization reform been reversed and if so, to what extent and since when? Under what conditions are national reform programs more likely to be implemented? To what extent there is local agency and in what forms? Why are there variations in implementation results across jurisdictions, across policy instruments, and over time?

Following Gough (2004) and Huber and Stephens (2012)’s analysis of social policy regimes in developing and transitioning context, this research defines social policy as a set of policies and institutions within the public spheres to achieve social welfare goals that constitute national frameworks of incentives and constraints, with a variety of political, economic and societal actors involved directly or indirectly in formulating and implementing policies. By adopting a political economy framework, this research identifies the scope of social policy in narrower terms of core social policy programs with direct welfare provision functions and a strong intervening role of the state, such as social security, housing, and health, while excluding policy areas that have loose connections to indirect welfare provision roles such as urban planning and environmental policy.

This research examines three critical aspects of social policy: financing, service delivery or provision, and participation or consumer choice. While some many argue that prominent level of state intervention across these areas in China can justify the usage of “welfare state” as the analytical concept, this concept is by nature originated and built on western models and thus value-laden. At the same time, while state is still a primary focus in this analysis, it is important to break down the concepts of state capacity and autonomy in the changing context of market reform. The goal is to identify the specific state institutions and actors and to what purpose and extent they participate in financing and service delivery.

Empirically, I argue that China is closely to a “welfare mix” or approach with pluralized financing mechanisms and service delivery. While this concept originated from works that focus on neoliberal reform in social sectors in western Europe, more recent research focused however on the global trend of pluralized welfare provision and the blurring boundaries between diverse
types of welfare state. According to the welfare mix approach, it is best to see the spectrum of welfare provision models as a continuum, with different articulations of market, state, and family welfare provision (Powell and Barrientos 2004). Furthermore, it argues that welfare markets are considered different from conventional economic markets in several important ways, including that for-profit and not-for-profit organizations competing for public contracts, consumer choice and purchasing power in the form of vouchers rather than cash; and consumers often represented by state or non-state agents rather than shopping around themselves (Bland 1991).

The concept also conducive to analyzing trends of devolution and localized welfare provision in both advanced developed democracies and in transitional and developing contexts. In China, welfare transition has been marked by significant marketization of social sectors accompanied by fiscal decentralization during 1990s and early 2000s, with minimized state intervention at central level and residual state provision at local level. More recently, the central government has promised greater state responsibility in terms of financing in certain sectors, but it also increasingly emphasizes market and community participation in service delivery.

Similar to the argument of a Chinese variety of capitalism that involves subnational variations and lack of institutional stability over time, it is important to analyze the key differences between the Chinese type of “welfare mixes” with the models mentioned above that are built upon British and other developed democracies. Specifically, I propose the term “welfare mix with Chinese characteristics” by defining it as a system in which government and non-government actors co-produce in place of the state monopoly, but with conditioned forms of decentralization, competition, and consumer choice. Fiscal decentralization under political authoritarianism has resulted in significant state control or dominance despite pluralized service delivery. In addition, in response to common policy directives and pressures from above, disparities in local growth
strategies have interacted with decentralized policy processes in generating “embedded” subnational welfare mix models, with varying articulations of state, market and family in welfare production.

**Political Institutions, Production Regimes and Subnational Welfare Politics:**

**The Complexity of Causation**

To understand the evolving nature of Chinese social policy reform and the causal mechanisms behind it, we need better theorization of institutional change in post-reform to consider the connections between political institutions, production regimes, and social policy. Here, the relatively static approaches of comparative welfare typology or the traditional power resource approach are not sufficient for analyzing the degree of change and the interconnections between market reform and welfare transition. The “hybridization” approach in post-communist countries may provide some useful reference since China seems to borrow extensively from existing western and non-western models when it comes to specific policy institutions. However, the nature of institutional change is different, since many of these countries experienced more drastic reform with a stronger influence from international and regional institutions following political transition.

The gradual and experimental nature of reform in Chinese social policy requires us to look beyond the comparative static and punctuated equilibrium models to examine gradual forms of policy reform and institutional change. In this regard, Streeck and Thelen (2005)’s theory of gradual institutional change provides a useful tool to identify and analyze de facto policy changes beyond rhetorical shifts. This emerging new paradigm has gained attractions in the comparative capitalism literature as it provides some remedies to the overemphasis of institutional stability.\(^{41}\) Table 1 provides an overview of the original five forms of gradual institutional change.
Table 1 Forms of Gradual Institutional Change

<table>
<thead>
<tr>
<th>Form</th>
<th>Definition</th>
<th>Mechanism</th>
</tr>
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<tbody>
<tr>
<td>Displacement</td>
<td>Slowly rising salience of subordinate relative to dominant institutions</td>
<td>Defection</td>
</tr>
<tr>
<td>Layering</td>
<td>New elements attached to existing institutions gradually change their status and structure</td>
<td>Differential growth</td>
</tr>
<tr>
<td>Drift</td>
<td>Neglect of institutional maintenance and slippage in institutional practice on the ground</td>
<td>Deliberate neglect</td>
</tr>
<tr>
<td>Conversion</td>
<td>Redeployment of old institutions to new purposes</td>
<td>Redirection, reinterpretation</td>
</tr>
<tr>
<td>Exhaustion</td>
<td>Gradual breakdown/withering away of institutions over time</td>
<td>Depletion</td>
</tr>
</tbody>
</table>

Source: Adapted from Streeck and Thelen (2005) and Streeck et al. (2009).

One immediate criticism of Streeck and Thelen’s framework, however, is that it takes an explicit institutional approach that gives less credit to agency of state or non-state actors. In the case of social policy reform in China, however, analyzing agency is critically important given the incremental and experimental nature of the reform processes. In order to address this issue, I adapt the GIC framework to take into account the agency roles of the central government and local political economy actors. Specifically, policy change is conceptualized as a co-evolving, multi-level process with constant feedback effects between these various actors. However, I argue that these gradual changes are very much conducive to a more active interpretation of agency roles especially at subnational level. In addition, two types of feedback effects are examined: the vertical feedback effects between the central and local governments throughout phases of policy experimentation and national implementation; and the horizontal feedback effects as a result of local political economy processes. This two-tier approach allows for systematic examination of policy changes within the broader context of changing central-local relations, state-market
relations, and state-society relations. It also moves beyond national level of analysis to look into subnational political economy and their feedback effects on national policy reforms.

Following Peck and Zhang (2013), I argue that China’s capitalist model is best understood by a “variegated capitalism” approach that considers institutional disequilibria and uneven development within a country. Contrary to the original varieties of capitalism model that emphasizes institutional stability and complementarity, social policy reform in China often lags economic reform processes, and the state has largely been reactive to emerging social problems. The reactive stance of the state in social policy and the “reluctant return” more recently is somewhat in contrast with the more active role of the state in the overall economic reform, and thus contributed to the persistent inequality issue. The lack of “coherence” of policy reform discourses over time and across social sectors therefore can be explained by the reactive role of the party-state at central level in combination with increasing local agency that emerged as a natural outcome of fiscal decentralization and state-led export-oriented growth.

Of all the four regional models in Zhang and Peck’s framework, two are of particular interest in this research: the Transnational Technology Complex and the Marshallian development models represented by the Yangtze River Delta (YRD) region and the Dormitory Regime in Pearl River Delta (PRD) region. These two regions have been the driving horses of China’s export-oriented growth (EOG) in the last few decades. While this framework offered useful insights into how international division of labor has shaped capitalist developments in these two regions and elsewhere in China, there was little discussion on how welfare transition plays into the institutionalization of these “sub-models”. This research thus complements both the varieties of capitalism and the more recent variegated capitalism models, by elaborating on the role of subnational actors in institutionalizing spatial-temporal fixes of subnational social policy rather
than generating optimal stable equilibriums at national level. Table 2 provides an overview of how this research will place China’s social policy reform in the broader context of comparative capitalism literature by incorporating concepts of gradual institutional change and variegated capitalism.

**Table 2 Varieties/Variegated Capitalism and China**

<table>
<thead>
<tr>
<th></th>
<th>Coordinated Market Economies</th>
<th>Liberal Market Economies</th>
<th>Chinese variety of capitalism?</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Interfirm relations</strong></td>
<td>Consensus-based standard setting</td>
<td>Market-based standard setting</td>
<td>“Managed competition” favoring “national champions”</td>
</tr>
<tr>
<td></td>
<td>Mitigated competition in domestic markets; open competition in export markets</td>
<td>Strong anti-collusion policies</td>
<td>Foreign dominance and open competition in export-oriented sectors</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Weakly regulated relational contracting</td>
<td>Dominance of family and guanxi networks, patron-client ties in private economic coordination</td>
</tr>
<tr>
<td><strong>Industrial Relations</strong></td>
<td>Coordinated wage determination</td>
<td>Company-based, uncoordinated wage determination</td>
<td>Company-based, uncoordinated wage determination</td>
</tr>
<tr>
<td></td>
<td>Employee-elected bodies play key roles in company decision-making</td>
<td>Weak unions</td>
<td>Party-controlled unions</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Sharp urban-rural divide</td>
</tr>
<tr>
<td><strong>Education and Training</strong></td>
<td>Strong systems of vocational education and training with stakeholder involvement</td>
<td>Market-oriented; weak systems of vocational training</td>
<td>Skill mismatches</td>
</tr>
<tr>
<td></td>
<td>Limited post-compulsory/higher education</td>
<td>Limited company involvement</td>
<td>Weak vocational training</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Strong post-compulsory/higher education</td>
<td>Low enrollment rates in further and higher education</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Brain drain/circulation</td>
</tr>
</tbody>
</table>
Specifically, I examine both the spatial and temporal dimensions of social policy reform by looking at two hubs of export-oriented growth, Shanghai and Guangzhou. Economically, Shanghai is geographically located at the center of YRD and therefore connects two “sub-models”: the Sunan model and the Wenzhou model. In contrary to PRD where the export-oriented growth relies heavily on its ties with foreign investors and “merchant entrepreneurs” from Hong Kong, the development of YRD at least between the Sunan-Shanghai nexus relies heavily on Taiwanese and Singaporean “industrial entrepreneurs” who in turn favor German type of corporatist welfare state and social policies (Zhang and Peck 2016a, Yang 2007). On the other hand, the Wenzhou-
Shanghai nexus is often exemplified by a more lasses-faire approach of local state, close state-market relations, and inter-firm relations marked by family and interpersonal ties or guanxi connections (Zhang and Peck 2016). While there is little discussion on the local social policy regimes in Wenzhou, given the predominance of small businesses and self-employed population one can expect informal or insecurity regimes will be more prevalent in Wenzhou in comparison to Sunan.

Politically, Shanghai is a directly controlled municipality of strong political importance given its history of hosting key political figures before they become national political leaders. It was also considered the “central city” in YRD, as none of the other regional cities enjoys similar prominent status either politically or economically. On the social policy side, Shanghai was a pilot city of many national reform programs including the housing provident fund and was the first to implement the 2009 national healthcare reform plan. It also provides the most comprehensive data on social policy implementation with more sound data infrastructure and access in comparison to most other Chinese cities. Understanding the social policy regimes in Shanghai is therefore critical to analyze the subnational agency of these two “sub-models” and their interaction effects with political institutions and welfare regimes.

The second subnational case of interest is Guangzhou. It is the provincial capital of the Guangdong Province and is geographically located at the center of PRD, where many exporting factories and enterprises are located. Guangzhou is also geographically close to Shenzhen, a special economic zone, and Hong Kong, an extra-territorial city that serves as the regional trade financial center similar to Shanghai. The triangular ties between these regional urban centers in PRD resemble those in YRD such as between Shanghai, Nanjing, Huangzhou, and Suzhou. Still, the PRD’s export-oriented production regime was based on low-skill, labor intensive activities.
This in turn encourages internal migration from within the region and other provinces and migrant labor are often accommodated in or near the factory compounds. Due to the lack of bargaining power, labor unrest and radical forms of contestation is more often seen in PRD in comparison to YRD (Zhang and Peck 2016a). Despite such observations, it seems that in social policy domain, Guangzhou has adopted a more inclusive approach towards rural migrants, while Shanghai has maintained a stratified approach and kept rural migrants out of existing urban social policy programs.

While Hong Kong and Shenzhen are also important regional centers, they were not selected for the following reasons. First, Hong Kong was occupied by Britain by almost 100 years and its market-oriented economic and social institutions were largely imposed by the British empire rather than indigenously grown. On the other hand, there are too many similarities between Shanghai and Shenzhen, given their special administrative status and many “privileges” they receive during the reform process. The case of Guangzhou is chosen precisely because it is a provincial capital and therefore the provincial government is playing key roles in local policymaking. Given its lack of such “privileges”, I expect central-local relations will play a different role in comparison to the case of Shanghai. It thus presents an ideal case of comparison where I can examine the relative importance and interaction effects of political institutions and production regimes.

To establish causation between political institutions, production regimes, and the outcome of “variegated” welfare mix across localities and policy sectors, I proposed to use the theory building form of causal process tracing for the following reasons. Such method of causal examination has been increasingly used to study public policy processes and analyze the inherent complexities such as temporal sequences and multiple paths (Collier 2011, Paul 2013, Kay and Baker 2015). In addition, it allows theoretical pluralism through which I can hypothesize multiple
causal factors and opens the black box between them and the reform outcomes. Such empirical approach has allowed me to situate China in the comparative capitalism and welfare state framework, while theorizing the domestic political economy of how these competing foreign models and selectively adopted in China and implemented at local level.

In the following chapters, I provide an empirical examination of the concept of “welfare mix with Chinese characteristics” and the underlying causal processes through the case analysis of Shanghai and Guangzhou across three major policy sectors: housing, health, and elderly care. These are considered as causal-process observations where I can examine the alternative explanations and their potential interaction effects. In each policy sector, I start with a general overview of the policy area by examine national policy reforms in three dimensions of financing, service delivery and decision/choice. For financing, I inspect general central government expenditure patterns as well as the introduction and reform of social security systems. Then I investigate the compositions of service delivery models of public, private, or public-private partnership in each locality and across policy sectors. Finally, I ask what extent the intended beneficiaries of these programs have access and choice, by examining the principal-agency relations behind these programs between states, firms, and families or individuals.

Building on Streeck and Thelen (2005), I identify significant variations across these two subnational models. Specifically, Shanghai has favored a stratified social insurance approach and relied on state-owned enterprises in service delivery, which are compatible with its growth strategy of state-sponsored transnational technology and financial complex. By contrast, Guangzhou has preferred a more inclusive social insurance model and pluralized service delivery, which are consistent with its growth strategy of pro-market, manufacturing-based dormitory labor system.
Social policies are thus used as “implicit social contract” to support economic growth and create local definitions of insiders and outsiders.

In addition to subnational variations, I also identify three types of national reform outcomes: policy drift, policy layering, and policy conversion. Policy drift occurs when local governments decide to delay implementation of central policy objectives. Policy layering occurs when local governments favor one policy instrument over another. And policy conversion reflects the ability of local government to adapt central policies to their own ends. Three types of policy changes and feedback effects will be examined: Empirically, the following questions help to identify not only timing but also sequencing of national reforms:

1. Policy drift: How long does it take for local governments to implement national policy programs?
2. Policy layering: Do local agents favor one policy over another? And if so why?
3. Policy conversion: When do local governments adapt central policies? How and to what end?

In addition, I examine two types of feedback effects over time: coordinated policy process at local level facilitated by variegated capitalism\textsuperscript{44}, and local-central policy feedback conditioned on central-local linkages\textsuperscript{45}:

4. Policy Coordination: With respect to each type of policy change, who facilitated these changes at local level? How do local agents interact with each other?
5. Policy feedback: With respect to each type of policy change, do local changes produce feedback effects on central policymaking? If so in what ways?
Following Bennett and Checkel (2017) and Van Evera (2009), I designed these questions to examine the possible necessary and sufficient conditions for the existence, nature and extent of local agency and subnational welfare politics. In particular, I hypothesize two competing yet interacting causal mechanisms, one political and one economic. The political theory is that variations and changes in political institutions such as central-local relations and territorial representation of local at the center will result in variations in implementation outcomes of national reform. The economic theory on the other hand focuses on the nature and variations of EOG production regimes and how they lead to variations in social policy reform outcomes. The causal complexity exists because these two causal mechanisms are not mutually exclusive but can potentially interact with each other to generate unexpected changes and variations in reform outcomes. However, if this is the case, it is still important to establish causal primacy to know which factors and mechanisms are playing more important roles, and to examine how the interaction effects take shape in each case.

By comparing Shanghai and Guangzhou, I examine how the transnational complex in Shanghai and dormitory regime in Guangzhou create differentiated effects on their social security and safety net programs. On the other hand, local-central policy feedback was more prevalent in the case of Shanghai during earlier marketization, given its status as a municipality directly under the central government and its traditional strong ties to the political center. By contrast, the agency of local government in Guangzhou in producing bottom-up policy feedback is often constrained by indirect territorial representation and top-down pressure from provincial government. Such patterns have however shifted in recent years, as Guangzhou’s local policy experiments seemed to be more consistent with central reform goals. The subnational case studies show that both local models
have produced strong feedback effects at central level, shaping future trajectories of national reforms

The processes of decentralization in post-reform China is not necessarily antithetical to its path to universalism in social security and safety net systems. Instead, it enables local governments to adapt central policies to local circumstances and mobilize societal and market forces, creating a “variegated” model of quasi markets or welfare mix. However, the traditional elements of western-type quasi markets for social policy, such as decentralization, competition and choice, are highly conditioned by China’s authoritarian political system and its preference for co-optation over participation. This results in a welfare mix with Chinese characteristics, where hierarchy and state dominance coexist with pluralized service delivery, and policies are frequently used to serve the dual objectives of political cooptation and economic growth.
CHAPTER 3
THE POLITICAL ECONOMY OF HOUSING REFORM

Introduction

Among all three social policy areas examined in this research, housing has become increasingly a “wobbly pillar” of the welfare state, with debates over whether it should be regarded as a pure commodity or as a right (Torgersen 1987, Malpass 2008). For countries that are in political and economic transition, it often means moving away from treating housing as an inherent part of state welfare provision towards commodification and marketization of housing, whereas the state only plays residual role or “enables” welfare pluralism. Part of this process involves driving the processes of policymaking and implementation increasingly to the local level, which brings up the question of whether it results in improved or undermined local social service delivery (Wu 2013, Musgrave 1959, Hayek 1945, Rondinelli, McCullough, and Johnson 1989, Stepan 2000).

In China, the market reform since 1978 has been accompanied by decentralization and rapid urbanization. In urban areas, the commodification of housing was gradually carried out by local governments and newly emerged real estate developers, with supporting roles by the work units. By 2000, most urban residents were purchasing or renting their home on a commodity housing market, instead of living in apartments provided by their work units. The process of housing commodification is sometimes considered equivalent to neoliberal reforms in transitioning and developing contexts. Nonetheless, there are several distinctive characteristics that should be noted. First, while the economic reform started as early as 1978, the urban housing reform took a much slower pace and experienced several rounds of experimentation before fully taking effect in 1990s. At the time, most work units also provided varying subsidies for first-time home buyers, covering sometimes half of the purchasing costs. The booming housing market in
early 2000s resulted in increasing society backlashes, which in turn forced the party-state to change the political and policy discourses at central level. The rhetoric changed significantly from viewing housing as primarily a growth engine, towards using housing policy as a tool to balance between growth and equity. Such backlashes were also seen in post-communist countries elsewhere, but in Chinese context the political dynamics were significantly different. Specifically, it is less about political mobilization of societal groups through electoral or partisan politics, especially when there is little opening of institutional opportunity at central level. The political dynamics occur after the policies are put into practice and in the processes of local experimentation and implementation.

Second, housing reform in China as an incremental process is highly interdependent with other reform initiatives, such as fiscal decentralization and reform of state-owned enterprises (SOEs) (Wu 2013, Huang 2012, Gu 2001). While these measures were designed to support market reforms, they also generated a variety of intended or unintended effects on housing policy. In comparison to health and elderly care, housing policy reform by its nature has closer ties to the production regimes considering its strong connection with infrastructure investment and consumer economy. It is thus highly conducive to local state entrepreneurialism where local governments form a natural coalition to with real estate industries and work units to push for marketization. Fiscal decentralization also created incentive structures for local governments to increasingly rely on local land transfers to finance its expenditures given the decreasing the revenue allocation structure heavily tilts toward the central government.

Third, while many symptoms of neoliberal housing reform appeared in the case of China, economic logics were less ends themselves as in other post-communist cases. Rather, they worked as means to complement other reform initiatives ultimately designed to serve the political logics
of the state. Furthermore, the interactions between a decentralized authoritarian system of policy processes and the institutionalized variations of subnational export-oriented production regimes may produce varying effects on national housing reforms. The strong agency of local governments in implementing national reform initiatives have raised the question of whether earlier reform has created too much decentralization and local state entrepreneurialism for the central government to effectively implement its new “grand designs”.

This chapter aims at examining the evolving nature of social policy reform in China by examining two sets of housing policies: the housing provident fund (HPF), and the means-tested affordable housing regimes with local variations. HPF is a social insurance type of policy that primarily targets working individuals and their families. The decision-making structure involves not only local governments but also some type of co-determination between local governments, work units, and their employees. In practice however, such co-determination structure involves limited “insiders” and decision-making processes occur almost exclusively within the state sector. The affordable housing regimes serve as safety net tools that theoretically will ensure “basic living needs are met” (tuodi). Since such policies serve primarily the disadvantaged populations, local governments assume greater responsibility and make decisions for the intended beneficiaries such as low-income urban residents, rural migrants, or college graduates. The power dynamics of such principal-agent relations are often highly asymmetrical, as the intended beneficiaries often face a varying degree of “consumer choice” based on whether they have urban hukou (household registration system) or the level of education and skills they have. This in turn results in highly commodified and stratified systems of welfare provision.

The case studies of Shanghai and Guangzhou confirm that there are significant disparities between the central reform rhetoric and the actual policy changes on the ground. Despite central
government’s attempts to streamline local programs and move towards an entitlement approach, local governments have been keen to retain and prioritize social insurance and means-tested approaches that allow them to use housing policy for developmental goals or as patronage. In this regard, local agency not only leads to distortions of national programs but also intensifies social stratification. In addition, local agency has taken varying forms and extents given the differences between these two cases in terms of political-institutional dynamics and economic growth strategies. Shanghai for example has enjoyed greater autonomy in carrying out national pilot programs and tailor them into local developmental needs. The continued preference over asset-based welfare approaches in Shanghai is in direct contrast with the gradual shift towards a rental approach in Guangzhou. In both cases, nonetheless, local implementation of national HPF and AHR programs have resulted in significant adaptations and stratified provision, through which urban residents and more educated and skilled migrants enjoy privileged access.

**National Housing Reform: From Commodification to Entitlement?**

At national level, China’s housing reform can be roughly divided into three phases. The first phase was between 1978 to 1990, in which there were limited local experiments with little success, and communist state monopoly was still the dominant form of housing provision. The second phase of 1991 to 2003 marked a state-led commodification process. Theoretically, the central government has designed a variety of affordable housing regimes to supplement the newly developed commodity housing market. In actual practice, however, the commodity housing market has become the dominant pillar and there is growing societal backlashes against rising commodity housing prices, decreasing housing affordability and increasing stratification in housing access. This leads to significant changes in central policy rhetoric since 2003, where the central government has moved away from the pro-growth rhetoric to pro-equity and pro-poor. New fiscal,
institutional and political incentives were also developed to mandate or encourage local agents to increase affordable housing supply and make it commensurate with the growth in commodity housing. Nonetheless, the rhetorical changes do not always result in changes in subnational implementation of affordable housing programs. When changes do occur, they often involve significant delays, distortions, or adaptations by local agents. The quantitative growth of AH supply in recent years has so far failed to address housing affordability and stratification issues because of local agency in program implementation.

**From State Monopoly to State-led Commodification**

During Maoist era, China like other communist countries adopted a state monopoly model for housing provision. Work units were essentially “mini welfare societies” providing key social services to its employees and their families. Housing along with health, elderly care, and education were key welfare benefits financed by the state and provided by the work units. In urban areas, most residents lived in dormitories or apartments provided by work units depending on their marital status, number of children, and often their title or administrative rank. In general, nonetheless, there was a shortage in housing supply similar to other symptoms of a communist shortage economy. As housing was classified as a non-productive sector, the average expenditure from 1949 to 1978 was only 0.78% of Gross Domestic Product (GDP) (Chan, Ngok, and Phillips 2008). Figure 2 provides an overview of the pre-reform public housing model, in which the work units play key roles in providing welfare housing to urban employees and their families and the municipal governments played supplemental roles to provide public housing to disadvantaged populations such unemployed, seniors and disabled people. In comparison to a market or quasi-market model of housing provision, this model was marked by central planning and allocation, hierarchical service delivery. The state and the work units make decisions on behalf
of individuals and their families. While housing was completely de-commodified, there were still significant stratification often based on employment, marital status, and titles or administrative ranks.

Figure 2 Pre-Reform Public Housing: State Monopoly and Work Units

Source: Compiled by Author.

The market reform introduced in 1978 gradually established the market mechanisms and the concept of private property. The emerging concepts of market reform resemble those appeared in Hungary and Poland by mid-1980s that focused on small scale private sector and the idea of market socialism (Stark and Bruszt 1998). The regime collapse in these countries however broke the reform path and turn it into drastic economic and social transformations.47 By contrast, the communist party in China took an even more cautious incremental approach in social sectors in comparison to the gradual but bold reforms in the economic sector. Housing marketization attempts in 1980s largely failed and the reform process was significantly delayed. Rhetorically,
Deng Xiaoping introduced the idea of housing commodification as early as 1980. Policy experiments were carried out in several cities by 1985 to encourage a subsidized commodification model where the buying costs will be equally shared between employees, work units and the local governments. Nonetheless, due to the lack of incentives and the availability of cheaper public rental housing, these reform experiments largely failed.

Towards the end of 1980s, the party-state increasingly favored marketization and commodification of housing, given the shortage of housing supply and the increasing welfare burden of the state. In 1988, the State Council issued the *Implementation Plan for a Gradual Housing Scheme Reform in Cities and Towns*, which marked the first attempt of marketization reform at national level and proposed a “rental + sale” model (zushou bingju) (State Council 1988). The reform ended abruptly due to multiple factors, such as local distortions during implementation, high inflation pressure in late 1988, and the 1989 Tiananmen democratic movement. While many communist regimes collapsed, CCP managed to keep its power partly through political crackdown but also through a renewed commitment to economic growth. The party elites led by Deng Xiaoping recognized that economic reform must continue to maintain regime legitimacy. Central pillars of this new reform program include fiscal decentralization, reform of state-owned enterprises (SOEs), and the ultimate dismantling of the largely preserved communist welfare state. Housing reform therefore continued in 1991 as State Council issued two watershed documents, *Continuation of Urban Housing Reform in a Stable Manner* and *Opinions Concerning an All-Around Promotion of Housing Reforms in Cities and Towns* (State Council 1991b, c). These documents were significant because they signaled changes in the official political and policy discourses that housing will now be considered as a commodity that can be bought and sold on the market, rather than a kind of welfare benefits guaranteed and provided by the state.
During 1990s, housing was increasingly viewed as a critical component of the growth engine rather than part of the welfare system by the party state. This was particularly the case after Zhu Rongji, the once mayor of Shanghai, became Vice Premier in 1991 and then Premier in 1998. Zhu was an ardent supporter of housing monetization and commodification and oversaw the implementation of key pilot programs of housing reform in Shanghai during his tenure as mayor. It was not surprising then to see some of these pilot programs soon enter the stage of national implementation. The 1994 *Decisions on Deepening the Urban Housing Reform* proposed some quasi-market and welfare mix institutions for middle and low-income families, addition to the market institutions for high-income populations (State Council 1994). The goal was to create a tiered system of financing and provision with shared responsibilities between the state, work units, and individuals based on the individuals’ ability to work and pay. In this original proposal, state responsibility was dramatically reduced but there was still some degree of commitment by the state. Nonetheless, policy changes at local level largely departed from some of the central reform objectives as I will discuss later in this chapter.

The Asian Financial Crisis served as a window of opportunity for the national government to push for further housing commodification. At the same time, it also created concerns that financial shocks may result in too much volatility in the commodified real estate market. As a result, that there were increasing demands for building a social safety net in the housing sector, especially for the newly emerged urban middle class. In 1998, the State Council issued *A Further Step on Deepening Housing Reform and Accelerating Housing Construction in Urban Areas*, restating its goal of promoting commodification but also requiring localities to expedite the implementation of ECH, a program that targeted at middle- and low-income families. In addition to ECH, the central government also recommended local governments and work units to provide additional
housing subsidies if the price-income ratio is above 4 (State Council 1998b). Such plans however were again subject to significant adaptations, distortions or negligence by local agency during the implementation process.

By early 2000s, China has completed marketization in the housing sector. At least theoretically, the central government now has established four new institutional pillars to replace the communist welfare housing: a booming commodity housing market, the establishment of a social insurance fund for housing for urban employees, and two types of asset-based and rental affordable housing programs targeting middle and low-income families respectively. These policy institutions were largely built on existing models from Singapore, Hongkong, as well as the corporatist social insurance and laissez-faire liberal market models in the West. They were also cautiously adapted through multiple rounds of policy experiments and national pilot programs. Such incrementalism and the trial-and-error approach however has opened doors for local agency and result in policy layering, drift and conversion. Over time, they also provided strong feedback to central decision making. For instance, contrary to the central government’s hope that commodity housing will be only serving the high-income population, the commodity housing market was developing much faster in comparison to the other pillars. This results in rapidly increasing affordability issues, disparities in housing conditions of different social groups, and increasing societal backlashes against commodification. While the asset-based welfare approaches were welcomed by local governments, they benefited only urban employees especially those who work in the state sector, and residents with hukou. On the other hand, local governments either established strict eligibility criteria for or sought to delay implementation of means-tested programs such as cheap rental housing. The result was a highly uneven implementation of housing reform programs preferring commodification and asset-based welfare that are consistent with local developmental goals.
The Return of the State? The Political Logic of the Rights-Based Approach

The state-led rapid marketization in housing along with other social sectors soon triggered societal backlashes that resembles the “double movement” as described by Polanyi (1957)’s *The Great Transformation*. In China, the criticism of housing marketization comes from both outside and inside of the state, partly due to CCP’s maintained ideological commitment to “socialist market economy with Chinese characteristics”. The socialist component in the party’s ideology has frequently been used by those who favor an entitlement approach to promote their vision of “housing for all”. The increasing societal backlashes against marketization coupled with the CCP leadership change in 2003 marked a major shift in political discourse from emphasizing growth to equity. Before 2003, the third generation of CCP leaders including Jiang Zemin and Zhu Rongji represents more elitist, coastal interests and the policy orientations were largely pro-growth. By contrast, Hu Jintao, the new CCP secretary general came from humble background and emerged out of the Communist Youth League (CYL) and was more in favor of a populist policy orientation.48

In the housing sector, central policy rhetoric still committed to “supporting housing as main industry in national economy” but promised to strengthen “regulation and control” at the same time (State Council 2003). A series of SC circulars were issued to meet the dual policy goals of preventing a real estate bubble and increasing housing affordability for middle- and low-income urban residents. Before 2007, most new rules and regulations focused on tightening land supply, revoking commercial loan incentives, and setting floor-space limits for new constructions (CBN 2013). Such efforts to regulate commodity housing market however failed to deliver the intended results. Figure 3 illustrate that the commodity housing market has continued to boom in 2000s and early 2010s even though new regulatory measures were announced one after another. Housing
affordability as measured by price-to-income ratio has deteriorated rather than improved during this period.

**Figure 3 The Endless Boom of Commodity Housing Market 2000-2012**


At least rhetorically, the central government has sought to address distortions in asset-based welfare programs such as ECH and the undersupply of means-tested programs such as CRH since 2003. In practice, nonetheless, the growth of affordable housing programs continued to fall behind the commodity housing market significantly. The commitment by central government to promote affordable housing remained at rhetorical level with no concrete reform proposals to address issues on the ground. Local governments still enjoy the built-in ambiguities in the original programs, and therefore maintain their significant autonomy on local implementations with minimum central oversight. Delay in implementations were particularly severe in CRH since it requires greater fiscal responsibility. Although the central government demanded the local governments to “provide aid and guarantees for all those who qualify” (yinbao jinbao), there were still 70 cities that did not
implement CRH at all, nine years after the program was first announced (Wang 2007). According to a survey by MOHURD, among 4 million low-income households with housing difficulties, only 6.7% of this target population were covered in the CRH program (Wang 2007).

The situation began to change in 2007 and 2008. The 2007 SC circular *Suggestions for Solving Housing Difficulties of Urban Low-income Households* was often viewed as marking a new era for affordable housing, and a shifting policy focus from prioritizing asset-based welfare to a multi-layered approach with specific policy instrument for each target population (State Council 2007b). The new policy framework promoted the expansion of CRH coverage from extremely low-income households to low-income households, and introduced two primary instruments of “rental subsidies” (*zujin butie*) and “physical provision” (*shiwu peizu*) (State Council 2007b). In addition, it eliminates the ambiguities in ECH and redefined the target population as low-income households only, with the goal of limiting local government’s ability to use this program for wealthier urban residents and in particular SOE and public-sector employees.

Similar to the Asian Financial Crisis in 1990s, the Global Financial Crisis opened up another window of opportunity for further reforms in affordable housing regimes. In the year of 2008 alone, the State Council announced 18 new decisions, many of them covering stricter implementation standards for asset-based welfare and rental programs. In particular, MOHURD worked with other central agencies to issue *2008 Cheap Rental Housing Implementation Plan*, mandate a dramatic increase in CRH supply from 2.5 million units to 3.5 million units, and set specific new construction targets down to district and county level (MOHURD 2008). This was significant because for the first time CRH targets were incorporated into the cadre responsibility system (CRS) so local cadres are now politically motivated to increase CRH supply. This target responsibility system was also institutionalized in the following years, with new targets announced
each year and strengthened reporting requirements. In contrast to earlier policy orientation favoring rental subsidies, nonetheless, the growth of public rental programs during the crisis strongly favored new construction. This was because the central government encouraged infrastructure investment and provided fiscal stimulus packages. Figure 4 shows there has been a dramatic increase in the supply of affordable housing units since the beginning of the Global Financial Crisis in 2008.

**Figure 4 The Growth of Affordable Housing**

![The Growth of Affordable Housing, 1998 - 2013](image)


Regardless of steady growth in affordable housing supply, commodity housing market continues to boom even in the middle of the crisis. Figure 5 compares census data from 2000 and 2010 and analyzes the growth of housing by tenure type. Commodity housing including purchased and rental has experienced exponential growth during this period. By contrast, the number of households living in ECH has been steady and those living in public rental housing has
dramatically declined. While the central policy rhetoric promises a more balanced approach with multiple layers to ensure affordability, in actual practice commodity housing has been dominant.

Figure 5 Number of Urban Households by Housing Tenure Type, 2000-2010


The mismatches between policy rhetoric and the actual implementation outcomes has generated greater societal demand for national comprehensive housing reform. One proposal was that China should pass a national housing law that would resemble the national healthcare reform since 2007. Scholarly and public debates during this period also shifted significantly towards whether China should adopt an entitlement approach to housing not only in theory but also in practice. In 2008, NPC Standing Committee invited Qinghua University and Shenzhen Real Estate Research Center to draft the National Housing Security Law and plans to pass the national law in five years (Xinhua 2010). The goal was to strengthen “top-level design” and ensure “multiple layers” and “broad coverage”. However, the legislative attempt brought many
controversies and was unsuccessful. MOHURD said there was a draft version ready for public comments, but it was never published nor passed as a legislation. In 2017, the State Council announced that it will work with the NPC to redraft a new version of “National Basic Housing Security Law” by the end of 2018, admitting it will take years to complete the effort ("Housing Security Law" 2017). In contrary to the neighboring country Vietnam where a comprehensive national housing law was passed in 2014, legislative attempts at national level in china so far has failed to achieve meaningful results.

Despite the rhetorical return of the state, housing reform since 2003 has made limited progress with regards to addressing housing affordability. Commodity housing market continues to boom regardless of curbing efforts by the central government. The rising commodity housing price have driven the middle-lower income households, new college graduates, and less skilled migrants out of the market. Rhetorically, the central government has promised greater responsibility for these “sandwiched households” (jiaxinceng) that are above national or local poverty lines but still cannot afford to purchase or rent housing themselves. In local implementation, however, affordable housing regimes in urban areas continued to be highly stratified, and coverage varies for different social groups. With some local variations, the urban employees especially those in the state and public sector receive most of the benefits. Urban employees working in the private sector are receiving more benefits in comparison to earlier reform period, but they have less input in the policy processes in comparison to their public-sector counterparts. Low-income urban residents with hukou or skilled migrants are often primary targets of means-tested programs, with loosening but still strict eligibility criteria set by local governments.
Subnational Welfare Mixes: Housing Reform in Shanghai and Guangzhou

The highly centralized pre-reform state institutions and housing provision, the unique political status of Shanghai in national politics, and the rapid post-reform commodification of housing make Shanghai an ideal case for testing competing political and economic logics of subnational housing reforms. For Guangzhou, competing forces are also at play given the added layer of the provincial government, its proximity to Shenzhen and Hongkong, and a vibrant export-oriented manufacturing sector. Interestingly, over time Shanghai has increasingly favored housing ownership and the asset-based welfare approach while Guangzhou has prioritized the rental approach for both commodity and affordable housing. A comparison of these two cities can help us identify causal mechanisms behind these diverging trajectories of housing reform.

Housing Commodification and “Categorized Solutions” in Shanghai and Guangzhou

In comparison to other Chinese cities, pre-reform public housing in Shanghai has a smaller share of work unit housing, since much of the public investment went toward rebuilding old temporary housing and the municipal government retained ownership, allocation and management rights (Bian et al. 1997). As a result, Shanghai’s communist welfare housing model involved greater degree of centralization at municipal level. Following Deng’s talks on housing policy in 1980, Shanghai immediately began pilot commodification programs targeting overseas Chinese and foreigners. The publication of *Trial Measures for Public-Aided Commodity Housing* in 1984 precedes national reform and Shanghai was the first to propose a tripartite approach that promotes responsibility sharing between government, work units, and individuals and families (Shanghai 1984). Designed to complement commodity housing development, the means-tested program initially targeted households with extremely limited living space. Statistics show that by the end
of 1999 this program had helped 120,000 households and the program was highly praised by both central government and United Nations (Pang 2004, Li 2011).

In Guangzhou, pre-reform housing also relied on “socialist transformation” of existing private rental housing. By 1980s, however, the lack of new construction has resulted in severe housing shortage and forced the municipal government to increase fiscal spending on housing. Without the tripartite approach and cost-sharing mechanisms, local government soon found it unable to sustain its housing spending level for new constructions, payment of rental subsidies, as well as fixing and maintenance costs. According to local gazetteers, rents for public rental housing were extremely low and the revenue collected were unable to cover the basic maintenance costs. 1985 census shows that 10% of urban households lives in extremely limited living space of 4 sqm or below. By 1988, local research groups and labor unions organized a public opinion survey and the results shows that 86.4% of urban residents support housing reform (Guangzhou 2018b).

Earlier housing reform measures in Guangzhou partly resembled the policy experiments Shanghai, as the municipal government promoted the tripartite cost-sharing structure and established a primitive form of HPF by 1989. With a large population of overseas Chinese and foreign investors, both cities encouraged foreign investment in real estate development. Nonetheless, housing commodification before 1998 remains limited as most people still live in welfare housing provided by their work units.

Following the 1998 SC decision to speed up commodification, CRH became a policy focus in Shanghai between 2000 and 2003. During this period, HPF and CRH were two core pillars of affordable housing in Shanghai, with HPF covering middle- and low-income employees and CRH targeting extreme low-income families. This emphasis on CRH differs significantly from many other major cities including Guangzhou showing greater central government control in Shanghai.
For other cities like Guangzhou, ECH was prioritized because it was considered more consistent with local developmental goals. Within the CRH program, Guangzhou and other cities have favored physical construction while Shanghai has prioritized rental subsidies and a market-based approach. In retrospect, central political leadership with Shanghai background before 2003 may help explain why Shanghai was often selected as pilot cities for market reforms, as the programs were expected to be implemented with less political and institutional obstacles. It also explains why Shanghai was largely in line with central implementation guidelines during this period.

Table 3 "Categorized Solutions" in Shanghai

<table>
<thead>
<tr>
<th>Housing</th>
<th>Economic and Comfortable Housing (ECH)</th>
<th>Demolition and Relocation Housing (DRH)</th>
<th>Cheap Rental Housing (CRH)</th>
<th>Public Rental Housing (PRH)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Target Population</td>
<td>Urban employees</td>
<td>Lower-middle income families</td>
<td>Relocated urban households with low or lower-middle income</td>
<td>Extreme low-income families with “twin difficulties”</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hukou status</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Type of Tenure</td>
<td>Ownership + rental</td>
<td>Ownership</td>
<td>Ownership</td>
<td>Rental</td>
</tr>
<tr>
<td>Mechanism</td>
<td>Social insurance</td>
<td>Quasi-market</td>
<td>Quasi-market</td>
<td>Government</td>
</tr>
<tr>
<td>Policy change</td>
<td>No</td>
<td>Conversion into JPRH</td>
<td>Conversion; Layering</td>
<td>Drift and undersupply</td>
</tr>
</tbody>
</table>

Source: Compiled by author.

The changes of political leadership at central level in 2003 somewhat marked the beginning of departure from this trajectory in Shanghai, making it more consistent with other coastal cities. Between 2003 and 2007, there were limited central guidelines beyond stricter regulations on commodity housing, and both cities began to explore and experiment new affordable housing policy instruments on their own with the goal of diversify housing provision. In Shanghai, the
municipal government slowly expanded affordable housing coverage, but the target population remains limited to urban residents with hukou. Succeeding the 2007 State Council circular on affordable housing, the municipal government immediately announced implementation guidelines (State Council 2007a, Shanghai 2007). It proposed a new affordable housing framework based on the principle of “sponsored by government, operated by market” (zhengfu zhudao, shichang yunzuo) and sought to develop “categorized solutions” (fenlei jiejue) for needy families (Shanghai 2007). Over time, Shanghai has institutionalized and significantly expanded the HPF program and therefore encourage middle and high-income urban employees to purchase on the commodity housing market.

<table>
<thead>
<tr>
<th>Table 4 “Categorized Solutions” in Guangzhou</th>
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<tbody>
<tr>
<td><strong>Target Population</strong></td>
</tr>
<tr>
<td>-----------------------------------------------</td>
</tr>
<tr>
<td><strong>Urban employees</strong></td>
</tr>
<tr>
<td><strong>Low-income families with housing difficulties</strong></td>
</tr>
<tr>
<td><strong>Lower-middle income families</strong></td>
</tr>
<tr>
<td><strong>Extreme low-income families with “twin difficulties”</strong></td>
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<tr>
<td><strong>Lower-middle income families</strong></td>
</tr>
<tr>
<td><strong>Hukou status</strong></td>
</tr>
<tr>
<td><strong>Type of Tenure</strong></td>
</tr>
<tr>
<td><strong>Mechanism</strong></td>
</tr>
<tr>
<td><strong>Policy change</strong></td>
</tr>
</tbody>
</table>

Source: Compiled by author.

A similar affordable housing system with “categorized solutions” was proposed in Guangzhou with some variations. By 2010, there are four major policy pillars: CRH, ECH, Commodity Housing with Price Limit (CHPL), and PRH. Except for CRH, all other programs
involve some form of public-private partnership and a coordinated local network of affordable housing providers. Table 3 and Table 4 provide a summary and comparison between affordable housing regimes in these two cities. Most significantly, Shanghai’s model involves more local adaptations and frequent policy changes in the forms of policy conversion, layering and drift. By contrast, local agency in Guangzhou has been limited with the absence of policy conversion. Policy layering is also largely consistent with central policy guidelines, indicating stronger central-local coordination and potential complementarity between local and central objectives.

**Political Institutions and the Housing Provident Fund**

In both cases, the development of “categorized solutions” has been highly uneven in practice. In Shanghai, DRH as an adapted form of ECH has been the dominant pillar in local affordable housing provision. Guangzhou on the other hand has increasingly favored the public rental approach in recent years over the asset-based welfare approach. Nonetheless, both cities have a highly institutionalized HPF system with broad participation by urban employees that provide support for housing ownership among urban middle class.

As discussed before, Shanghai was an HPF pilot city and the program was experimented successfully during Zhu Rongji’s tenure as mayor. The successful institutionalization of HPF and its diffusion thus originated from strong local representation in central government at the time. Even though such unique status was somewhat undermined after the 2003 political leadership change, by the time HPF has been successfully implemented for more than a decade with participation by 300 million urban employees. By the time of 2010, 68% of urban employees are covered in the HPF program (SHHPFAC 2018).

More importantly, contrary to the dominance of public sector participation at national level, HPF participation in Shanghai has expanded gradually from the state and public sector to
incorporate domestic private sector and foreign companies. Private sector including domestic private enterprises and foreign investment enterprises now contributes more than 50% of HPF annually. With a booming commodity housing market, HPF has proven to be an ideal social insurance fund that help make commodity housing affordable to most urban employees. The mandatory contribution of 5-7% base salary is matched by work units. Increasingly, urban employees choose to make supplemental contributions up to an additional 8% of their base salary which is also eligible for employer match. Both HPF contributions and extractions have grown steadily over the years, as shown in Figure 6 below.

![Figure 6 Growth of Housing Provident Fund in Shanghai and Guangzhou](Image)

Data Source: Shanghai and Guangzhou HPFAC (2018).

Similar to other major cities, most HPF extractions in Shanghai and Guangzhou take the form of repayments of home equity loan (HEL) principals and interests, suggesting the program primarily supports asset-based welfare rather than rental approaches. In 2016, 72.5% of HPF
extractions in Shanghai belonged to this category and only 3.6% were used for rental payments. In 2015, Guangzhou published new measures to allow eligible individuals to extract funds for PRH or commodity rental payments. However, the effects of such measures are yet to be seen.\textsuperscript{52}

While central government has encouraged local governments to use HPF funds to provide loans to PRH, in Shanghai most of these funds went to project loans for asset-based welfare approaches, and only a small fraction went to public rental programs. On the individual side, limited data between 2011 and 2014 in Shanghai shows a small amount of extractions were used to purchase ECH and JPRH, both are asset-based welfare programs. Furthermore, the power of central government mandates seems to wane over time, resulting in inconsistent HPF financing for affordable housing programs. For example, during the period of 2011-2013, HPF financing provided up to 0.65 billion yuan to 2.55 billion yuan of affordable housing project loans annually. By contrast, in 2015 only 286 million yuan from HPF were used to support affordable housing project loans in Shanghai. This number has further declined to 122 million in 2016 (SHHPFAC 2018). In Guangzhou, HPF fund utilization primarily supports individual home equity loans (HEL) and the 2016 report shows no additional funds were allocated to finance affordable housing project beyond the existing loans (Guangzhou 2017a).

**State Entrepreneurialism, Transnational Complex and Asset-Based Welfare in Shanghai**

On the affordable housing side, these two cases have developed their own distinctive approaches. This section will focus on the connections between subnational political economy and affordable housing regimes in Shanghai. As mentioned before, Shanghai has developed a “four-in-one” (siweiyiti) system with four pillars. Each program targets low-income urban households, relocated urban residents because of urban renewal, middle- and low-income households, and employed migrants and young professionals respectively. In practice, nonetheless, the Shanghai
municipal government has strongly favored the DRH program that serves best the urban renewal processes.

**Figure 7 Policy Layering in Affordable Housing in Shanghai, 2011-2015**

![Bar chart showing Affordable Housing Units Planned versus Provided, Shanghai 2011-2015]

Data Source: Shanghai HPFAC (2018).

The DRH program, which was considered a variation of ECH, has been implemented in Shanghai since 1999 to serve local developmental goals. This is consistent with Shanghai’s EOG strategy as many foreign companies and their employees seek to invest, work and live in the inner city. Demolition and relocation provide an opportunity for better living conditions for low-income residents with hukou who are willing to move out of the inner city. With relatively low cost of land expropriation in remote areas, local governments can afford cost plus pricing and allow eligible households to accumulate assets. DRH projects thus can serve both development and social protection goals, and therefore help maintain the tacit agreement between local government and urban residents. Figure 7 compares the stated targets in the Twelve Five-Year Plan 2011-2015.
published by Shanghai municipal government, and the actual provision by housing units per program. All other programs failed to meet the intended targets and DRH remains the dominant pillar in Shanghai’s “four-in-one” system.

As a megacity, Shanghai has further decentralized its DRH program down to district level. District planning and housing bureaus coordinate a local network of investors and real estate developers, often with SOE background, to finance and construct DRH projects. The strong state-led model is however operated under a quasi-market structure marked by decentralization. An ideal-typical case can be used to illustrate such local networks in Shanghai. As one of the biggest ECH plus DRH project, Baoshan Luodian affordable housing community was developed in a remote area of Shanghai and contains 600,000 sqm of ECH and 550,000 sqm of DRH. The primary target population of these newly constructed housing units are relocated urban residents and the rural residents whose land were expropriated for the project. This project thus serves the dual objectives of urban renewal and asset-based welfare. The average purchase price for eligible households was 6500 yuan per sqm based on cost-plus pricing, which is significantly lower than the market price. Eligible households may choose to resell these units on the market one year after the project completion at a significantly higher price.

While the structure of the project operated like public-private partnership, the actual participants were either local SOEs or subsidiaries of national SOEs. Baoshan district has a large exporting steel industry with a leading firm Baosteel. The construction branch of Baosteel oversaw the development, design, construction and supervision of the project. On the financing side, the two investment companies providing 60% loans to the project are subsidiaries of two large SOEs, Shanghai Land Corporation and China Avic Industry Corporation.53 Such patterns of state-led affordable housing development have been frequently seen in Shanghai.
The evolution of Shanghai’s affordable housing regimes therefore strongly favors a developmental orientation based on its open economy, the emphasis on state-led development, and an asset-based welfare approach that favors residents with hukou. The continuous boom of the commodity housing market and a booming export-oriented economy creates an inner circle of beneficiaries such as SOEs and private real estate developers, domestic and foreign investors, as well as local elites and urban middle class. With a relatively mature and thriving market system, the municipal government continues to favor a welfare mix approach not only for asset-based welfare but also for means-tested rental programs.

The early CRH implementation was accompanied by strict eligibility criteria set by the municipal government. Rental subsidies were provided to eligible households and with government help they were given the choice to shop around on commodity rental housing market. Despite earlier emphasis on CRH, political leadership change in 2003 weakens central-local ties and the lack of clear central implementation guidelines resulted in increasing prioritization of asset-based welfare. The changing central policies since 2007 forced local cadres to meet new PRH targets. However, the municipal government has managed to adapt the program into WURH by collaborating with work units and industrial parks, and condition provision to migrants based on employment, education, and skill level. While WURH allows for proximity between work and home, it also creates barriers for these migrants to fully integrate into local communities.

Over time, Shanghai has developed a highly stratified system of housing provision: high-end commodity housing for foreign investors and wealthy local entrepreneurs and professionals, regular commodity housing supported by HPF for middle-income residents, ECH, JPRH and PRH for low-income urban residents, and WURH for skilled migrants and young professionals without hukou but “contribute” to local economic growth. The less skilled and educated rural migrants
who work on temporary jobs are not covered in any of these programs. In recent years, policy conversions at local level such as WURH and JPRH continue to support local state entrepreneurialism and promote pluralized local policy networks coordinated by municipal government and district-level agencies. Interestingly, both WURH and JPRH have been recognized by central government as “policy innovations” despite their significant deviation from original central policy objectives. While WURH has been met with conditioned central government support with stricter implementation standards, the recent nationwide implementation of JPRH shows strong local-central feedback given Shanghai’s unique political and administrative status.

**Dormitory Regime and the Prioritization of Rental Approaches in Guangzhou**

In comparison to Shanghai’s increasing emphasis on housing ownership and asset-based welfare, Guangzhou has prioritized rental approaches in both commodity housing market and affordable housing provision. Figure 8 reviews the evolution of housing tenure in Guangzhou since 2000. In 2000, only 24% of Guangzhou residents lived in rental properties. This number gradually increases and by 2010 36% of Guangzhou residents lived in rental properties with an additional 4% living in means-tested CRH or PRH. By contrast, the census data shows only 20% of residents live in purchased commodity housing with an additional 10% living in purchased public housing in 2010 (Guangzhou Bureau of Statistics 2018). The relative mature rental market in addition to stronger provincial oversight may explain why there has been no delay in PRH implementation in Guangzhou.
As mentioned earlier, Guangzhou’s affordable housing development has increasingly prioritized rental approaches over asset-based welfare. This applies not only to migrants but also urban residents with hukou. A breakdown of 2010 census data shows that most low-income urban residents and migrants are living in cheap rental or public rental housing units and the supply of ECH has been relatively small. While residents with hukou have better access to ECH, the percentage of urban residents living in ECH has declined from 3% to 1% from 2000 to 2010. With a large migrant population, the municipal government has loosened the eligibility criteria for PRH to include migrant individuals and families, although many of them live in dormitory type of WURH adjacent to the factories or industrial parks. According to 2010 census data, 7% of migrants lives in PRH in comparison to 6% of residents with hukou. Migrants are also more likely to live in commodity rental properties in comparison to residents with hukou given their lack of access to ECH and means for asset accumulation.
Despite a shared export-oriented economy, the difference between EOG strategy in Guangzhou and Shanghai has been noted by scholars of regional economy and discussed in Chapter 2. In Pearl River Delta (PRD) region, Hong Kong has served as the regional financial center bringing foreign capital to the region and facilitate a more hierarchical network of export-oriented production (Zhang 2012). The PRD region thus established a “front shop-back factory” model of development with Hong Kong on the top of the hierarchical network (Sit and Yang 1997). In Guangzhou the EOG strategy favors a strong export-oriented manufacturing sector and established a “dormitory labor regime” where migrant workers are accommodated in or near factory compound (Zhang and Peck 2016b). The introduction of PRH therefore lends policy support for labor regime as Guangzhou attempts to retain skilled labor, encourage migration and avoid brain drain caused by an increasingly aging population.

On the other hand, political institutional factors may also play a role in explaining the absence of major policy conversion or drift at local level. As a provincial capital, Guangzhou is
under stricter control of Guangdong provincial government. Although provincial leaders often are frequently promoted to central government, in general they have spent less years in Guangzhou and thus have weaker ties locally in comparison to cadres in Shanghai. Furthermore, the provincial government enjoys some degree of control by interpreting central government policies and passing their interpretations to municipal governments. As a contrasting case, Shenzhen enjoys closer geographic proximity to Hongkong and has been granted the status of directly-controlled municipality like Shanghai. As a result, Shenzhen has enjoyed greater policy autonomy in experimentation and implementation of national affordable housing programs, while Guangzhou has less room for its own policy interpretation.

Nonetheless, local agency is still evident when there central or provincial guidelines are ambiguous or there is lack of effective oversight. Policy layering and path dependency patterns exist despite changing central policy discourses. For example, although both Guangzhou and Shanghai implemented the CRH program as early as 2000, earlier implementation of the CRH program in Guangzhou favored massive scale new construction in remote areas. This is in direct contrast to Shanghai’s rental subsidy model that encourages using market mechanisms rather than direct government financing and administration. In Guangzhou, the government-sponsored physical provision has resulted in housing segregation of low-income households and concerns for concentration of poverty. Most CRH projects during this period relied on municipal government to provide land and financing, and where real estate developers bid for public contracts. The local affordable housing network thus is marked by a quasi-market structure where private actors complete for government contracts. State intervention thus takes a different form in comparison to Shanghai, where SOEs participate in local affordable housing provision with strong backing by local government.
In 2007, Guangzhou developed one of the biggest CRH community in Jin Shazhou, a relatively remote island area in Baiyun district. The municipal government administratively allocated the land and financed the project through land transfer revenues and fiscal expenditure. By 2008, 7000 households with “twin difficulties” moved into the Jinshazhou New community, many of which were seniors and people with mental or physical disabilities. The project was soon criticized by scholars as well as the general public who viewed this as spatial segregation of disadvantaged population (Yu and Liu 2018). Reflecting on this failed lesson and growing fiscal pressure, the municipal government has sought to encourage private sector participation. More recently, new affordable housing programs in Jinshazhou has taken the form of public-private partnership (PPP). In 2011, the municipal government worked with a private real estate developer, Fuli Real Estate Group, to build an integrated community of CRH, PRH and ECH for more than 7000 households. It created a cost and profit-sharing mechanism through which the municipal government would repurchase the CRH/PRH portion while allowing the real estate developer to sell the ECH units to eligible households.

Overtime, Guangzhou has developed a consistent trajectory of moving away from asset-based welfare to expansion of means-tested rental programs. In comparison to Shanghai’s sate-led quasi-market approach with state participation, in Guangzhou the municipal government still play more dominant role in affordable housing provision, although increasingly relying on private real estate developers for construction and physical provision. While ECH and other asset-based welfare programs have been retained, policy layering has favored PRH as the dominant form of affordable housing provision. With an increasing emphasis on rental programs, it was not surprising that Guangzhou was the first city to declare “same rights for rental tenants and homeowners” (zushou tongquan) and that “children of qualified rental tenants will enjoy the same right
of enrollment to a nearby school… as those of home owners” in 2017 (Guangzhou 2017b). Furthermore, Guangzhou has encouraged low-income families to participate in the HPF program by granting them priority enrollment in PRH programs since 2015. The 2017 announcement only formalized existing practices on the ground. Interestingly, this was immediately followed by a MOHURD circular mandating nationwide implementation based on the Guangzhou model. Shanghai immediately followed but applied its own interpretation to the new rules, favoring greater SOE participation in promoting the commodity rental market.

**Explaining Policy Changes in Housing: Political Institutions, Policy Feedback and Subnational Welfare Mixes**

As the subnational case comparisons illustrated, local implementations of national affordable housing programs often take place with varying time frames and mixed results. To better understand the nature of these policy changes and whether they truly signal a shift from commodification to entitlement, this section analyzes the processes and mechanisms behind major policy changes at central and local level, by breaking down into specific policy instruments that were proposed and implemented nationwide during 1990s and some later evolved in 2000s and 2010s. Specifically, asset-based welfare programs include the social insurance type of Housing Provident Fund (*zhufang gongjijin*, HPF), the Economic and Comfortable Housing (*jingji shiyongfang*, ECH) with some local variations, and more recently the Joint Property Rights Housing (*gongyou chanquan zhufang*, JPRH). The means-tested programs include Cheap Rental Housing (*lianzufang*, CRH), Public Rental Housing (*gonggong zuling zhufang*, PRH) and their local variations. The next will investigate local implementation of these programs and the impact of subnational political economy using two case studies of Shanghai and Guangzhou.
Among these programs, the public rental approaches require greater degree of local government responsibility, though PRH in practice often involves some form of partnership between local governments, work units, and real estate developers. By contrast, the asset-based welfare approaches were considered largely consistent with local developmental goals since they either incentivize individuals to purchase on the commodity housing market or involves new construction of homes. Policy layering, drift, and conversion occurred in late 1990s and early 2000s as local governments increasingly favored the asset-based welfare approaches over rental approaches and promoted quasi-market or welfare mix models over direct state financing or provision. This in turn has created some feedback loop between central and local policy processes. On the one hand, programs that were less welcomed by local agents are largely dismantled and converted into recent programs with stronger central government oversight along with fiscal or
political incentives. On the other hand, the new programs created are again subject to local adaptations, resulting in dialectical processes of policy changes at central and local level.

Figure 10 provides an overview of these national affordable housing programs as well as their target population and implementation timelines. The dotted shade areas indicate the gaps between the announcement of the program and actual nationwide implementation. Urban public and private employees were the first beneficiaries of HPF, a social insurance tool that help them purchase commodity housing. Other asset-based welfare programs such as ECH was included in the 1991 proposals but was only implemented nationally after the Asian Financial Crisis. The means-tested rental programs experienced significant delay in many cities, but not in Shanghai and Guangzhou, indicating significant local variations and strong influence of political institutional factors. However, overtime, even these two cities have developed different reform trajectories of their own. Discussions in last section shows that Shanghai has increasingly favored the asset-based welfare approach while Guangzhou has prioritized the rental programs. Though in both cases these programs were significantly adapted to suit subnational growth strategies and developmental goals.

**Policy Layering and Institutionalization of the Social Insurance Model**

Policy layering is defined as differential growth between different affordable housing regimes. In addition to the dominant commodity housing market, HPF as a social security fund for urban employees has become highly institutionalized and experienced steady growth over the years. By contrast, supply-side programs such as ECH and CRH has experienced significant changes as result of local agency and policy feedback. Both central and local governments play important roles in policy layering as local governments may seek to delay, distort or adapt central programs while central government may attempt to counter local agency by imposing new reforms. Such
central-local bargaining processes are highly bureaucratic, although there are some limited cases where the NPC may get involved.

As the central government weakens its direct central planning role, local governments now find themselves with both incentives and power to delay implementation or adapt certain reform measures to pursue their own goals. On the one hand, with lack of fiscal incentives and the emphasis on “hard” economic targets in the “target responsibility system” (mubiao zerenzhi) in cadre management, local governments have become more entrepreneurial and functioned as somewhat market actors in their own right, in seeking new top priority of pursuing lucrative profits from land sales and real estate taxes, and delaying affordable housing programs that generates little fiscal revenue and even drains these lucrative resources from them (Wu 2010, Deng, Shen, and Wang 2011, Chen 2012). It is no surprise that local governments have been less interested in providing the means-tested CRH program and often failed to meet the provision quota nor the target for transferring gains from land conveyance to CRH (Huang 2012).

On the other hand, local governments also have interests in taking positive actions on improving living conditions of residents with hukou under their jurisdictions, as local economic growth and social stability are important criteria for their future promotions in the political administrative hierarchy (Gu 2002). Interestingly, this marked some consistency with what Cook (1993) labeled as the “Soviet Social Contract” that was often seen in state-society relations in pre-reform era China. The difference is however that the model has shifted from a more centralized and consistent tacit agreement between the central government and urban residents, towards a more decentralized model between local governments, work units and urban residents.

In addition, concerns for regime legitimacy at central level and social stability at local level provide incentives for some limited forms of societal inputs especially from elites and insider
groups. At central level, the most visible form of societal input is via the public commenting period after draft regulations or rules are published. National People’s Congress and the Chinese People’s Political Consultative Conference are two other institutionalized mechanism that largely serve cooptation functions and favor political, economic and social elites. At local level, societal inputs are less visible and often vary across policy programs. Interestingly, programs that requires less government responsibility and public-private partnership often create rooms for greater societal inputs, although some form of hierarchy still exists as central and local governments still decide who participate and how decisions are made. For example, the HPF co-determination structure remains the most institutionalized form of societal participation although it strongly favors the state sector.

Among all the marketization programs in 1990s, HPF was the first to be implemented nationwide as early as 1992, one year after the State Council decisions to continue housing marketization reform. It has also been highly institutionalized over the years, with increasing coverage and participation by both public and private sector firms and individuals. Like the original Singaporean model, HPF was considered a type of social security system that allows urban employees to set aside funds for housing consumption and asset enhancement. In China, it was first piloted in the Yangze River Delta including Shanghai and several cities that adopted the Sunan Transnational Technology Complex as their growth strategy. As mentioned earlier, Zhu Rongji played key role in piloting HPF in Shanghai and then pushing for its nationwide implementation once he became national political leader.

The successful nationwide implementation and institutionalization of HPF can be explained by several factors. First, the institutional design of HPF strongly encourages housing ownership which are consistent with local developmental goals. The 2016 MOHURD report shows that about
80.82% of HPF withdrawals are used for individual housing consumption. Most employees use these funds to purchase or renovate new houses, or to repay commercial housing loans. By 2016 HPF still predominantly supports asset-based welfare, with only 3% of withdrawals goes to rent payments (MOHURD 2016). Second, HPF requires very limited government responsibility beyond administration. Individual contributions are extracted from employee salaries and then in turn are matched by their employers. This is in direct contrast with CRH, a means-tested rental program that require greater fiscal responsibility. It is thus unsurprising that local governments have preferred HPF over CRH from the beginning. Finally, state sector employees strongly supported HPF because they were among the first beneficiaries of HPF. SOEs and government agencies are also regular participants in the decision-making process through a co-determination structure in which they can decide the deposit base and ratio. This allows them to use HPF as a form of non-cash benefits by offering greater employer matches in comparison to private sector employers.

<table>
<thead>
<tr>
<th>Percentage(%)</th>
<th>2014 National</th>
<th>2015 National</th>
<th>2016 National</th>
<th>2016 Shanghai</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Government organs and institutions</strong></td>
<td>34.55</td>
<td>35.06</td>
<td>32.25</td>
<td>9.40</td>
</tr>
<tr>
<td><strong>State-owned Enterprises</strong></td>
<td>25.77</td>
<td>25.1</td>
<td>22.46</td>
<td>14.06</td>
</tr>
<tr>
<td><strong>Urban Collective Enterprises</strong></td>
<td>2.65</td>
<td>3.77</td>
<td>2.43</td>
<td>2.24</td>
</tr>
<tr>
<td><strong>Foreign Investment Enterprises</strong></td>
<td>6.08</td>
<td>7.82</td>
<td>9.27</td>
<td>18.07</td>
</tr>
<tr>
<td><strong>Urban Private Enterprises and Others</strong></td>
<td>12.74</td>
<td>19.07</td>
<td>25.81</td>
<td>53.42</td>
</tr>
<tr>
<td><strong>Private Non-Profit and Social Groups</strong></td>
<td>1.5</td>
<td>1.64</td>
<td>1.51</td>
<td>0.81</td>
</tr>
<tr>
<td><strong>Other</strong></td>
<td>16.71</td>
<td>7.54</td>
<td>6.27</td>
<td>2.00</td>
</tr>
<tr>
<td><strong>Public Sectors Total</strong></td>
<td>62.97</td>
<td>63.93</td>
<td>57.14</td>
<td>25.70</td>
</tr>
<tr>
<td><strong>Private Sectors Total</strong></td>
<td>20.32</td>
<td>28.53</td>
<td>36.59</td>
<td>72.30</td>
</tr>
</tbody>
</table>

Data Source: MOHURD (2016) and Shanghai HPFAC (2018).
Table 5 provides an overview of HPF contributions by sector at national level and a snapshot comparison with Shanghai in 2016. According to (MOHURD 2016), average participation by state sector employees remains predominant at national level, with some slight decline from a total of 63% in 2014 down to 57% in 2016. In the private sector, there has been dramatic increase in participation by domestic private firms from 12.74% in 2014 to 25.81 in 2016. Local variations however are significant and greater private sector participation by domestic and foreign enterprises is often seen in coastal areas. In Shanghai, for example, domestic private enterprises share 53.42% of overall HPF contribution, followed by 18.07% from foreign investment enterprises (SHHPFAC 2018). The state sector only shares 25.70% in Shanghai in comparison to a national average of 57.14% (SHHPFAC 2018, MOHURD 2016).

The implementation of HPF has been highly decentralized from the beginning. There has been increasing efforts by central government in recent years to impose “top-level design” (dingceng sheji), though with very limited success. At the central level, policymaking largely resides at the State Council and its subsidiaries, such as Ministry of Housing and Urban Development (MOHURD), Ministry of National Land Resources, Ministry of Finance (MOF), State Administration of Taxation, and People’s Bank of China. The prominent level of bureaucratic fragmentation at central level may contribute to policy ambiguities and inconsistencies, which is conducive to greater local agency. At the same time, the National People’s Congress has played minimum roles since most of the reform measures were passed as administrative rules rather than legislative laws.

Similar to other reform programs in 1990s, significant autonomy and flexibility were given to local agents to administer the funds and make decisions regarding contribution shares, credit ceilings. and usage of funds. This move was made in part to be consistent with broader
decentralization and reform of fiscal revenue sharing and SOEs, and in part due to the nature of institutional design in the original Singaporean city-state model. At local level, HPF is divided into the administrative or operational branch, and a localized decision-making body that serves to coordinate the principal-agent relations between work units and individuals, and the local government. Figure 11 presents a simplified picture of the policy processes that involves some vertical and hierarchical policymaking structure between central and local level, and a more horizontal and coordinative implementation and administration network at local level.

**Figure 11 Decentralized Decision-Making and Administration of Housing Provident Fund**

![Diagram of HPF Administration and Policymaking](source: Compiled by author.)

The municipal HPF Administration Centers (HPFAC) collect contributions from individuals and firms and administer the funds. Local commercial banks under PBOC oversight act as trustees and professionally manage these funds on behalf of the HPFAC. The key local decision-making body is the HPF Committee, which serves as a tripartite co-determination structure between local
government, work unit and labor union representatives. As mentioned earlier, private firms and their employees now contribute a large share of the HPF funds in coastal cities. Nonetheless, the co-determination often involves primarily SOEs and government employees, with little or no participation from the private sector.

It is worth noting that earlier implementation relies heavily on local self-governance and there was little oversight by the central government. Over time, the central government has established some compliance monitoring and program evaluation mechanisms, but data reporting has been largely inconsistent until early 2010s. The central government at times attempts to revise its guidelines based on local implementation outcomes and societal feedback. Despite such efforts, there has been only one successful revision of key HPF regulations in 2002 and an unsuccessful attempt in 2015-2016. The 2002 revisions signaled central government’s intentions to strengthen compliance monitoring mechanisms and to streamline the institutional structures of local administration (State Council 2002).

In 2015 and 2016, the State Council Legislative Affairs Office (SCLAO) and MOHURD proposed draft revisions and sought to strengthen national regulations on local HPF administration, with goals to expand HPF coverage to rural migrants and remove existing restrictions on certain types of fund extraction imposed by local governments (SCLAO 2015). Interestingly, these draft revisions were never passed. This together with the failed legislative attempts on National Housing Security Law illustrates continuing difficulties for the central government to impose “top-level design” despite its intentions to do so. While MOHURD has managed to establish a national HPF data platform and impose stricter data reporting requirements, local governments still enjoy great autonomy and preserve most of the decision-making powers on day-to-day HPF administration that were granted in the original 1998 and 2002 regulations.
In contrast to the institutionalization of the HPF program that target urban employees, the implementation of the ECH and CRH programs experienced significant challenges as local governments often seek to neglect, delay, or adapt these programs to local developmental or social stability goals. This is not surprising since these affordable housing programs by their nature require greater government responsibility either in forms of land supply, government finance for new construction, or government subsidies for purchase or rental. With limited capacity themselves, local governments also rely heavily on a variety of local agents during implementation, including real estate developers, commercial banks or investment companies as illustrated in Figure 12 and Table 6. It is also worth mentioning that work units often directly or indirectly participate in these programs especially in the case of ECH or PRH programs that specifically targeted their employees. The primary funding sources of these projects are central government fiscal allocation or transfers, local government direct expenditures, and commercial bank loans. In recent years, the central government has also mandated that extra revenues generated by HPF should be used to support affordable housing development, providing another source of funding to these programs (State Council 2007b).

Policy drift and conversion frequently occurs in local implementation of these asset-based welfare and rental programs. Policy drift is defined as deliberate neglect on institutional maintenance and slippage in policy practices on the ground (Thelen 2009). In affordable housing it often takes the forms of delay of implementation, tight eligibility criteria, lagged subsidy adjustments, and narrower coverage or undersupply in service delivery in comparison to original central objectives. Policy conversion defined as redeployment of old policy institutions for new purposes through redirection or reinterpretation (Thelen 2009). In this regard, both ECH and PRH
programs experienced significant conversion as local governments seek to reinterpret these programs and adapt them to meet local developmental needs.

**Figure 12 Agents and Policy Processes of Post-Reform Affordable Housing Programs**

Source: Compiled by author.

The initial objective of ECH as an asset-based welfare program was to complement the transition from communist welfare housing to a commodity housing market, and to bridge the gap between the relatively low wage level of urban residents at the time in comparison to the high price of commodity housing. By introducing this approach in 1990s, nonetheless, the central government explicitly encourages housing ownership even for low- and middle-income families. More importantly, the built-in ambiguities in earlier policy guidelines and the absence of central fiscal support provide negative incentives for local governments and allows noncompliance with original policy goals. Without central government fiscal support, local governments were mandated to
provide free- or low-cost land, waivers on real estate taxes and development fees, and regulation on private developers to keep the profit margin no more than three percent (Deng, Shen, and Wang 2011). Not surprisingly, local governments instead seek to adapt the program to reduce its fiscal burden and meet local developmental goals.

Table 6 Agency and Policy Institutions in Affordable Housing

<table>
<thead>
<tr>
<th></th>
<th>Orientations</th>
<th>Capabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Central government</strong></td>
<td>Asset-based welfare/ownership to multilayered approach for each targeted population; Commodity to entitlement/rights-based approach</td>
<td>Policymaking, land allocation, planning, regulation, fiscal transfer, unfunded mandates</td>
</tr>
<tr>
<td><strong>Local government</strong></td>
<td>High stake in booming real estate market, affordable housing as a tool for urban renewal, cadre promotion, and social stability</td>
<td>Implementation, planning, land expropriation and supply, administration, “enabling” and coordination</td>
</tr>
<tr>
<td><strong>Real estate developers</strong></td>
<td>High stake in booming real estate market, affordable housing as means to acquire land, subsidies and loans</td>
<td>Affordable housing development, tie-in construction in inclusionary zoning</td>
</tr>
<tr>
<td><strong>Banks and Insurers</strong></td>
<td>Close ties with local governments and SOEs; under central bank oversight</td>
<td>Provision of low-interest loans/insurance to affordable housing projects; HPF administration</td>
</tr>
<tr>
<td><strong>Work units</strong></td>
<td>Interests in retaining employees and meeting their housing needs</td>
<td>Co-development and management of AH programs, matching HPF contributions</td>
</tr>
</tbody>
</table>

Source: Compiled by author.

Earlier implementation relies heavily on local real-estate developers, work units and particularly SOEs. With a highly decentralized implementation system, policy conversion frequently occurs. Some ECH programs were turned into asset-based welfare programs for specific work units, benefiting primarily urban state and public employees. The absence of national ECH standards also allow local governments and work units to construct larger ECH units that are more expensive than low-income households can afford. Surprisingly, the State Council and MOHURD
did not impose living space restrictions on ECH until 2007, even though such restrictions have been imposed on certain types of commodity housing development since 2004. In other cases, local governments reinterpret ECH and use it as means to provide compensation to relocated urban residents for urban renewal purpose. Shanghai for example created a special form of ECH named demolition and relocation housing (DRH). The program allows municipal government to expropriate land from rural residents in remote areas, then work with real estate developers in developing ECH communities. Such practices will be furthered discussed in the subnational case studies later.

The local distortions have resulted in central government attempts to impose stricter compliance measures. Nonetheless, such measures achieved limited success and resulted in MOHURD’s 2013 announcement for gradual termination of ECH. This move was once viewed as a signal that the central government would finally turn away from asset-based welfare and the ownership approach to focus on PRH and other rental programs with less hukou restrictions. Surprisingly, ECH as a policy institution has proven to be resilient as many cities continue to build and supply ECH after MOHURD’s decision. Furthermore, as an adapted form of ECH, the joint-property rights housing or JPRH has been preserved and now entered nationwide implementation. This program was initially experimented and implemented in Huai’an, a city close to Shanghai since 2007.

In 2009, Shanghai began its own experimentation and incorporated JPRH into existing ECH programs with primary targets of urban residents with hukou. Without central guidelines, Shanghai’s experiment imposed strict eligibility criteria and established a lottery system for eligible households. By 2013, only 65000 eligible households were covered in this program. In respond to growing spontaneous local experiments, MOHURD in 2014 still expressed support for
existing JPRH experimentation in localities but recommend them to expand coverage to migrant
and other eligible populations (MOHURD 2014). Such recommendation however was largely
ignored by local governments. The 2017 guidelines removed this recommendation and allow pilot
cities to impose their own eligibility criteria including restrictions on hukou status (MOHURD
2017). By doing so, it implicitly recognizes the existing practices and supports local governments
to continue prioritizing asset-based welfare for urban residents with hukou.

The evolution of the means-tested rental programs also confirms that local agency as well
as local-central policy feedback are driving factors behind major policy changes. The original
means-tested rental program CRH targeted low-income households in urban areas, and was
included in both the 1994 and 1998 reform plans together with ECH. Nonetheless, the
implementation of CRH across localities started much later in many localities including Shanghai,
where the program was implemented in 2003. With a few exceptions such as Guangzhou, the
timing of nationwide implementation of CRH coincided with the political leadership change in
2003. By 2007, most cities have implemented CRH, though many have also imposed stricter
standards than the national guidelines.

In Shanghai and elsewhere, families had to meet the qualification of “twin-difficulties”
(\textit{shuangkun}) based on municipal poverty line or subsistence allowance eligibility, and a limit on
living space per person (Li 2011). Such eligibility criteria however are often extremely narrow and
often qualify only a small portion of households with housing difficulties. Although Shanghai has
gradually loosened this standard, the coverage remains extremely small and “sandwiched
households” who fall between ECH and CRH eligibility find themselves unable to receive
government support or afford commodity housing. Furthermore, only urban residents with hukou
are eligible for this program while rural migrants who often below to the low-income group are
left uncovered. To address the issue of under-coverage, the central government eventually created the new PRH program to add a new layer of protection for rural migrants as well as “sandwiched households” that fall between ECH and CRH programs, and mandate local governments to integrate the existing CRH program with the new PRH program.

As the subnational case studies demonstrated, the CRH program experienced more policy drift in comparison to other programs. First, the asset-based welfare programs such as HPF and ECH boost housing consumption and are largely consistent with local developmental goals. By contrast, means-tested rental programs such as CRH specifically targeted disadvantaged groups such as seniors, people with disabilities and extremely low-income households. The local governments may choose to provide physical production or rental subsidies to these households, and in practice most local governments choose to focus on new production as it will also boost infrastructure investment and therefore local GDP, a primary target for cadre promotion. Interestingly, Shanghai was an exception to this approach as they increasingly prioritize the market approach and provide rental subsidies for those family in need. The connection between export-oriented growth, local state entrepreneurialism and choice of affordable housing regimes will be further discussed in the subnational case studies later.

Second, in contrast to the built-in flexibilities in the ECH program, the CRH program imposed stricter developmental standards and as a result there were less room for local adaptations or distortions. In other words, local agency and the resulting policy drift are conditioned by the constraints imposed by the central government. This also explains why ECH programs were preferred by local governments during implementation. The lack of fiscal and political incentives by central government was evident in earlier years, as central guidelines often come in the forms of unfunded mandates before 2006. In addition, affordable housing targets was not incorporated
into the cadre responsibility system until 2008. According to Deng, Shen, and Wang (2011), local
governments have continued to find ways to resist CRH implementation or keep its eligibility
criteria as narrow as possible, because of both financial burdens and concerns over property values
in surrounding areas.

This pattern continued when the central government introduced the PRH program. Considered as an expanded version of CRH, PRH was intended to move beyond the current restrictions on hukou status commonly seen in most affordable housing programs, and to provide subsidized rental housing to urban residents solely based on housing needs and financial difficulties. The target population should cover lower-middle income urban families, newly employed workers with no housing, and migrants with stable employment in destination cities (MOHURD 2012). Similar to previous policy initiatives, nonetheless, local governments were left with significant flexibility to determine eligibility criteria, application materials required, types of housing provided, and sources of investment. It is not surprising then to see both policy drift and policy conversion occur to PRH. In earlier period of PRH implementation, the application rate was extremely low in many major cities as a result of distortions in eligibility criteria, mismatches between qualified and needy families, and lengthy and menial application processes (Lin 2012).

In addition, Shanghai was the first city attempted to reinterpret the program and turn it into employment-based work unit rental housing (WURH). While WURH does not impose restrictions on the hukou status, it requires employment verification and sometimes local residence for a certain number of years. In both cases of Shanghai and Guangzhou, eligibility criteria for WURH are often tied into employment in participating work units. Other local governments soon followed, and many operated the WURH program separately from the original CRH program that targeted at low-income urban residents with hukou. As a result, housing units are often located in
concentrated areas around or within industrial parks or factories. Housing conditions and choices vary greatly between the more educated college graduates who are considered as “high talents” and the “blue-collar” rural migrants.

Table 7 Evolution of Asset-Based Welfare: From ECH to JPRH

<table>
<thead>
<tr>
<th></th>
<th>Economic and Comfortable Housing (ECH)</th>
<th>Joint-Property Rights Housing (JPRH/New ECH)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Origin</strong></td>
<td>Singapore</td>
<td>Britain; New Zealand</td>
</tr>
<tr>
<td><strong>Land Use</strong></td>
<td>Administrative allocation</td>
<td>Land transfer</td>
</tr>
<tr>
<td><strong>Financing &amp; Construction</strong></td>
<td>Local government financing; built-operate-transfer (BOT)</td>
<td>Local government financing; public private partnership (PPP)</td>
</tr>
<tr>
<td><strong>Pricing</strong></td>
<td>Cost-plus pricing E.g. Cost + 3%</td>
<td>Market</td>
</tr>
<tr>
<td><strong>Target Population</strong></td>
<td>Lower-middle and middle-income households</td>
<td>Low-income and “Sandwiched households”</td>
</tr>
<tr>
<td><strong>HRS (Hukou)</strong></td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Tenure Type</strong></td>
<td>Conditional purchase; limited property; exit only, no transfer</td>
<td>Conditional purchase; joint property; 7:3 or 5:5; can be transferred after purchasing government share</td>
</tr>
</tbody>
</table>

Source: Compiled by Author.

These emerging problems in rental programs along with the distortions in asset-based programs forced the State Council and MOHURD to take actions in 2013. The proposed new integrated model called for gradual withdrawal of ECH which still dominated the affordable housing stock, and mandate local governments to combine PRH and CRH programs into a newly integrated PRH (MOHURD 2013). Table 7 and Table 8 compares the original and new asset-based welfare and rental programs in detail. In general, the recent programs require less direct local government responsibility and instead relies on market and quasi-market mechanisms for financing and service delivery. While all these programs originated from foreign models, local policy experiments and implementation provide important feedback mechanisms for their institutional resiliency in China. The introduction and active promotion of public-private
partnership (PPP) by central agencies in recent years seeks to address the financing problem that long existed in affordable housing programs and the resulting undersupply or distortions.

| Table 8 Evolution of the Means-Tested Rental Programs |
|---------------------------------|---------------------------------|
| **Cheap Rental Housing (CRH)** | **Public Rental Housing (PRH)** |
| **Origin** | Singapore | Hong Kong |
| **Financing & Administration** | Local government financing; government administration | Central government fiscal transfer; public-private partnership |
| **Service delivery** | Rental subsidies or physical provision | Rental subsidies or physical provision |
| **Target Population** | “Twin difficulties” households with extremely low income and minimum living space | Loosened criteria for “Twin difficulties” households with hukou “Sandwiched households”, young professionals and rural migrants with employment |
| **HRS (Hukou)** | Yes | No |
| **Tenure type** | Rental; exit only, transfer not allowed | Rental; exit only, transfer not allowed |

Source: Compiled by author.

In comparison to government financing and administration of the original programs, the new JPRH and PRH program involves not only greater fiscal support by central government, but also promotes PPP as a financing mechanism and encourage risk sharing between local governments and participating private investors. The pluralization of financing and service delivery allows local governments to increasingly rely on a variety of local actors and institutions such as work units, industrial parks, and commodity markets. While it is still too early to assess whether the latest programs will be successfully institutionalized, case studies in Shanghai and Guangzhou shows that they were more products of local-central feedback rather than “top-level design”. The JPRH program still targets urban residents with hukou, but with built-in risk and profit-sharing mechanisms between local governments, private investors, and the intended beneficiaries. PRH program has also been increasingly adapted by local governments as means to
attract skilled migrants or young professionals without significant fiscal burden. These moves so far have been tolerated and even supported by the central government, although the later has sought to intervene when more serious issues such as quality control or corruption occurs.

The housing reform is therefore marked by varying forms of policy changes driven by local agency and local-central feedback. First, policy layering was marked by differential growth among asset-based welfare and rental programs. Overtime, local governments prioritize certain policy instruments and adapt them to serve the interests of local insiders and meet development needs. In general, middle-income urban employees and residents are primary beneficiaries of the asset-based welfare programs. On the other hand, housing needs by low-income residents and migrants are met by highly conditioned and stratified public rental approaches. With lack of fiscal and political incentives, policy drift in CRH implementation resulted in central government attempts to impose new mandates, greater fiscal support, and ultimately integrate it into the new PRH program. Finally, policy conversion occurred when ECH and PRH programs were reinterpreted and adapted by local governments to serve developmental purposes such as urban renewal or brain gain. These local practices in turn provides feedback into central policymaking, which explains the institutional resiliency of asset-based welfare approaches despite changing central policy rhetoric towards a rights-based or housing as entitlement approach.

**Conclusion**

By tracing policy reforms at national level and their implementations at subnational level, this chapter presents a strategic relational approach in understanding multi-level policy feedback and the resulting policy changes. While earlier national reform was marked by housing commodification and a clear focus on asset-based welfare, the central policy rhetoric has gradually moved away from housing as growth engine to housing as social investment. With stricter
implementation guidelines, greater fiscal and political incentives, the central government has sought to impose “top-level” design and promotes a layered and more inclusive approach in affordable housing provision that covers both urban residents with hukou and rural migrants.

At local level, earlier housing commodification has resulted in increasing housing affordability issues especially in coastal regions. While local governments have attempted to address these issues, they also created local definitions of insiders and outsiders by actively interpreting central government policies.

Such local agency however is highly conditioned by political institutional factors given the nature of central-local relations or political-territorial representation. Rather than viewing central-local relations as completely top-down, I argue that it is necessary to examine the bottom-up patterns and how local processes provide feedback to central policymaking. The highly decentralized nature of housing reform and the emerging variations in local policy practices have created obstacles for the passage of a comprehensive national housing law. Policy conversions and drifts frequently occur in earlier top-down programs such as CRH and ECH. This eventually resulted in integration of CRH into the new PRH program, and MOHURD unsuccessful efforts to dismantle the ECH program. In both cases of Shanghai and Guangzhou, local policy layering has been largely tolerated by central government, and “policy innovations” such as WURH and JPRH have resulted in more active response and incorporation of such programs into future national reforms despite their deviation from earlier central rhetoric.

Furthermore, local agency can take varying forms and follow diverse trajectories because of increasingly diversified and regionalized political economy. The subnational comparison between Shanghai and Guangzhou reveals how political institutional factors may interplay with differences in local EOG growth strategies in creating diverging paths of affordable housing
regimes. The prioritization of an ownership approach and asset-based welfare as well as earlier establishment of quasi-market mechanisms in Shanghai can be explained by its state-led urban development in the form of transnational financial and technology complex. Such development however has created a highly stratified system of housing provision, favoring urban residents with hukou and some conditioned support for more educated and skilled migrants. By contrast, Guangzhou’ dormitory labor regime has interacted with its limited policy autonomy in prioritizing commodity and means-tested rental programs with broader coverage and less stratified provision between urban residents and migrants. In both cases, affordable housing policies have been used as “implicit social contract” between local governments, the local affordable housing networks, and the intended beneficiaries.
CHAPTER 4

THE POLITICAL ECONOMY OF HEALTHCARE REFORM

Introduction

In comparison to housing, healthcare has always been an indisputable central pillar of the welfare state. While the market has played increasingly important roles in the neoliberal years, healthcare was never considered as a pure commodity and the role of the government has been much stronger compared to housing even in the most liberal market economies. For developing and transitioning countries, however, limited state capacity is often coupled with institutional weakness, resulting in simultaneous government and market failure (Eggleston, Wang, and Rao 2008). In recent years, the World Health Organization (WHO) has promoted state-led reforms in universal coverage and a community-based primary care system (WHO 2018a, b). The rise of the third sector in healthcare in the West as well as many post-communist countries has been well-documented in the comparative social policy literature (Chaney and Wincott 2014, Evers and Laville 2004). Instead of a dichotomy of state versus market, there has been a growing focus on a pluralized approach with emphasis on community actors in both financing and service delivery to ensure basic health rights and access to care.

Healthcare reform in China follows similar trajectories, although the domestic forces and processes are at least as important as policy learning and diffusion from elsewhere. Earlier reform since 1980s promoted marketization of the health sector, but the debates around proper roles of state and market intensified in 1990s. By early 2000s, the increasing insecurity generated by dismantling of the communist healthcare system, the informality existed under the newly marketized system, and the largely absent role of the state in financing inevitably led to a public health crisis following the outbreak of the Severe Acute respiratory Syndrome (SARs) epidemic.
This crisis eventually became a tipping point in China’s healthcare reform. In contrast to the other two policy sectors in discussion, the return of the state was much earlier in healthcare as national debates about healthcare followed the SARs crisis and the reform began in 2005. By 2010s China has dramatically increased government health expenditure and achieved some conditioned form of universal coverage. By contrast, in housing similar national reform measures were proposed but failed to achieve significant outcomes.

Despite these widely praised efforts, Chinese citizens have consistently complained about “medical treatment is too difficult to access and too expensive” (kanbingnan, kanbinggui). The increasing government inputs and expanding coverage has largely failed to improve perceptions about healthcare affordability and access. Stagnant service delivery reforms have been viewed as a major contributing factor. More reform measures were proposed in 2015 to the supply side issues such as the dominance of public hospitals and widespread distortions and inefficiencies in provision of care as well as establishing a community-based primary care system. In 2018, the party-state proposed to establish a new State Medical Insurance Administration to resolve the issue of bureaucratic fragmentation and coordinate sector reforms in national medical insurance schemes, healthcare regulation and medical assistance. Although the effects of these new reform measures are still too early to be assessed, they represented the party-state’s acknowledgement of still unresolved issues in previous reforms. Contrary to the conventional wisdom, the 2009 reform did not represent a full return of the state or “restoration of the communist color”. Instead, the central and local governments explicitly promoted a mixed model of “government guidance, market operations, and societal participation”.

This chapter attempts to evaluate the evolution of healthcare reform in China and examine the meaning of “quasi-market” and “welfare mix” in healthcare. In comparison to housing, the
policy rhetoric shifts from pro-growth to pro-equity have resulted in more tangible reform outcomes in healthcare, due to increasing national consensus for greater government responsibility after the SARS crisis. However, the return of the state did not necessarily lead to immediate improvements in affordability and access to care for disadvantaged social groups. The implementation of “new healthcare reform” since 2009 has made significant achievements on the financing front, although its efforts to improve service delivery will take years to be completed and then evaluated. Two pillars of the new reform are examined: the social insurance pillar marked by expansion and integration of employment and residence-based health insurance schemes, and the social protection pillar that includes critical illness insurance and medical assistance programs. In addition, service delivery reforms will be discussed in relation to these programs as well as how they will impact healthcare access for the urban poor and rural migrants.

Similar to housing reform, the central and local governments have proposed a “multi-layered” approach that provides conditioned universal coverage with additional government support for disadvantaged populations. Reforms in the social insurance and protection pillars have resulted in greater government expenditure in recent years and dramatic decrease in out-of-pocket costs. Nonetheless, the supply-side reforms have taken a much slower pace. The problems generated by earlier state-marketization are still to be addressed, such as dominance of public hospitals, inefficient use of fiscal subsidies and highly unequal distribution of healthcare resources across regions and between urban and rural areas. Finally, while social protection programs have been in place, local governments are allowed significant discretion in implementation, resulting in variations in eligibility and coverage.

At local level, fiscal decentralization, earlier marketization and bureaucratic fragmentation have interacted with local state entrepreneurialism to cause rising healthcare costs on the one hand
and growing regional disparities and local stratification in healthcare access on the other. Hukou, residence and employment status remain significant institutional barriers for more equitable payment mechanisms and access to care. In the absence of coordinated reforms in other sectors, the move towards universalism and expansion of coverage has worked in silos, creating tremendous challenges for healthcare access by the growing migrant population. In coastal urban areas, local healthcare system still favors urban residents with hukou, although separate schemes were introduced to migrants at times may receive conditioned support based on their employment status. On the supply side, the dominance of public hospitals and distortions in principal-agent relations in the administrative hierarchy has led to increasing concentration of health resources in large urban centers, further intensifying uneven development across localities.

The case studies of Shanghai and Guangzhou find that there are more consistencies between central reform rhetoric and actual implementation on the ground in healthcare in comparison to housing. Regardless of these consistencies, local agency still plays significant roles. Even after the 2009 national healthcare reform, Shanghai has maintained a relatively coherent social insurance approach with limited commitment to government responsibility. On the supply side, Shanghai has strongly promoted state-led development with emphasis on large public hospitals. At the same time, greater local-central policy feedback can be seen in adoption of Shanghai’s approach in case studies published by central ministries in 2016 and the incorporation of its elements in later national reform plans. By contrast, Guangzhou has been more in line with last round of central reform guidelines, with greater inclusive measures for rural migrants, increased fiscal spending for medical assistance, and an explicit commitment to government responsibility in policy discourses. Still, provincial and municipal party cadres and civil servants have been mobilized to successfully preserve the pre-reform free medical care for themselves. In
both cases, the service delivery model is still dominated by state actors and healthcare financing systems remain highly stratified.

**National Healthcare Reform: From Marketization to Universalism?**

Similar to housing, the reform of healthcare system can be roughly divided into three phases: the rehabilitation and transitioning period of 1978 to 1984, the marketization period from 1985 to 2004, and the reversal of central policy rhetoric towards universal entitlement since 2005. In comparison to the other two policy areas analyzed in this research, healthcare reform took the most dramatic and decisive turn from an earlier marketization approach to greater government responsibility and community-centered approach as early as 2005. Most significantly, healthcare reform in China were often crisis-driven, first by fiscal considerations during 1980s and 1990s, and then by a major public health crisis in 2000s.

**From State Monopoly to State-led Marketization: The Political and Economic Logics of Healthcare Reform before SARS**

Healthcare during Maoist era was marked by state monopoly in urban areas and a community-based approach in rural areas. Following the centrally planned model in Soviet Union, China established a stratified national healthcare system divided by three pillars: the urban publicly-funded free medical care (gongfei yiliao) for government and public-sector employees, university students and disabled veterans; the Labor Insurance Medical Care (laobao yiliao) for urban employees; and the rural cooperative medical scheme (nongcun hezuo yiliao) for peasants. In addition to government administered public hospitals, work units also established their own health centers, providing primary care to their employees and families. The urban financing and service delivery systems therefore were largely monopolized by the state and distributed through
local governments and work units. By contrast, rural cooperative care relies heavily on the rural collective economy and self-financing of peasants (Zhang 2011).

While service delivery was monopolized by state provision, only Free Medical Care was directly funded by the state. For labor insurance and rural cooperative care models, work units, rural communes and individuals and their families contributed to a significant share in healthcare financing at least in name. Data shows that by 1978 direct government expenditure constitute only 32% of total healthcare expenditure in comparison to 47% by work units. Individual out-of-pocket payments constitute another 20%, which is considerably low in comparison to the maximum of 60% during post-reform marketization era (National Bureau of Statistics China 2018). Although administration and fund allocation rights are decentralized to work units and local governments, central government financing still serves as the “last resort” due to the nature of the planned economy (Wang 2013).

Despite the limited healthcare resources, the communist healthcare system was highly de-commodified with near universal coverage of the general population for service delivery. Life expectancy grew significantly from 35-40 in 1949 to 65.6-70 in 1980 and the public health achievements were recognized by WHO as a model for low-income countries (Babiarz et al. 2015, Banister and Hill 2004, Zhang 2011). However, key similarities existed between healthcare and housing in terms of strict price control, constant supply shortage and highly stratified provision. On average, urban employees and residents enjoy greater state-guaranteed access to healthcare in comparison to rural residents. Although pre-reform data was largely missing, in 1980 there were 18 health professionals per 10000 people in rural areas in comparison to 80 per 10000 people in urban areas, indicating significant inequality in access to care (National Bureau of Statistics China
Among urban employees, government officials with high administrative ranks received most privileged access as covered by government-funded FMC (Zhang 2011).

As mentioned in Chapter 3, China’s economic reform took a gradual and incremental approach, although the pace of reform varied across economic and social sectors. Within healthcare, reform measures largely focused exclusively on urban areas while rural residents were largely left out. For urban employees and residents, the communist healthcare system remained largely intact during earlier years of reform before marketization measures were first introduced in 1985. Nonetheless, once the marketization reform took shape, urban employees and residents without Free Medical Care faced a dramatic increase in out-of-pocket costs accompanied by significant decline in healthcare access.

By contrast, the dismantling of the communist rural healthcare system began as early as 1979. In rural areas, economic structural reform quickly led to the dismantling of RCMS and the disappearance of “barefoot doctors”. Such disintegration however was not complemented with market-based reform measures, creating an institutional vacuum that dramatically increased out-of-pocket costs for rural residents. Nonetheless, the absence of state-led marketization measures led to only moderate decline of healthcare access although urban-rural divide persisted as discussed later.

The 1984 Ministry of Health (MOH)’s Report on Several Policy Issues regarding Healthcare Reform was approved by the State Council and distributed to local governments in 1985, signaling the party-state’s official support for nationwide healthcare marketization.

Notably, MOH has been a strong advocate of marketization reform since 1979, when the MOH Minister Qian Zhongong proposed to modernize China’s healthcare system by “using economic measures to manage healthcare” (“1979” 2007). Before 1985 national reform, MOH has led public
hospital reform experiments in five provinces with the goals of establishing a performance-based system for fiscal allocation that includes “fixed subsidies, economic accounting, system of rewards and punishment” ("1979" 2007). The State Council also approved MOH’s proposal to allow practicing doctors to apply for private practice, ending the monopoly of state-owned public hospitals and local health centers.

In contrast to housing commodification, however, the supply-side reform in 1980s and 1990s focused primarily on reforming public hospitals with limited privatization. Healthcare reform during this period thus resembled production regime reform that prioritized SOE reform with selective privatization. First, by granting public hospitals more administrative autonomy and establishing an economic management responsibility system, it established a primitive quasi-market system in which public hospitals now competing for patient services and seeking profits from patient charges. Public hospitals were allowed to “assist medicine through non-medicine and supplement primary work with auxiliary work” (yigong yangyi, yifu buzhu) (State Council 1989). A direct effect was that hospitals increasingly relied on unnecessary tests, drugs and surgeries to generate profits and distribute bonuses to their staff (Hsiao 2015). Although the State Council attempted to make a distinction non-profit and for-profit hospitals and impose separate regulatory standards in 2000, such attempt failed to prevent public hospitals from pursuing a medical equipment “arms race” and transferring the costs to patient services and medicine markups. Despite intense debates about the proper role of the state versus market, those against marketization were criticized being “conservative and obstructing reform” and quickly muted, such as in the case of Daqui Yin, then Deputy MOH Minister who argued against marketization and emphasized social justice in 1993 (Cao and Fu 2005).
Second, limited privatization in healthcare sector reflects the logic of “grasping the large, letting go the small” (zhuada fangxiao) of SOE reform, resulting in a state-led marketization that prioritize survival and prosperity of large public hospitals while attempting to maintain state control. The administrative hierarchy between MOH, local government health agencies, and the public hospitals was largely intact. A public hospital director complained about the deficiencies of this administrative hierarchy as “micro management, poor leadership” (Dong 2010). On the other hand, earlier privatization occurred mostly in under-performing county- and town-level health centers while large public hospitals were encouraged to seek profits, and the boundary between state and market became increasingly blurred. For instance, the public hospitals could establish for-profit departments, resulting in conflicting objectives between maximizing profits and the intended social functions. By 2009, government budget subsidies constituted only 10% of public hospital revenue (World Bank 2018b). The decline of government budget subsidies over time means public hospitals increasingly rely on fee-for-service payments and pharmaceutical sales, acting similarly to their private counterparts.

For healthcare financing, the State Council’s two major decisions in 1997 and 1998, the Decision about Health Reform and Development and the Decision to Establish Urban Employee Basic Medical Insurance Scheme marked the official termination of the pre-reform work-unit based medical insurance schemes and the establishment of a new healthcare financing model for all urban employees that combines social pooling funds and personal accounts (State Council 1997, State Council 1998a). The new model resembles similar reforms in other social sectors, such as the employment-based housing provident fund and pension schemes. In comparison to the three-pillar pre-reform healthcare financing model, nonetheless, the new framework at the time only covers urban employees. In addition, the central government immediately introduced additional
medical subsidy for civil servants, essentially compensating central and local cadres for the preferential treatment they used to receive. By contrast, nationwide implementation of pro-poor programs was significantly delayed. For instance, the New Rural Cooperative Medical Care System (NRCMC) were introduced five years later in 2003, and the Urban Resident Basic Medical Insurance System (URBMI) and a medical assistance system was established after 2007.

The 1998 reform also significantly decentralized the regulatory structure. As a result, MOH was no longer the omnipotent central ministry that solely determines future directions of reform. On the one hand, local governments and public hospitals were granted greater autonomy to allow for policy experiments and innovations. On the other hand, at central level decentralization occurs when many functions of MOH were diverted into other agencies, such as Ministry of Labor and Social Security (MOLSS) and the newly established China Food and Drug Administration. This may help explain why national implementation for rural cooperative and urban resident schemes took years. In an interview in 2008, one MOH official complained about the difficulties in coordinating with other central agencies and the high transaction costs in making any reform plans ("Ministry of Health" 2008). As discussed in the next section, such bureaucratic fragmentation has profound impacts for future reform trajectories and resulted in greater societal inputs and significant compromises between competing preferences and viewpoints.

The timing and the nature of the 1998 reform can be explained by interaction of three factors: SOE reform, fiscal decentralization, and the Asian Financial Crisis. First, the SOE reform since 1990s resulted in rapid decline in work unit financing and employment-based insurance coverage. The now profit-seeking SOES were eager to get rid of the welfare burdens that central or local governments were unwilling to take over. Second, this reform complemented the fiscal decentralization reform in early 1990s and served the goal of reducing central government fiscal
responsibility on social policies. Healthcare financing reform thus transfer the financial burdens from central to local, and from government to individuals and their employers. Furthermore, the Asian Financial Crisis also generated debates about the necessity of greater social protection in healthcare. The successful implementation of housing provident fund as a precedent, another social insurance scheme helped push the similar reforms in the healthcare sector. Participation by urban employees grew exponentially from 18.7 million in 1998 to 138 million in 2005 (National Bureau of Statistics China 2018). By installing a new system that mandates social pooling that reduce central or local government fiscal responsibility, the implementation of the new UEBMS faced little obstacles on the ground.

Table 9 Healthcare Access and Expenditure during Marketization

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<th></th>
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</thead>
<tbody>
<tr>
<td>Healthcare Expenditure Per Capita (yuan)</td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td>Total</td>
<td>361.88</td>
<td>177.93</td>
<td>65.37</td>
<td>26.36</td>
<td>14.51</td>
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<tr>
<td>Urban Areas</td>
<td>812.95</td>
<td>401.28</td>
<td>158.82</td>
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<tr>
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<td>214.93</td>
<td>101.48</td>
<td>39.31</td>
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<td>--</td>
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<td>Healthcare Expenditure by Source (%)</td>
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<td>Direct government expenditure</td>
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<td>36</td>
<td>39</td>
<td>33</td>
<td>43</td>
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<td>Out-of-pocket payments</td>
<td>59</td>
<td>46</td>
<td>36</td>
<td>28</td>
<td>21</td>
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<td>Number of Healthcare Professionals (per 10000 people)</td>
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<td></td>
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<tr>
<td>Total</td>
<td>36</td>
<td>36</td>
<td>35</td>
<td>33</td>
<td>29</td>
</tr>
<tr>
<td>Urban Areas</td>
<td>52</td>
<td>54</td>
<td>66</td>
<td>79</td>
<td>80</td>
</tr>
<tr>
<td>Rural Areas</td>
<td>24</td>
<td>23</td>
<td>22</td>
<td>21</td>
<td>18</td>
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The marketization reform was also marked by a significant delay in implementation of the social-protection programs such as urban and rural medical assistance. In comparison to the financing and service delivery pillar, the development of the social protection pillar in healthcare has significantly fallen behind before 2009. In a 2002 guiding document, MOLSS encouraged local governments to “explore ways to establish social medical assistance systems and to help
solve healthcare issues for employees who have difficulties” and cannot afford regular social insurance (MOLSS 2002). Without specific mandates, it was not surprising that most local governments chose to ignore this “recommendation”. Overtime, the delay in implementation of residence-based schemes and medical assistance leads to significant policy layering between the different medical insurance schemes.

Table 9 captures changing patterns of healthcare access and expenditure during the marketization period. Urban healthcare access as measured by number of healthcare professionals per 10000 people declined from 80 to 52 between 1980 to 2000, in contrast to a moderate increase in rural areas from 18 to 25. Since the New Rural Cooperative Medical Scheme (NRCMS) was only introduced in 2003, the changes and disparities in healthcare access provides a controlled comparison with or without state-led marketization. On the other hand, healthcare expenditure rose dramatically from 14.51 yuan per capita to 361.88 yuan per capita with persistent gap between urban and rural areas. Direct government expenditure declined from 36% to 15% in 2000, while out-of-pocket costs increased from 21% to 59%. The decline of societal health expenditure can be largely explained by dismantling of work unit welfare and SOE reforms in 1990s. The shift from public to private financing was even more radical than most post-communist transitioning economies (Eggleston, Wang, and Rao 2008).

By 2000s, China has dramatically reduced the role of the state in the healthcare financing. The newly established medical insurance schemes retained the stratified structure of pre-reform communist schemes and favored urban over rural areas, and within urban areas those who are employed by work units. At the same time, the role of the state in service delivery became increasingly ambiguous, as public hospitals were incentivized to maximize profits instead of serving social functions. Selective privatization did occur but largely in less profitable county- and
town-level health centers and where local government has limited fiscal and administrative capacity and therefore little incentive to retain the public actors. And the degree of private participation is not commensurable to those in the housing sector. It is thus not surprising that the most dramatic privatization measures were undertaken in less wealthy regions and smaller urban areas. In coastal cities like Shanghai and Guangzhou, local governments have sought to retain and invest in public hospitals with their growing fiscal capacity fueled by export-oriented growth and local state entrepreneurialism. Such uneven developments have resulted in increasing disparities in healthcare expenditure patterns and stratified access to care.

The Return of State? An Emerging Welfare Mix under “Layered Universalism”

The outbreak of the SARS in 2003 was a turning point for healthcare reform in China. Before 2003, the marketization in healthcare was not without oppositions. Such opposition however was largely offset by stronger support for pro-reform political leaders from Shanghai, the market advocates within MOH, and local governments who are eager to relieve their increased fiscal burdens because of fiscal decentralization. However, the unexpected SARS outbreak quickly revealed several major flaws of the pro-market healthcare reform and turned the epidemic into a national health crisis.

Most importantly, the crisis occurred at a time when the newly established national insurance model covered a small portion of the general population only. The employment-based UEBMI covered a sizable portion of urban employees, but the residence based URBMI and the rural NRCMC were still in stage of local experimentation. Data shows that in 2003, roughly 1.09 million people were covered in UEBMI, with another 8.9 million urban residents covered by URBMI and 6.54 million rural residents covered by NRCMC. This means most of the population were left uncovered by any type of government support and they had to pay for treatments out-of-
pocket. Furthermore, there were frequently reported cases where profit seeking public hospitals declined to treat patients using these schemes or find them unable to pay. As a result, MOF, MOH and MOLSS issued an emergency notification requiring local governments, work units and public hospitals providing necessary care based on patient needs rather than their ability to pay (MOF, MOH, and MOLSS 2003).

The SARS crisis and the resulting healthcare system failure generated a nationwide debate about the proper role of the state versus market in healthcare. It also resulted in significant restructuring within MOH and major shifts in its policy rhetoric. The pro-market MOH minister Zhang Wenkang was replaced by Vice Premier Wu Yi in 2003, who was then succeeded by two technocrats, Gao Qiang, a fiscal policy expert and then Secretary General of the State Council, and Chen Zhu, a non-partisan, highly respected public health expert. Internally, MOH also underwent significant institutional reform and established three new divisions: policy and regulation, emergency management, and rural health administration. By 2005, MOH began to reverse its earlier pro-marketization tones, as the head of Policy and Regulation Division Liu Xinming stated “marketization is no longer the orientation of healthcare reform” in a work meeting and was published as headline on a newspaper under MOH ("Marketization" 2005). A report by State Council Development Research Center several months later also admitted that “healthcare reform has largely failed”, a shocking statement that was widely reported and discussed by the general public (Center 2005).

Interestingly, the central government framed the failure of marketization as failure of the market and called for the return of the state, showing concerns for political legitimacy. Instead of addressing the issue of conflicting incentive structure for public hospitals, the central government halted the privatization reform that were undergoing in selective cities and attributed the failure of
reform to “over-marketization”. However, many scholars and policy experts debated whether it was truly a market failure or more of a government failure, considering the incomplete marketization measures, the dominance of public hospitals, and the drastic decline in government expenditure. In an interview with China Newsweek, a pro-market policy expert complains that “it was evidently centrally planned administrative monopoly that resulted in artificially high drug prices and inefficient allocation of resources… but this round of healthcare reform now blames marketization.” (Jie 2015).

The “new healthcare reform” hence began in 2005. However, it took another four years before the reform plan was finalized, during which central agencies and sectoral interests competed for influence, and international institutions such as WHO and World Bank played advisory roles. In general, this new plan was formulated more cautiously, and in a relatively participatory process with considerable inputs from inside and outside of the state. According to Newsweek (2006), MOH behind the doors favored the British National Health Service Model that would allow for free primary care and development of community-based healthcare centers as gatekeepers for more advanced healthcare services. On the other hand, MOF and MOLSS preferred the German National Insurance Model which would require less direct government responsibility and focus on establishing universal coverage and a social safety net (Newsweek 2006).

Beyond the bureaucratic agencies, domestic and international think tanks and policy experts were also invited to draft competing plans for the national reform. In a 2008 interview, one policy expert who participated in the reform process mentioned that the original 6 reform plans largely represented voices from MOH, MOF, and MOLSS (“Ministry of Health” 2008). Then MOH Minister Gao Qiang described the reform process as “an efficient and highly responsive working mechanism” through which “a dozen of department leaders, experts and professionals
communicating with each other and make policies through team work” ("Ministry of Health" 2008). The central government also for the first time used the internet to gather public comments on line, and reported that more than 35,000 comments were collected ("New Healthcare Reform" 2008).

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</thead>
<tbody>
<tr>
<td>UBMI (% of Urban Population)</td>
<td>86%</td>
<td>80%</td>
<td>78%</td>
<td>75%</td>
<td>69%</td>
<td>--</td>
<td>62%</td>
</tr>
<tr>
<td>UEBMI (% of Urban employed)</td>
<td>71%</td>
<td>72%</td>
<td>72%</td>
<td>71%</td>
<td>70%</td>
<td>68%</td>
<td>66%</td>
</tr>
<tr>
<td>NRCMC (% of Rural Population)</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>50%</td>
<td>15%</td>
<td>--</td>
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The finalized “new healthcare reform plan” in 2009 therefore represents major compromises between primarily competing bureaucratic with some degree of societal inputs. It introduced a hybrid approach that is “government-led” (zhengfu zhudao) but supplemented by private and community participation. Two of the four institutional pillars are of interest here: the healthcare service system and the healthcare insurance system. According to this plan, the phase one of the reform would prioritize universal coverage while phase two would focus on improving healthcare access by reforming public hospitals and establishing a community-based primary care system. Up until now, the central government has made significant achievements in implementing phase one. Table 10 shows that although universalism has not been completely achieved, most urban residents and over 50% of rural residents are covered in at least one of the three national insurance schemes.

In addition, the central government published *Suggestions on Further Improving Urban-Rural Medical Assistance System* to mandate nationwide implementation of the medical assistance system since 2009. As mentioned earlier, despite first mentioning of “medical assistance” in 2002, earlier ambiguous central “recommendation” led to significant policy drift on the ground. The
publication of the 2009 guideline thus mark a turning point as it mandates nationwide implementation. By 2015, 28 out of 34 provinces and directly-controlled municipalities have published implementation guidelines (MInistry of Civil Affairs 2016). The expansion of the program can be reflected in growth in number of recipients as well as expenditure in urban and rural areas. Limited data shows that from 2008 to 2012, the number of recipients of medical assistance rose from 4.44 million to 6.90 million (National Bureau of Statistics China 2018). Most significantly, rural medical assistance expenditure has been consistently higher than urban expenditure as shown in Figure 13. The empirical spending of this program is thus highly consistent with its policy rhetoric and in direct contrast with the earlier national reforms that are largely pro-urban and employment-based.

Figure 13 The Growth of Medical Assistance, Urban and Rural

The increasing insurance coverage and medical assistance is also complemented by changing patterns of healthcare financing in recent years. Figure 14 shows a U-shape pattern in government spending and a reversed u-shape in individual out-of-pocket expenses. Healthcare commodification as measured by individual out-of-pocket expenditure relative to direct government spending has significantly declined. Direct government spending has increased dramatically since 2007 and by 2015 it constitutes roughly 30% of overall healthcare expenditure. This is significant increase from the lowest point of 15% in 2000 during the marketization period. The gradual increase in urban and rural healthcare insurance coverage has led to moderate increase in societal expenditure as well, rising from the lowest point of 24% in 2001 to 40% in 2015. Finally, the most dramatic shift occurs in out-of-pocket payments, which declines from its peak of 60% in 2001 to 29% in 2015 (National Bureau of Statistics China 2018).

Despite the significant achievements, several key issues still challenge the new reform. First, the stratified social medical insurance system and the hukou system have created institutional and geographical barriers for rural migrants to access care in cities. For rural migrants who have participated in the new rural cooperative scheme, getting reimbursement from local authorities in their registered residence has been difficult if not impossible. By 2017, MOH has mandated major cities to allow for “cross-regional settlement” (yidi jie suan) but allows local governments to determine designated qualification for participating healthcare institutions. This has resulted in varying implementation results despite a growing list of participating cities. In some localities such as Shanghai, public hospitals with high administrative rank were left out, limiting rural migrant access to high-quality healthcare services. On the other hand, some local governments have experimented new policy instruments to better incorporate rural migrants into urban healthcare system, such as an integrated model in Shanghai or a separate migrant insurance scheme in
Guangzhou. Nonetheless, MOHRSS in 2017 explicitly argued against an integrated model at national level that would removes the hukou constraints and allow greater mobility in healthcare access. Instead, it has favored a highly decentralized gatekeeper system that would require insured participants to visit local healthcare institution first and register at local authorities before receiving treatments at a different locality (MOHRSS 2017).

*Figure 14 Changing Healthcare Financing in China, 1978-2015*


Second, the service delivery reform has taken a much slower pace and its effects are still yet to be seen. In contrast to the more radical approach of state-led marketization in 1990s, the service delivery reform since 2009 has been more incremental, decentralized, and increasingly conditioned by feedback processes from local experiments. In 2016, the National Health and Family Planning Commission (formally MOH) published 15 case studies that were considered as successful cases of local experimentation, recommending local governments to study these cases.
and adapt to their own circumstances. Interestingly, 7 out of the 15 cases selected in Shanghai and other two provinces in the Yangtze River Delta region, showing strong local-central feedback effects. In 2017, the State Council finally published the long-expected comprehensive public hospital reform plan, incorporating and institutionalizing policy experiments on the ground.

Finally, private participation has been encouraged but still marginalized in comparison to the dominant status of public hospitals, showing sustaining impact of earlier state-led marketization reform. Hospital bed ratio between public and private healthcare institutions were 5.16:1, even though private hospitals has outgrown public hospitals in absolute numbers (Li 2017). Most private hospitals focus on primary or maternity care, in comparison to more comprehensive services or specialized expertise provided at public hospitals. Table 11 provides a snapshot comparison between public and private hospitals in 2016. Except for total numbers, public hospitals outperform their private counterparts significantly in terms of administrative ranking, number of health professionals, number of patient visits, and revenue generated. In 2017, the State Council published the *Suggestions on Supporting Social Forces to Provide Diversified Healthcare Services* to partially equalize policy support for public and private hospitals (Council 2017). Nonetheless, local implementation has so far varied often offer conditioned support for private participation in areas such as “high-end” or specialized care.

Among all three policy sectors studied in this research, healthcare went through the most radical reversal of commodification. The SARS crisis served as a critical juncture and brought the debate about state versus market back to the central stage. Despite a commitment to greater government responsibility, the new reform by no means resemble the pre-reform communist healthcare system that involved high degree of central planning. Contrary to the emphasis of “top-level design” and government responsibility in political rhetoric, the relative success of the “new
national healthcare reform” can be attributed to a more participatory approach in policy formulation and a decentralized approach in policy experimentation and implementation that emphasized local-central feedback. Initial reform plans that called for a full return of the state was eventually abandoned, replaced by a hybrid approach that provides conditioned universalism, public sector benchmarking and private sector participation in service delivery.

Table 11 Comparing Public and Private Hospital Performance

<table>
<thead>
<tr>
<th>Year</th>
<th>Public Hospitals</th>
<th>Private Hospitals</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Numbers</td>
<td>12708</td>
<td>16342</td>
</tr>
<tr>
<td>Number of Tier-3 Hospitals⁷⁰</td>
<td>2060</td>
<td>172</td>
</tr>
<tr>
<td>Licensed Healthcare Technicians</td>
<td>1.41 million</td>
<td>0.26 million</td>
</tr>
<tr>
<td>Number of patient visits</td>
<td>2.8 billion</td>
<td>422 million</td>
</tr>
<tr>
<td>Hospital Revenue by Average</td>
<td>189 million</td>
<td>24 million</td>
</tr>
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</table>


The benefits of such an approach was evident as the general reforms framework was supported by most bureaucratic and sectoral interests as well as local governments. Delay of implementation seldom occur, which is rare in other policy sectors. Furthermore, the incremental approach combined institutionalization of local-central feedback resulted in a highly experimental and evolving model of service delivery reform. On the other hand, the processes remain largely bureaucratic, and therefore dominated by sectoral interests with limited forms of citizen participation. Private participation has been encouraged but earlier state-led marketization has led to sustained dominance of public hospitals and concentration of healthcare sources in major urban centers. In contrast to housing where politics of implementation largely occurred at local stage with limited central government influence, in healthcare the power balance is less clear, although
there seem to be more institutionalized bureaucratic channels for sectoral influence at central level and constant local-central feedback.

**Subnational Welfare Mixes: Healthcare Reform in Shanghai and Guangzhou**

Like housing reform, changes in policy rhetoric at central level do not always lead to intended policy outputs in healthcare reform. Contrary to the perception that healthcare policy process is relatively top-down in China, however, I argue that subnational political economy still plays important roles in the reform of healthcare financing and service delivery. Using Shanghai as a primary case and Guangzhou as a secondary comparison, I argue that the interaction effects of local state entrepreneurialism as well as political institutions condition the reform and trajectories at local level and resulting in varied quasi-market and welfare mix trajectories.

**From State Monopoly to State-dominated Quasi-Market: The Reform of Healthcare Service Delivery in Shanghai**

Before 1978, the Maoist-era healthcare system in Shanghai can be characterized by a stratified system of financing primarily channeled by work units and rural communes, and state monopoly in service delivery. Pre-existing public, private and foreign healthcare institutions were taken over by the communist municipal government and transformed into municipal, district, and county-level public hospitals and health centers. With relatively developed infrastructure and resources, many of these pre-existing healthcare institutions evolved into the most prominent Tier-3 hospitals in Shanghai’s healthcare delivery system today. For example, the Shanghai General Hospital was formally a nursing home created by Catholic Church for foreign patients, and the Ruijin Hospital was formally Hospital St. Marie and served as a teaching hospital for Aurora University (Fudan University today). At community and work unit level, primary care was provided through a variety of state healthcare institutions, including subdistrict level hospitals,
county and town-level and work unit health centers. In 1978, Shanghai’s healthcare system was among the best performed as measured by 30 doctors and 42 hospital beds per 10000 people (Shanghai Municipal Government 2018). 71

Following national marketization reform, healthcare service delivery reform in Shanghai began as early as 1980, following the State Council’s approval of MOH proposal to open doors for private practice. Similar to other cities, the marketization reform in Shanghai was largely driven by increasing concerns about rapidly rising fiscal burdens and unsustainable level of work unit healthcare costs. In 1981, the municipal health system work meeting explicitly criticized the “leftist thoughts” in local healthcare system that include “overly high standard, too much state-owned, and too much state-arranged” (Shanghai Municipal Government 2018). Smaller, incremental marketization steps were taken in the following years to encourage both private and foreign participation as well as public hospital reform in service delivery. On the one hand, Shanghai established its first private healthcare clinic after the communist takeover in 1984 and re-invited foreign investment to enter the healthcare sector in 1986. At the same time, the public hospital marketization reform emphasized devolution of decision-making and greater autonomy based on the principles of “independent accounting, self-financing, democratic management, and distribution according to labor” (Shanghai Municipal Government 1986).

Over time, these measures have made public hospitals become increasingly profit-seeking, resembling similar trends at national level. As discussed later, public hospitals continue to receive fiscal subsidies and strong policy support at local level, leading to increasing concentration of healthcare resources in large public hospitals. By contrast, the development of private and foreign healthcare institutions has been continuously constrained by lack of fiscal or tax incentives beyond rhetorical policy support. In 2016, Wu Jinglei, the chair of Shanghai Health and Family
Commission acknowledged that healthcare resource development in Shanghai has been highly uneven between public and private sector ("Shanghai’s Thirteenth Five Year Plan" 2016). Similar to national-level trends, the growth of private healthcare institutions in Shanghai has been steady, with 57% of healthcare institutions are now private and 43% public in 2014. By contrast, service indicators show that public hospitals continue to dominate the local healthcare system. In 2013, the share of inpatient and outpatient visits in private institutions were 7.94% and 5.58% respectively, in contrast to 92.06% and 94.42% in public institutions (Shanghai Health and Planning Commission 2014).

Since 2005, Shanghai and nearby cities began to experiment local public hospital administration reforms, with the goal of separating regulation from operation, as well as attracting private capital and reducing local fiscal burdens (Bank 2010). In nearby Jiangsu province, more radical reforms were implemented, including privatization of public hospitals, or establishing a hospital administration center that are independent of local health bureau or even municipal government. By contrast, Shanghai established the Shenkang Hospital Administration Center (referred as “Shenkang” below) and placed it under the municipal State-Owned Assets Supervision and Administration Commission (SASAC). Interestingly, there were some signs of bureaucratic between local and central sectoral interests in the setup of Shenkang. Initially, MOH recognized the Shenkang experiment as local policy innovation, but were concerned about losing administrative control over local public hospitals to local SASAC (Liu 2010). As a compromise, the municipal government gave up the original plan to have an independent council out of the municipal health bureau, and instead appoint the health bureau director as the chairman of Shenkang’s executive committee.
By establishing a new bureaucratic agency, the new system addressed the long-existing issue of bureaucratic fragmentation and regulatory overlap at local level. Instead of complete separation between regulation and hospital operations, nonetheless, the Shanghai “healthcare SASAC” model continued to view public hospitals as state assets and push for reforms similar to local SOEs. The model also strengthened state control in public hospitals in key areas such as appointment of hospital administrators and external investment decisions ("Public Hospital Reform" 2009). Liao Xinbo, a health official in Guangdong province who advocates for further reform criticized this model as just separating the functions from one government institution to another government or quasi-government institution” (Liu 2010). In Shanghai, public hospitals have continued to receive substantial amounts of municipal fiscal support via the center, primarily covering wages, operational funds, purchase of medical equipment, and infrastructure upgrades. By 2016, most Tier-3 public hospitals were under direct supervision of Shenkang and approximately 2 billion yuan were allocated to local comprehensive hospitals in the 2016 fiscal year alone (Shenkang Hospital Administration Center 2017).

With Shenkang and municipal government support, Shanghai’s healthcare system became increasingly “conglomerated”, following similar trends in healthcare quasi-markets in the west. Since 2006, Shanghai began to establish large medical groups or “medical consortiums” that are either horizontally or vertically integrated. For example, The Shanghai General Hospital (referred as SGH below) has formed the SGH medical group and exports its expertise, personnel and management to affiliated hospitals. Most affiliated hospitals are public hospitals in suburban districts and Tier-3 hospitals in other major cities. In addition, SGH has worked with several urban districts in Shanghai to establish “medical consortiums”. This concept was indigenously developed
and first proposed by Each consortium consists a Tier-3 public hospital, a few hospitals with lower administrative ranks, and subdistrict- or community-level health centers.

The “medical consortium” model in Shanghai therefore serves multiple purposes and was more of a natural outcome of local political economy rather than meeting top-down central reform guidelines. Most importantly, it is consistent with Shanghai’s SOE reform plan to develop “highly competitive industrial conglomerates” and “increase market concentration ratio in strategic industries, infrastructure and social development” ("The Origins" 2014, Shanghai Municipal Government 2013). The formation of Shenkang illustrates how Shanghai municipal government has considered healthcare as a “strategic industry” similar to other local key industries such as transportation, real estate, and foreign trade. In addition, it complements Shanghai’s attempts to establish a system of community-based primary care system and resolve the overcrowding issues in Tier-3 hospitals. By promoting family doctors and home care and encouraging urban residents to first visit the community health centers, Shanghai is moving one step closer British gatekeeper system. The successful implementation of the “medical consortium” and family doctor models in Shanghai has led to MOH recommendation and promotion at national level, as shown in the MOH published case studies in 2016 and the incorporation of these models in national reform plans.

In general, Shanghai’s healthcare system has evolved into a relatively coherent model that complements the local production regime reform. First, Shanghai has continued to favor a state entrepreneurial approach in healthcare service delivery and to prioritize the development of large public hospitals as well as the formation of medical groups or “medical consortiums”. This has led to greater state-led “conglomeration” of healthcare industries which served both local developmental purposes and social goals such as improved access to primary care. The successful implementation of healthcare service delivery reform has created important feedback effects on
the new national supply-side reform since 2013. Second, the steady increase in local government spending on the supply side is in direct contrast with the low level of direct government support to healthcare consumers. This departs from the national trend of increasing government responsibility after 2007. The stratified social insurance model that was developed before 2009 national reform has remained highly stable despite national government’s demands for integration of these models and equalization of healthcare access among employees, residents and migrants.

**Healthcare Service Delivery Reform in Guangzhou: The Emerging Private Sector**

Before the marketization reform in 1980s, Guangzhou’s healthcare financing and service delivery system largely resembled Shanghai and other major cities under a communist central planning and state monopoly system with some differences based on pre-communist local conditions. In healthcare service delivery, the communist transformation did not occur immediately after the revolution. Private practices existed although over time were gradually transformed or incorporated into the communist system by 1960s. Increasingly, however, work units served as “mini-welfare societies” that not only channel government healthcare expenditures but also directly provided care by establishing their own healthcare institutions for their employees and families.

Despite service delivery proposals at national level, in Guangzhou the work unit healthcare institutions were largely kept intact before 1990s. The number of work unit healthcare institutions reached 2064 in 1990, in comparison to 37 controlled directly by central and provincial government, 113 controlled by municipal and sub-level government, and 135 controlled by rural communes or collective institutions (Guangzhou 2018a). The central and local government also provide direct expenditures or subsidies to local hospitals, maternity clinics and community healthcare centers based on their ability to generate operational revenue or income. Without
financing reform, the public hospital marketization in 1980s resulted in significant increase in fiscal burden of the municipal government, as supply-side health expenditure increased from 2.09% of local government expenditure in 1980 to 4.96% in 1990 (Guangzhou 2018a).

Similar to Shanghai, Guangzhou’s public hospitals have dominated service delivery since the beginning of marketization reform, although there are signs that greater policy support and incentives are provided to private and foreign participation. In Shanghai and at national level, the number of private hospitals has outgrown public hospitals, however they tend to be significantly smaller in scale, are likely to be lower in administrative ranks and perform less well. In Guangzhou, private hospitals are still outnumbered by public hospitals, but the gap in performance is narrower in comparison to other major cities. In 2016, the number hospital beds per public hospital was 457.4, in comparison to 129.7 per private hospital ("Health and Family Planning" 2017). Several Tier-3 hospitals in Guangzhou are private hospitals, including two private hospitals that specialize on cancer treatment and another eyecare hospital chain. All these three private hospitals were invested by local real estate developer or an investment company from other area. At the same time, the Guangdong provincial health authority direct administers these private hospitals and allow them to be affiliated with local universities. Interestingly, the eyecare hospital chain’s Shanghai subsidiary so far has not received a Tier-3 status, according to the Shanghai Health and Family Planning Commission in 2016.

Another interesting parallel between these two cases is the role of foreign-owned hospitals, especially those from Hong Kong and Taiwan. The signing of the Closer Economic Partnership Arrangement (CEPA) between China mainland and Hong Kong the Economic Cooperation Framework Agreement (ECFA) with Taiwan at some level have facilitated the expansion of foreign-owned hospitals from these regions to Shanghai and Guangzhou with both political and
economic considerations. Before this round of expansion, establishing a foreign-owned hospital in China requires approval from central ministries on a case-by-case basis. Existing foreign-owned hospitals in Shanghai and Guangzhou often focused on a narrow target population such as foreigners and overseas Chinese. The approval process has been significantly devolved in recent years down to provincial level in selected areas, including Shanghai and Guangdong. In both cases, provincial and municipal government are now more actively encouraging foreign capital investment in healthcare. Once granted entry, nonetheless, foreign-owned hospitals still have to compete with large public hospitals without equal policy support.  

Regional economy therefore has produced some impact on the structure of service delivery in both cases, although it is often highly conditioned by changes in central and local policies. In Shanghai, a joint-venture hospital that closed in mid 2000s due to the expansion of a nearby public hospital was invited back after 2011, and now help municipal government to train family doctors that specialize in primary care. The parent Taiwan medical group soon opened a new completely foreign-owned hospital in Shanghai though this time targets at “high-end” healthcare, an area with less public hospital competition. In a 2012 interview, the company’s chief executive recognized that “private participation in healthcare has been proposed more than ten years ago, but resource allocation still favor public hospitals today” (Shijun 2012).

Similarly, some foreign-owned hospitals in Guangzhou were running large deficits and halted their plan to expand to other cities in Guangdong province. The situation began to change in 2017, when the provincial government issued a comprehensive reform plan that prioritizes private participation in the health sector with the goal of sharing 30% of hospital beds and patient visits by 2018. Due to changes in central policies that reintroduced restrictions on foreign-owned hospitals, this new round of foreign participation however has taken the reform of joint ventures
between foreign medical groups and local real estate developers. By 2018, several joint-venture hospitals have been established in Guangzhou with participation by British and Spanish high-end medical groups.

Finally, the policy processes and implementation outcomes of “medical consortiums” and “family doctors” are significantly different in these two cases. As discussed earlier, Shanghai’s territorial representation in central government and the resulting strong local agency played important roles in incorporation of these policy ideas into national reforms. Earlier policy experimentation in Shanghai involved significant contextualization of the meaning of these two terms that favors state-led “conglomeration” of tier-3 public hospitals. In 2016, Xi Jinping specifically mentioned the “gatekeeper” system and promoted Shanghai’s “family doctor” model at a national health conference (“Xi Jinping” 2016). By contrast, Guangzhou has only implemented these two models very recently following central government reform guidelines since early 2010s. The original implementation of “medical consortium” approach in Guangzhou resembled Shanghai’s approach that centers around large public hospitals. However, overtime Guangzhou has favored a relatively loose form of “medical consortium” that encourages private participation and public-private partnership, information sharing, and the development of “technological alliances” (“Four Types of Medical Consortium” 2017).

In general, Guangzhou and Shanghai’s healthcare service delivery outperform most Chinese cities, benefiting from years of export-oriented growth, strong fiscal capacity, well-developed public hospitals, and active though limited private and foreign competition. Figure 15 compares healthcare access in Guangzhou, Shanghai and at national level between 1978 and 2015, using two indicators of doctors and hospital beds per 10000 people. While Guangzhou outperforms Shanghai in terms of number of doctors, Shanghai exceeds in number of hospital beds,
showing greater emphasis on infrastructure investment. In both cases, local residents with hukou enjoy much greater healthcare access in comparison to migrants and national average.

Figure 15 Healthcare Access by Comparison

Data Source: National, Guangzhou and Shanghai Statistical Yearbooks.

During Maoist era, Shanghai’s healthcare financing system relies heavily on work units and rural communes instead of direct government responsibility. In urban areas, the Labor Insurance Medical Care system covers all health expenses of major work unit employees and 50% of their family members. By 1983 4.16 million urban employees or 34.8% of the total urban population were covered in this scheme. In rural areas, Rural Cooperative schemes covered approximately 94.1% of the rural population by 1987. In addition, cadres and retired cadres who received free medical care directly financed by government constitutes approximately 4.3% of the general population by 1980. By comparison, residents who are not covered by any scheme declined dramatically from 70% in late 1950s to 6% in urban areas in 1980 and 5% in rural areas in 1985 respectively (Shanghai Municipal Government 2018). Except for Free Medical Care for cadres, nonetheless, all other schemes require some minimum level of individual contribution of several yuan per month and some out-of-pocket costs. The communist healthcare system thus can be viewed as a stratified and conditioned universal coverage system that privileges party cadres and work unit employees.

Despite marketization moves in service delivery, between 1980s and 1990s the communist medical insurance schemes were largely left intact and the municipal government continued to expand coverage while healthcare expenditure rapidly. Such welfare expansion however was limited to those within the state sector. The Free and Labor Insurance Medical Care schemes only provide protections for local party cadres as well as public sector and SOE employees and their families. By 1990, only 6% of the urban population were covered by the former and 43.2% by the
later. For those who were covered by these schemes, out-of-pocket costs remain low despite rapidly rising healthcare costs resulting from service delivery marketization.

According to local gazetteer, Free Medical Care expenditure rose dramatically from 19.7 million yuan in 1980 to 152.6 million yuan in 1990. Similarly, Labor Insurance Medical Care expenditure rose from 120 million yuan in 1978 to 1560 million yuan in 1989. By 1990, health expenditure per capita for these two schemes reached 198.38 and 282.97 yuan respectively, in comparison to 65.37 yuan on national average. Limited attempts made by municipal government to increase individual contributions in these schemes were consistently resisted by work units across sectors, resulting in increasing fiscal and financial pressure on local government and work units.

In contrast to the welfare expansion in the state sector, there were no new schemes developed to cover workers in the emerging private sector, laid-off workers during the SOE reform, or the rest of the urban population before 2000, leaving these groups the only option to purchase the more expensive commercial healthcare insurance or remain uncovered. On the other hand, the municipal government began to reform rural medical insurance schemes as they faced less resistance in rural areas. Since 1987, a new form of rural cooperative medical insurance was experimented and gradually replaced the communist rural cooperative care. The new scheme established a social pooling system that facilitate cost sharing between rural residents and rural collective organizations, with two thirds of the contributions were paid by rural residents themselves (Shanghai Municipal Government 2018). In addition, healthcare costs will be partially and conditionally reimbursed based on the means-tested principle of “more individual responsibility for less critical illness” (Shanghai Municipal Government 2018). State responsibility
however was viewed as a last resort for individuals who have critical illness and unable to afford the costs themselves.

Before late 1990s, Shanghai has maintained a highly stratified system with varying degree of state responsibility for different social groups, with those within the state sector most protected and higher degree of healthcare commodification for those who are uncovered by pre-existing communist schemes. Limited local reforms received stronger resistance from urban beneficiaries of the old communist work-unit-based welfare system. The dismantling of the communist welfare system thus first started in the countryside.

The 1998 national reform that proposed an integrated social insurance model for urban public and private employees thus provided an opportunity to push for more difficult reforms on the ground. However, quite different from the national step-by-step incremental model that gradually expanded social insurance from urban employees to rural and urban residents, Shanghai’s healthcare financing reform has been much more comprehensive from the beginning, with the primary objective of developing “categorized solutions” for specific social groups. Like Shanghai’s “four pillars, one system” model in housing provision, local experimentation as well as policy learning from foreign models play important roles in addition to national reform guidelines.

In Shanghai, implementation of the new social insurance model officially started in 2000, when the municipal government published its own interpretation of the national reform program and proposed to develop a “multi-layered medical insurance system that meet the diverse needs of urban employees” (Shanghai Municipal Government 2000). In addition to the urban basic employee scheme, Shanghai’s new model added several pillars to cover the rest of the population. First, it included a supplemental medical insurance that encourages employee mutual aid,
commercial insurance, and other types, showing greater degree of support for individual choice. Second, Shanghai established a separate Comprehensive Social Insurance System for Migrants (referred as “migrant comprehensive scheme” below) that covered work-related injuries, healthcare and elderly subsidies since 2000. Third, in suburban areas, Shanghai not only expanded the new rural cooperative care scheme that has been experimented since 1987, but also added a new Small Urban Towns Medical Insurance Scheme (referred as “small town scheme” below) that targeted work units in county. Finally, Shanghai was one of the pilot cities that began to experiment a medical assistance (yiliao buzhu) system for the poor since 2000, which was operated by local departments of civil affairs in collaboration with work unit mutual-aid organizations and social charity organizations.

**Figure 16 Individual Responsibility in Shanghai compared to National Average**

Data Source: National and Shanghai Statistical Yearbooks.

In general, Shanghai’s healthcare financing model between 1998 and the 2009 national reforms was marked by significant preference for employment-based social insurance and risk
pooling rather than individual or direct government responsibility. Individual out-of-pocket expenses as a percentage of total healthcare expenditure were consistently low ranging from 29.0% in 2001 to 22.2% in 2007 (Shanghai 2015). This was in direct contrast with national trends as shown in Figure 16. As I will discuss below, this trend continued even after the 2009 national reform, as societal expenditure continues to dominate healthcare financing compared to government expenditure or individual out-of-pocket payments.

Interestingly, Shanghai’s healthcare financing model was closer to the more mature Singaporean social insurance model at the time, in comparison to the Chinese national model that was still evolving and less comprehensive. Similar to Singapore’s Medisave, Shanghai’s model identifies the mandatory employee-based UEBMI as the base layer, with additional social protection programs that resembles Singapore’s Medishield and Medifund, which are also means-tested and nonmandatory. Beyond these similarities, nonetheless, Shanghai’s model was also significantly decentralized and further stratified, privileging urban employees in the UEBMI scheme over other social groups such as urban and rural residents as well as less skilled migrants.

With a relatively comprehensive system already in place, the 2009 National Healthcare reform that emphasized greater government responsibility has produced limited effects on Shanghai’s existing healthcare financing and service delivery system. The institutional structures of local schemes were retained after the reform, although there were expansion of coverage and some level of integration across schemes as mandated by central government. The supplemental insurance, migrant comprehensive scheme and the small-town scheme continued to coexist with national pillars such as the UEBMI and URBMI, as well as the medical assistance programs. Although Shanghai increased reimbursement standards significantly across these schemes, individual and work unit contribution requirements were also increased to compensate these
expansions, showing strong consideration of financial sustainability of these insurance schemes without increasing commitment to government responsibility.

**Figure 17 Direct Government Spending in Shanghai compared to National Average**

Data Source: National and Shanghai Statistical Yearbooks.

The relatively stable local policy institutions help explain the consistently low level of direct government spending in the healthcare sector as show in Figure 17. At national level, the share of government expenditure in total healthcare expenditure increased significantly from 16% in 2001 to 31% in 2011. Since 2012, national government spending has stabilized at approximately 30% of total healthcare expenditure (National Bureau of Statistics China 2018). By contrast, Shanghai’s government spending level has never exceeded 25%. Following the implementation of the 2000 social insurance model, local government expenditure moderately declined then maintained at low level of 18-20%. Government spending level increased moderately during the Global Financial Crisis and initial years of the new national healthcare reform, however by 2014 it has returned to pre-crisis and pre-reform level at 20.4% (Shanghai Bureau of Statistics 2018).
Healthcare Financing Reform in Guangzhou: Political Institutions and Mixed Results

In comparison to Shanghai, Guangzhou’s healthcare financing continues to exhibit prominent level of stratification in some respects, despite some significant moves towards further integration. The result was a mixed model with co-existence of less coherent schemes, such as the communist-era Free Medical Care for civil servants, the employment- and residence-based schemes as introduced by national government, and a medical assistance program that conditionally incorporates rural migrants. The differences in political administrative structure as well as territorial representation in central government have resulted in variations in healthcare financing patterns in these two cases.

To begin with, the pre-reform Maoist era healthcare financing in Guangzhou was marked by greater stratification within each category of communist medical care systems. First, the government-financed medical care covered three types of target populations: the non-contributory free medical care for high-ranking party cadres at provincial and municipal level, mandatory contributory programs for regular civil servants and public-sector employees, as well as a separate scheme for state-owned commercial sector employees. Second, the labor insurance scheme covered almost all work units but defined different contribution level for specific sectors. Each work unit managed the extracted funds and covered the over-expenditures. By 1980s, the growth of over-expenditures forced work units to limit reimbursements based on age groups or type of diseases. Third, rural cooperative care in Guangzhou was well-developed during Maoist era but dramatically declined in 1980s following economic reform and restructuring. Participating rural residents declined from 98% in 1978 to 20.45% in 1984 (Guangzhou 2018a). By 1984, the declining numbers of “barefoot doctors” and the dismantling of the rural primary care system in Guangzhou have resulted in growing social discontents in rural areas.
Fiscal decentralization in early 1990s further decreased central government welfare responsibility and shifted the burden to local level in both cases. The increasing expenditure in both healthcare financing and service delivery forced municipal governments to consider further reforms. In contrast to Shanghai’s relative autonomy, nonetheless, reform decisions and priorities in Guangzhou were often constrained not only by central policy guidelines but also provincial goals and preferences. This explains why Guangzhou did not push for further commodification of healthcare during this period, but rather focused on expanding coverage on pre-existing schemes. For example, after the 1990 national call for “universal healthcare by 2000”, the provincial government chose Guangzhou as a pilot city to realize the goal by 1995 (Guangzhou 2018a). With a large share of urban residents being covered by the government-financed and labor insurance schemes, Guangzhou in 1990s therefore focused on recovering the communist rural cooperative care, and delayed the urban reforms were delayed into 2000s. In comparison to Shanghai which has established a relatively comprehensive social insurance model by 2001, Guangzhou’s healthcare financing reform was significantly lagging behind and often reactive to central government demands.

In 2001, Guangzhou published the *Trial Procedures for Urban Employee Basic Medical Insurance in Guangzhou*, three years after the national reform plan proposed in 1998. The local plan proposed to integrate the pre-reform government-financed and labor insurance schemes into an integrated UEBMI and over time develop a “multi-layered” approach. Earlier implementation of this plan resulted in a highly stratified government-financed plus social insurance model. In contrast to Shanghai’s developmental approach and policy stability, Guangzhou’s model lacks a coherent structure and is more likely to subject to central and provincial influence, as indicated by
the maintained communist free-medical care on the one hand, the integration of urban-rural resident schemes, and significant changes in policies towards rural migrants.

Like Shanghai, Guangzhou’s early 2000 proposals to integrate communist free medical care and labor insurance systems into the new UEBMI was strongly opposed by beneficiaries of these schemes, including local party cadres, civil servants, and other public-sector employees. The outcome however was significantly different between these two cases. In Shanghai, the municipal government provided direct subsidies to civil servants and were eventually able to integrate free medical care into the new UEBMI by 2003. In addition, the introduction of the supplemental medical insurance allows work units or individuals to choose from a range of social and commercial insurance options based on their ability to pay. As a result, Shanghai’s social insurance transition was relatively smooth with less obstacles on the ground.

By contrast, Guangzhou is the last city in Guangdong province that still provides a free medical care system for provincial and some municipal government civil servants by 2017, making Guangdong among the last 7 provinces that still retain this system after 20 years of national reform proposal. Interestingly, several other coastal provinces such as Jiangsu and Shandong also faced similar obstacles, and oppositions were often much stronger in provincial capitals, where a large share of the population are provincial party cadres or civil servants. In Guangzhou, government expenditure on healthcare for civil servants has continued to outgrow social insurance expenditures for urban and rural residents between 2009 and 2012. Among all local agencies, the health bureau as well as labor and social security bureaus outspend other municipal bureaus, showing strong favoritism for local bureaucratic interests with greater power in the local policy processes. In a 2013 public forum, local People’s Congress delegates publicly criticizes the reform deadlock and asked for a time table for integration. However, local labor and social security officials argued that
such reforms would require provincial approval and no time table has been set ("No reason to delay" 2013).

Although the reform in state sector has been indefinitely postponed, Guangzhou has been the among the first cities to integrate the urban residence-based URBMI and the New Rural Cooperative Care or NCRMS into a new Urban and Rural Resident Medical Insurance System. This new system significantly equalizes healthcare financing for urban and rural residents in Guangzhou with similar contribution and reimbursement levels as well as government fiscal support, although the level of compensation is significantly lower than the free medical care enjoyed by civil servants. The reform has been consistent with Guangdong province’s emphasis on public service equalization between urban and rural areas in recent years (World Bank 2012). By contrast, Shanghai has maintained its stratified approach with separate schemes for urban and rural residents and their employment status.

In addition, in Guangzhou rural migrants have been incorporated into the new scheme as the separate scheme of Medical Insurance for Persons with Flexibility Employment was revoked in 2016. In comparison to Shanghai’s integrated insurance model that provides conditioned support for migrants based on their employment status and age, Guangzhou’s new model therefore has been largely consistent with national reform guidelines that emphasize improving healthcare equity between urban and rural residents, as well as rural migrants. Such integration however was limited within the residence-based schemes, and so far, failed to lead to equalization of healthcare access and affordability between public and private sector, or between the employment-based schemes and residence-based schemes.

The comparison between Guangzhou and Shanghai therefore reveals significant variations in subnational models of healthcare financing and service delivery. In Shanghai, local political
economy plays primary roles in prioritizing public hospital development and a growingly state-dominated quasi-market. By contrast, greater public-private partnership patterns have emerged in Guangzhou as a result of both proximity to Hong Kong and new provincial reform guidelines that encourage societal participation. On the other hand, Shanghai has developed a relatively coherent social insurance model in healthcare financing that is largely consistent with its developmental logic, while Guangzhou has adopted a mixed approach that involves elements of both stratification and equalization because of strong central and provincial influence.

Explaining Policy Changes in Healthcare: Political Institutions, Policy Feedback and Subnational Welfare Mixes

The dismantling of the communist welfare state in healthcare has led to the emergence of a new state-led quasi-market model for service delivery, and a welfare mix model in healthcare financing. Despite the radical reversal of policy rhetoric at national level from marketization to decommodification, policy changes in healthcare were still marked by strong incrementalism on the ground and a trial-and-error approach that resembles economic reform. Similar to housing, earlier reform proposals in late 1990s left significant ambiguity and flexibility to local governments, allowing policy experiments and local-central feedback. The incrementalism was also reflected in the step-by-step approach in implementing each type of new scheme to replace the pre-existing communist welfare systems.

Due to limited space, this section will primarily focus on healthcare financing and trace the development of a social insurance model that provides nearly universal coverage but in highly fragmented and stratified forms. Table 12 provides an overview of the social insurance schemes that have been created during the last two rounds of reforms. Two of the schemes, the urban employee and new rural cooperative schemes were introduced before the SARS crisis. The
coverage of these schemes remained relatively small as a share of urban and rural population. Since 2007, additional schemes were introduced to cover the rest of the population such as urban and rural residents who were left uncovered before, and the urban and rural poor who need additional government assistance. The introduction of these programs significantly expanded coverage but with large disparities in revenue and expenditure patterns across schemes.

Table 12 The Emerging Social Insurance Model and Means-Tested Programs

<table>
<thead>
<tr>
<th>Target population</th>
<th>Urban Employee Basic Medical Insurance (UEBMI)</th>
<th>Urban Resident Basic Medical Insurance (URBMI)</th>
<th>New Rural Cooperative Medical Care (NRCMC)</th>
<th>Medical Assistance &amp; Critical-Illness Insurance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nationwide</td>
<td>Urban employees</td>
<td>Urban residents</td>
<td>Rural residents</td>
<td>Urban and rural poor</td>
</tr>
<tr>
<td>Financing</td>
<td>Social pooling, individual accounts, voluntary/optional supplemental insurance</td>
<td>social pooling, no individual accounts</td>
<td>Social pooling, no individual accounts</td>
<td>Direct government + social insurance financing</td>
</tr>
<tr>
<td>Service delivery</td>
<td>Designated public hospitals</td>
<td>Designated public hospitals</td>
<td>Designated public hospitals</td>
<td>Designated public hospitals</td>
</tr>
<tr>
<td>Policy Change</td>
<td>Institutionalization; layering</td>
<td>Policy drift and conversion</td>
<td>Policy drift and conversion</td>
<td>Policy drift</td>
</tr>
</tbody>
</table>

Although some may argue that such incrementalism was intentionally preferred by the central government, two alternative explanations are worth further consideration. First, the implementation of employment-based UEBMI faced strong oppositions of local party cadres and civil servants, who are the primary beneficiaries of the communist free medical care system. In Guangzhou, failure to dismantle the free medical care system shows strong agency of this group as the local dominant social bloc. In Shanghai, the successful implementation of the reform relied
on providing compensation to these groups in the form of direct fiscal subsidies and supplemental insurance.

Second, as mentioned earlier the 1998 reform has resulted in significant bureaucratic fragmentation at central and local level. While MOH was still in charge of the service delivery reform and regulatory functions, MOLSS regulates the social insurance schemes and the Ministry of Civil Affairs oversaw the medical assistance programs. If we look at service delivery, an additional variety of bureaucratic interests are involved, such as the National Development and Reform Commission, the local state asset administration authorities, Department of Commerce that regulates foreign investment in healthcare along with other sectors. In certain cases, it has resulted in inconsistencies and frequently policy changes at central level such as in the case of foreign investment restrictions, creating greater uncertainties for private and foreign participation in healthcare.

Similarly, earlier discussions show that bureaucratic fragmentation may have contributed to delays in the introduction of the NRCMC and URBMI schemes at national level, despite they have been experimented and implemented much earlier in selected localities such as Shanghai. In Guangzhou, these two programs were introduced much later, resulting in underdevelopment of these schemes in comparison to UEBMI. Another explanation for UEBMI institutionalization is the agency of work units and their employees in comparison to urban and rural residents or migrants. Figure 18 compares the expenditure patterns of all social insurance schemes and illustrates the dominance of the employment-based UEBMI scheme. By 2012, the number of people covered in URBMI and NRCMC were 296 million and 349 million respectively in comparison to 274 million covered by UEBMI. However, UEBMI outspends all other schemes significantly, which may be explained by higher contribution and reimbursement levels in
comparison to other schemes as well as more active participation by work units and their employees.

**Figure 18 Policy Layering in Social Insurance Schemes**

![Policy Layering in Social Insurance Schemes](image)


In general, policy conversion and drift occurred more frequently in the residence-based and means-tested programs, as these programs often require greater government support with the absence of work unit participation. In Guangzhou, for example, local residents have complained about knowing little about the residence-based schemes. For rural migrants, the Guangzhou municipal government required them to make greater contributions to the flexible employment scheme while allow lower amount of reimbursements. Such patterns continued until the central government mandated all local governments to integrate rural migrants into the existing UEBMI.
<table>
<thead>
<tr>
<th><strong>Agency</strong></th>
<th><strong>Orientations</strong></th>
<th><strong>Capabilities</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Central government</strong></td>
<td>Competing bureaucratic interests; policymaking as negotiation and compromise</td>
<td>Policy formulation in financing and service delivery, regulation, fiscal transfer, unfunded mandates</td>
</tr>
<tr>
<td><strong>Local government</strong></td>
<td>Reducing fiscal burden; bureaucratic fragmentation with competing central influence; healthcare as a tool for development, social stability, and patronage</td>
<td>Policy interpretation and implementation, administration of public hospitals, local-central policy feedback</td>
</tr>
<tr>
<td><strong>Public Hospitals</strong></td>
<td>Profit-seeking; conflicting economic and social protection goals; rent-seeking</td>
<td>Close ties with local regulators and administrators; “insider” advantage; fiscal and policy support</td>
</tr>
<tr>
<td><strong>Work units</strong></td>
<td>Interests in retaining employees and meeting their healthcare needs</td>
<td>Matching contributions; provide supplemental insurance</td>
</tr>
<tr>
<td><strong>Local dominant social bloc</strong></td>
<td>Vested interests; strong opposition to reform unless compensated</td>
<td>“insider” advantage; local policy feedback; semi-veto power</td>
</tr>
</tbody>
</table>

Finally, the implementation of the means-tested medical assistance scheme experienced the greatest obstacles among all programs and nationwide implementation did not take place until 2009. In Shanghai, the program was introduced as early as 2001, but with strict eligibility criteria similar to cheap rental housing. In addition, Shanghai also encouraged several cost-sharing mechanisms and encouraged participation by work units, employee mutual aid. For critical illness insurance, Shanghai worked with commercial insurance companies to create a marketplace for eligible beneficiaries. In Guangzhou, the medical assistance and critical illness insurance program was first introduced in 2012, three years after national guidelines were published. Similar to
Shanghai, Guangzhou has relied on commercial insurance companies and local charities to provide additional financing. By 2015, rural migrants were eligible to receive up to 50000 yuan in medical assistance, compared to 350000 yuan for local residents with hukou (Luo 2015).

Table 13 provides a simplified summary of central and local agency based on empirical observations at central and local level. In comparison to housing, the recent healthcare reform has become more participatory at central level, resulting in greater bureaucratic as well as societal input. At local level, however, policy layering, drift and conversion frequently occur because of strong agency by a plurality of local actors beyond local governments themselves. At the same time, these local political economy processes are highly conditioned by political institutions and administrative hierarchy in an authoritarian party state.

**Conclusion**

This chapter traces national and subnational welfare politics of healthcare in China. While earlier national reforms were marked by significant quasi-marketization and commodification of healthcare, the central policy rhetoric has increasingly favored conditioned universal coverage and to some degree a “return of the state”. Contrary to the conventional wisdom of increasing “top-level designs”, however, I argue that the 2009 healthcare reform was a result of bureaucratic bargaining and a relatively participatory process triggered by a national public health crisis. Similar to earlier reforms, the new reform allows significant local autonomy and established more institutionalized patterns of local-central policy feedback.

At local level, public hospital reform since 1980s and the introduction of employment-based social insurance model since 1990s has produced profound impacts on healthcare financing and service delivery. Similar to housing, local governments have created local definitions of insiders and outsiders for each policy program by actively interpreting central reform plans. The
degree of local agency however again has been conditioned by political institutions. The bottom-up patterns are more evident in the case of Shanghai where a localized coherent social insurance model precedes national reform. By contrast, in Guangzhou more top-down pressure from central and provincial government has resulted in greater institutional incoherence and more frequent policy changes.

In contrast to housing, nonetheless, the effects of regional political economy are mixed, showing strong conditioning effects of bureaucratic politics. On the one hand, Shanghai’s local processes are less interrupted, resulting in greater institutional coherence between production regime and welfare state reform, as evident in the creation of the Shenkang center for public hospital administration and in general a developmental approach in healthcare. Private and foreign competition in service delivery were allowed but often “guided” by local government to complement dominant public hospitals. On the other hand, there is limited evidence for such agency in Guangzhou. In this case, the orientations and capabilities of local state actors seem to matter more than those outside of the state. The provincial and municipal governments have increasingly welcomed private and foreign participation in healthcare service delivery once there is devolution in decision-making power. The maintenance of Free Medical Care for civil servants on the one hand, and the conditioned incorporation of rural migrants into medical assistance schemes illustrates that healthcare policies continue to be used as patronage, resembling similar patterns during the communist era.
CHAPTER 5
THE POLITICAL ECONOMY OF PENSION AND ELDERLY CARE REFORM

Introduction

After 40 years of economic reform, China’s urban areas are increasingly facing a potential “triple demographic hit” that resembles a similar trend in the developed countries such as Japan, United States, and Western Europe. These include challenges brought by a growingly aging population, low fertility rates, and a waning pace of rural-to-urban migration, particularly in coastal urban areas. While some of these can be explained as a natural outcome of “modernization”, in China such “modernization” process has been greatly accelerated because of state family planning policies. One the one hand, changing from the one-child to a two-child policy in 2016 has so far failed to achieve the intended results of significantly increasing fertility rates. On the other hand, the challenge of making pension systems sustainable and providing elderly care services to urban and rural residents continue to rise, while fear of potential “brain drain” has driven local governments to do whatever it takes to secure a steady workforce and healthy inflow of skilled labor.

Responding to these challenges, both national and local governments have actively engaged in reformulating elderly care and pension policies to accommodate the challenging demographic trends. Like neoliberal reforms in the West, earlier reform rhetoric in China sought to reduce direct state intervention in financing and service delivery of elderly care. Pro-market service delivery reform measures however were met by policy drift at local level, and a dual track system was prevalent with low-cost, means-tested public welfare care and private supply of “high-end” care covering a trivial portion of the elderly population. On the other hand, before 2010 little progress was made to reform the communist pension scheme for government and public employees,
or to create a more universal, integrated basic pension for all. Policy layering over the years increasingly favor the employment-based basic pension schemes over alternative solutions. The stagnant reform in pension is therefore in direct contrast with more successful state-led marketization in housing and healthcare.

The incomplete marketization and the remnant communist legacies thus interacted to create a new form of “socialist market insecurity”. With a looming aging crisis since 2010s, the return of the state was soon called, but the question of in what proper forms has been highly debated among scholars and policy practitioners. Pension reform at central level accelerated since late 2000s, although contentious policy debates and bureaucratic bargaining persisted. Overtime, a new multi-pillar model begins to emerge, calling for some basic form of universal pension coverage and attempting to break the current “silos” between state and nonstate sector employees, as well as between urban and rural areas.

Even though the central government has moved away from individual responsibility and employment-based pension schemes only towards universal coverage in recent years, scholars have noted that this new universalism is based on “low contribution, low pay”, and inequality persists across types of schemes and geographic regions (Frazier 2010). A comparison between local implementation in Shanghai and Guangzhou shows that the central government is more willing to accept local adaptations under a generalized framework of “state guidance, societal participation” (zhengfu zhudao, shehui canyu). Employment-basement social insurance and family support remain as primary pillars for financing and service delivery, making China closer to the Singaporean Confucian model rather than the more socialized care models in its democratized neighbors.80
Why does central government still allow significant local flexibility and autonomy, despite greater commitment to “top-level design” and “more attention to social justice”? What are the primary causes of continued incrementalism and subnational variations in pension and elderly care? Since the central government has only very recently start to compensate local gaps using fiscal transfers, most of the subnational comparisons have focused on fiscal capacity of local governments as a determining factor. However, this ignores the fact that the elderly care systems in urban China has increasingly moved away from state monopolies to quasi-market or welfare mix models, where local governments are now actively working with employers and state or private partners in both financing and service delivery. In poorer areas, central fiscal transfers now constitute a larger share of local social expenditures. As a result, fiscal capacity of local governments is no longer the primary factor in determining policy reform outcomes. On the other hand, the “enabling” state in Chinese context, or the mobilization of societal and market resources by local governments, can take different forms. In many cases, they post challenges on the very ideas of universalism and public service equalization, creating potential commodification and stratification effects despite rapid expansion of benefits. It is therefore important to understand the local policy processes and the resulting variations in policy reform outcomes.

This chapter examines local variations in direction and pace of policy reform by looking at the highly uneven development of the “three pillars” model in pension insurance, and the emerging quasi-market models in local elderly care service delivery. Despite central government’s efforts to streamline local programs and push for reform towards universalism, local governments are still given great autonomy in policy implementation, with power to interpret central policies and adapt programs to serve local pro-growth objectives. The agency of local government is further amplified by central bureaucratic bargaining as well as the hierarchical nature of local decision-
making despite increasing pluralization, providing local governments the ability to define insiders and outsiders and use policy as patronage.

**From State Monopoly to Socialist Market Insecurity: The Incomplete Transition in Pension and Elderly Care**

Among all three policy areas, pension and elderly care reforms are often considered as a tough area for marketization reform even in western and post-communist contexts. In recent years, a global wave of societal backlashes has resulted in a second round of pension and elderly care reform that seeks to balance the roles of the state, market and community actors. In China, the state-led marketization reform in elderly care was largely incomplete due to lack of incentives provided to local governments and private actors. Public-private partnership remains limited, although central government has consistently push for such reforms. On the other hand, pension reform has borrowed ideas from various international models, but reform efforts were often overshadowed or undermined by the interaction effects of a legacy dual-track system (*shuangguizhi*), bureaucratic bargaining and local agency.

More importantly, the distinction between a marketization era and post-marketization era is less clear in pension and elderly care reform. For analytical purposes, I divided the post-1978 era into roughly three phases: a transitional phase between 1978 and mid-1980s, a second phase of incomplete socialist market transition between mid-1980s to late 2000s, and a third phase of “deepening reform” since the beginning of 2010s. Similar to other policy areas, pension and elderly reform started from localized policy experiments and incremental reforms at national scale. It is worth noting however that in comparison to healthcare and housing, there is no radical shift or reversal of the marketization logic, as the state-led marketization process itself remains
incomplete. Recent reforms have focused on perfecting the multi-pillar frameworks in both financing and service delivery, and a rhetorical “return of the state” has been largely absent.

For service delivery, the central government policy rhetoric has been highly consistent over the years, promoting a model of ‘state guidance, societal participation” that would in theory resemble quasi-markets in the west. Earlier reforms however have failed to meet the goal of “socializing” elderly care, and local governments often directly intervenes in service delivery rather than “enabling” private partners. In the past few years, the central government and local governments have increasingly favored a “home care” model over the institutional long-term care model, seeking to revitalizing public-private partnership. Initial evaluation of these reform measures in this chapter shows that greater local-central feedback in recent years has resulted in significant changes in central reform rhetoric and more active implementation by local government.

For pension financing, earlier reform to move away from a pay-as-you-go system and towards a fully funded individual account model has largely failed.81 At the same time, some form of universal coverage has been achieved by adding the urban and rural resident pillar in early 2010s, although the benefit levels are incommensurable to existing civil servant and urban employee schemes. By 2018, China’s pension model is still unevenly developed, with most of the population covered by a high stratified basic pension system either financed directly by the state or through social pooling. Other pillars promoted by international institutions such as occupational pensions and individual savings account are still underdeveloped. Policy reforms expediated since early 2010s, although a detailed comparison with previous reforms illustrate that there are persistent and evolving divisions both inside and outside of the state regarding which direction the reform should take.
The Incomplete Commodification: From Mini-Welfare Societies to Socialization of Elderly Care

During Maoist era, pension and elderly care were considered an integral part of the communist welfare system and primarily channeled through and provided by work units, rural communes, and individual families. Similar to healthcare and housing, the communist welfare regimes prioritized urban over rural areas, and within urban areas those within the communist bureaucracy over the rest urban employees. In urban areas, government civil servants and public-sector employees were covered by a publicly-funded pension system (referred as “civil servant pension scheme” below), while SOE employees were covered by the labor insurance pension scheme which were financed and operated by work units. Reform efforts to integrate these two schemes were interrupted by Mao’s constant mass mobilization campaigns, creating significant path dependent effects on post-1978 pension reform ("60 years" 2012). Outside of the state, family remains the primary institution for elderly care, although municipal governments and rural communes provide limited means-tested social assistance care for poorer seniors who were eligible for “households with five guarantees” (wubao hu). In contrast to healthcare where the rural cooperative medical care had covered the majority of rural residents by late 1970s, however, the rural elderly care system was largely residual, covering only those who cannot be supported or taken care of by their families. The pro-urban bias thus was more evident in communist elderly care as well as housing, with a lesser degree in healthcare.

In contrast to the relatively well-covered communist healthcare system, pension and elderly care was not only stratified but also limited to selective social groups. State responsibility was only guaranteed for urban employees through the civil servant and labor insurance schemes, and the poor are unable to support themselves or receive care by their families in urban and rural areas.
Most significantly, the government and public-sector employees enjoy the greatest level of benefits without making direct or indirect contribution themselves. Such system created strong vested interests in the state that strongly opposed any reform even after 1978. In fact, the civil servant system was kept largely intact until 2010s, despite central government’s consistent reform rhetoric to integrate the system into urban employee pension schemes. The communist pension and elderly care system therefore was highly de-commodified yet stratified, privileging those within the state sector. Furthermore, institutional continuities were significant before and after the 1978 economic reform in pension despite significant marketization in service delivery, demonstrating strong intervening effects of communist legacies during market reform.

**Figure 19 Number of Social Care Beds for Elderly and Disabled in Residential Facilities**


Similar to healthcare reform, the marketization reform in elderly care began from a quicker jump start on the supply-side elderly care reform, and a slower pace on the pension reform. On the
supply side, the marketization reform faced less obstacles as government and work unit efforts to reduce their welfare responsibilities. In early- and mid-1980s, the Ministry of Civil Affairs (MCA) proposed the idea of “socialization of social welfare” (shehui fuli shehuiban) and experimented in major cities including Shanghai and Guangzhou. The marketization reform called for a step away from work unit welfare provision and government social relief, to a socialized welfare model of elderly care, with shared responsibilities among government, work units, and individuals. In practice, however, such transformation involved a more radical shift towards individual and family responsibility. Social welfare institutions were also incentivized to be increasingly profit-seeking, resembling trends in SOE and public hospital reforms.85

Figure 19 shows that the number of social care beds for elderly and disabled increased more rapidly during 1990s, complementing SOE reform and fiscal decentralization reforms during this period. Such marketization however was more of a reactive response to the dismantling of the communist welfare system. When this round of SOE reform was complete in early 2000s, the marketization trend and the expansion of social care slowed down. The central government’s call for further marketization were met by lukewarm responses by local governments. In 2000, the State Council proposed to “nurture and develop the elderly consumption market” and “socialization and industrialization of elderly care” (CPC Central Committee and State Council 2000). By 2006, the State Council further elaborated on “policy guidance, government support, social setup, market operations” and proposed several forms of public-private partnership including “publicly constructed, privately operated” (gongjian minying”) and “private setup, publicly assisted” (minban gongzhu) (State Council 2006).

The elderly care reform rhetoric at central level before 2010 therefore called for a three-pillar model of “socialized elderly care” that includes basic or welfare care, non-profit care, and
market or for-profit care. Local service delivery patterns however deviated significantly from central vision of an “enabling state”, and public-private partnership cases were few. By contrast, a state-dominated means-tested model of care persisted, while limited private participation increasingly turned to “high-end” elderly care that often combines with real estate development and medical rehabilitation. On the one hand, local governments still directly intervened in service delivery, providing low-cost but undersupplied care through public-funded and operated residential facilities. On the other hand, limited private participation increasingly prioritized “high-end” elderly care to relatively wealthy seniors based on their ability to pay. This bifurcating model has left most elderly who fall in between these two categories uncovered, relying largely on family support or self-care. The empirical patterns are further explored in later subnational comparisons in this chapter.

**Communist Legacies, Market Reform, and Pension Stratification**

In addition to the incomplete “socialization” of elderly care service delivery, the pension financing reform also faced significant challenges due to lack of work unit commitment, bureaucratic competition and vested interests in the government and public sector. In comparison to consistent pro-market rhetoric in elderly care, pension reform during this period was highly inconsistent between the two pre-existing communist schemes, with greater reforms in the labor insurance pension scheme over the civil servant pension scheme. Until 2010s, urban and rural residents were left out in the employment-based reform plan. The 2010 reform led to greatest expansion in coverage although with significant variations in contribution and benefit levels.

For urban SOE employees, the establishment of labor contracts in the 1986 marked the official end of the “iron rice bowl”, although reform in labor pension schemes were still taking small incremental steps. Since 1986, new employees for the first time were required to contribute
up to 3% of their salaries to the newly established social pension insurance funds across localities, with at least another 12% matched up by work units ("60 years" 2012). Before the 1986 implementation, local policy experiments were designed by the State Council Office for Restructuring of the Economic System (SCORES) and implemented first in urban collective enterprises, which were incentivized to rely on themselves and compete on the market like private companies. Interestingly, Shanghai was the first city to implement the new scheme in 1982, followed by other coastal regions.

In theory, there are two major difference between this new social insurance system and the communist labor insurance system, though such intended distinctions were often blurred in practice. First, individuals are now required to make direct contributions themselves, although the contribution level was kept low in initial years. By 1991, the State Council announced that the individual contribution would be raised based on economic development and employee salary adjustments (State Council 1991a). In practice, however, many firms fail to meet the contribution standards or chose not to collect any contribution at all, resulting in what some scholars terms as “socialist insecurity” (Frazier 2010). Second, central government mandated that such pension insurance funds should be collected by local labor agencies and saved in a dedicated account, rather than maintained at firm level. Institutional varieties however soon emerged. The Shanghai model for example created a trustee relationship with local insurance companies. In other places, work units chose to retain their contributions at firm level, resulting in significant policy drift favoring pre-existing communist institutional structure, and fragmentation of pension management systems across the country.  

By early 1990s, neoliberal pension reforms in other countries began to provide new reform ideas such as a “three-pillar” model promoted by the World Bank, and the creation of individual
such ideas were strongly promoted by reform-oriented central agencies such as SCORES, which soon ordered local policy experiments in southern coastal provinces. In 1993, the State Council officially introduced individual account in pension and other social insurance schemes as a supplemental measure to social pooling. Similar to healthcare reform, however, key policy debates emerged between competing bureaucratic interests. SCORES was a major advocate for increasing the contribution share of individual account to 16%, making China’s system closer to the Singaporean employment-based social insurance model that emphasize individual responsibility. By contrast, Ministry of Labor (MOL) which was previously in charge of the communist labor insurance schemes became the strongest opponent to this plan, and proposed to keep individual account at 10%, attempting to preserve the pay-as-you-go (PAYG) social pooling system to the degree possible ("60 years" 2012).

The bureaucratic bargaining at central level resulted in significant policy ambiguity, and in turn created rooms for local agency. Between 1993 and 1996, the State Council allowed provincial and municipal governments to choose between the SCORES plan and the MOL Plan. Such ambiguity at central level soon generated greater variations at local level, as individual account contributions ranged from 4% to 17%. By 1997, the central government was forced to take back the flexibility and implement a nationwide standard of 11%, with 8% individual contributions and 3% by work units (State Council 1997). Over time, the individual accounts have become a highly controversial policy instrument, subjecting to constant national debates about whether they should exist and whether their funds should be allowed to finance the PAYG social pooling system. The bureaucratic divisions at national level created negative effects on local implementation outcomes, resulting in significant policy drift at subnational level. Despite strong advocacy by reform supporters such as SCORES, the battle over individual account therefore was thus ended largely
by a victory of reform opponents such as MOL. China’s employee pension system remains primarily a PAYG social pooling system today. Although the coverage of this scheme as been significantly expanded over the years, its financial sustainability has been constantly under question due to the prevalence of “empty accounts” (kongzhang) that are misappropriated or not fully funded, as well as the existence of the “grandfather clause” based on employee seniority.\textsuperscript{91}

In comparison to the contentious and highly publicized debates around pension schemes for urban enterprise employees, the civil servant pension scheme reform was significantly delayed during 1990s and 2000s. Scholarly proposals and academic debate emerged as early as 1980s, but the central government adopted a highly conservative stance for civil servant pension reform, fearing backlashes from party cadres, civil servants, and public-sector employees. Bureaucratic fragmentation also contributed to the issue as at the time the civil servant scheme was administered and regulated by the Ministry of Personnel while the urban employee scheme was governed by MOL.\textsuperscript{92} While MOL actively participated in formulating the reform plans, the Ministry of Personnel remained silent at least publicly and took no role in formulating the reform plans. As a result, the civil servant scheme was often left out in policy formulation despite growing calls for reform outside of the state.

By late 1990s, nationwide marketization reform on healthcare and housing had already begun. Seeing their privileges increasingly encroached by such reforms, these insider groups strongly opposed further reform in pension that would require them to make individual contributions and equalize the benefit level with the urban employee scheme. Some national civil servants publicly acknowledge that they wrote letters to the State Council opposing the reform (Chen 2014). In early 2000s, the central government shelved the reform plan proposed by the State Council Development Research Center, and the official policy rhetoric was still to “maintain the
original pension systems for civil servants and fiscally-funded public institutions” (State Council 2000). When interviewed by news reporters, participants of the reform plan mentioned “everyone was ambiguous about the plan and trying to avoid this issue” ("60 years" 2012).

The delay in timing thus can be explained by strong opposition from vested interests within the state. Reform calls outside of the state persisted, although the policy arena was still dominated by bureaucratic interests and state-sector “insiders”. In a 2013 interview, former MOL deputy minister Hu Xiaoyi argued that “new contradictions and issues may emerge if we rush the reform without careful considerations” (Chen 2014). Policy experiments for reforming the civil servant pension scheme were conducted as early as 1993 in Shanghai and later in other localities throughout 2000s. But unlike reforms in other areas, nationwide implementation did not follow. Furthermore, most local experiments preferred “parameter reforms” rather than “structural reforms”. For example, many localities selected for pilot programs made some efforts to equalize contribution and benefit levels, but still sought to keep the civil servants scheme separate and fiscally financed the negative balances (Zheng 2008).

In 2007, the State Council took cautious step towards selective reform in public institutions while excluding government agencies. Nonetheless, the selective reforms were strongly opposed by local public institution employees who were unwilling to accept the declining benefit levels in comparison to their civil servant counterparts. Local discontents inside the state sector again resulted in significant policy drift at local level. By 2013, among all five pilot provinces and municipalities, only Shanghai and Guangdong has implemented partial reforms in selective cities (Zhou 2013). Like healthcare, Guangzhou as the provincial capital with a large number of public sector employees were left out in initial provincial reforms.
The pension reform between early 1980s and late 2000s therefore achieved limited success. A dual track system that was created during Maoist era was mostly maintained, although the labor insurance track has evolved into an employment-based social insurance model similar to those in healthcare and housing. On the other hand, the civil servant pension scheme was largely untouched due to strong oppositions from vested interests at central and local level. Contrary to successful integration in healthcare and housing as early as 1990s, pension reform for civil servants remain a separate track with significantly higher benefit levels, direct government financing, and no individual contributions. Table 14 The Dual-Track System of Employment-based Pension Schemes compares these two schemes before some conditioned integration was introduced in 2015.

### Table 14 The Dual-Track System of Employment-based Pension Schemes

<table>
<thead>
<tr>
<th>Origin</th>
<th>Labor Insurance Pension Scheme</th>
<th>Unchanged or partial reform with a separate track within UEBP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Target population</td>
<td>Urban SOE and private sector employees with labor contracts</td>
<td>Party cadres, civil servants and employees in public institutions with fiscal allocations</td>
</tr>
<tr>
<td>Financing</td>
<td>Social pooling plus individual accounts,</td>
<td>Fiscal subsidies, no individual contribution</td>
</tr>
<tr>
<td>Work unit contribution</td>
<td>Yes, 20% to social pooling</td>
<td>Inconsistent local standards and frequent noncompliance</td>
</tr>
<tr>
<td>Individual contribution</td>
<td>Yes, 8% to individual account</td>
<td>No</td>
</tr>
<tr>
<td>Benefit determination</td>
<td>Based on contribution level and years</td>
<td>Tiered based on administrative ranks</td>
</tr>
</tbody>
</table>

Source: Compiled by author.
The Second Reform in the Making: The Aging Crisis and the Role of the State

In contrast to housing and healthcare, the state-led marketization process in pension and elderly care remained incomplete by late 2000s. Since early 2010s, however, new reform rhetoric at central level began to emerge, driven by a looming aging crisis across localities, contributed by earlier family planning policies, economic development, and the resulting changes in social attitudes towards raising children. Between 2000 and 2016, the elderly dependency ratio as measured by the share of people aged 65 or above in total population increased dramatically from 9.9 to 15 (National Bureau of Statistics China 2018). For coastal regions, the primary challenge comes from a high portion of elderly in urban residents with hukou, while the significantly younger migrant population serves to balance the equation. In recent years, however, the decline of migrant inflow has caused significant volatility in dependency ratio and growing concerns on potential negative impact on local economy and financial health of pension funds.

The aging crisis also challenges the fundamental assumption of the current pension system that family will provide the necessary support for most if not all the elderly population. The one-child policy created a “4-2-1” family structure that put significant pressure on those who were born between 1979 and 2015. For married couples who are both the only child in their families, such a high dependency ratio is not only a financial challenge but also a major consideration for their decision on whether to have a second child. Expectedly, criticisms of family planning policies and calls for greater “socialization” of aging costs has frequently appeared together in national news headlines and online public debates. As a result, failure to address such issue may not only cause a demographic crisis and economic slowdown, but also turn into a political legitimacy crisis for the party-state. It is under this background that the central government decided to expedite the second round of pension and elderly care reform.
In contrast to a coherent reform rhetoric of increasing government responsibility in healthcare, nonetheless, the new pension reform lacks a clear pro-state or pro-market ideological orientation. Rather, it represents a new reform rhetoric that focuses on pluralization of financing and service delivery mechanisms with a strong guiding role of the state. Since 2011, the central government has made various proposals that seeks to condition the role of the state to financing and regulation, and gradually retreat the state from service delivery. Specific reform measures include promote marketization in elderly care service delivery, developing a more integrated social insurance model in basic pension schemes with broader coverage, and exploring additional pension pillars that emphasize employer and individual responsibility.

A welfare mix rhetoric is now evident in elderly care service delivery reform. Between 2011 and 2016, the central government published more than ten policy documents regarding marketization reform in elderly care. Most reform measures focused on lowering barriers to entry to the elderly care market, incentivizing elderly care consumption, securing land use for elderly care, pluralizing financing mechanisms, and restricting government roles to regulation and purchasing of services rather than direct provision of care. The implementation of this new round of reform faced relatively little obstacles, as many of these measures involve positively incentivizing local government and their potential private and community partners through fiscal means and land use policies. On the other hand, many of these reform measures reflected successful experiences from earlier top-down central pilot programs or bottom-up local experiments. In this regard, the service delivery reform between 2011 and 2015 were highly consistent with the incremental and trial-and-error approach in other policy areas, building on various local-central feedback. The influence of local agency will be further explored in later subnational comparisons between Shanghai and Guangzhou.
By contrast, pension reform has sought to balance multiple goals such as establishing universal coverage, equalizing benefit levels across existing schemes, and reduce fiscal burden by pluralizing financing mechanisms. Nonetheless, new reform rhetoric regarding a truly multi-pillar pension model is emerging, although there are still unsolved debates in how to design and balance between the pillars. First, adding to the employment-based schemes, the central government began to experiment resident-based pension schemes in urban and rural areas since 2009. In 2011, 360 million rural residents participated in the new rural pension scheme, but the benefit level remains extremely low with an average monthly payment of only 57.5 yuan to rural pensioners (Ministry of Finance 2012). The separate rural scheme was eventually abandoned after two years of experimentation, as reform advocates argued that the creation of separate urban and rural schemes would further stratify the pension system. In 2014, the State Council officially introduced an integrated Urban and Rural Resident Basic Pension Insurance (referred as “resident pension scheme” below). By 2016, the number of urban and rural residents covered in this scheme has reached 504 million in addition to 379 million enrolled in the urban employee scheme (Ministry of Finance 2017). Basic pension now covers more than two thirds of the general population and more than 90% of employees and retirees, marking growing state efforts towards universal basic pension coverage as the first pillar.

The rapid expansion in pension coverage however is conditioned by persistent and even growing gaps in contribution and benefit levels across schemes. For the resident scheme, central government has set baseline contribution tiers ranging from 100 yuan to 2000 yuan in 2014, while allowing local governments to add more tiers according to local conditions (State Council 2014). In addition, the resident scheme remains primarily a social pooling instrument with no individual account functions. In practice, individual contribution level remains extremely low despite some
local variations, with a national average of 146 yuan in 2016. By contrast, in the urban employee scheme work units are required to contribution 20% or more of employee base salary to the social pooling portion while individuals contribute 8% to the individual account.

**Figure 20 Urban and Rural Resident Basic Pension Insurance Revenue by Source**

![Chart showing Urban and Rural Resident Basic Pension Insurance Revenue by Source](chart.jpg)

Data Source: MOF Social Insurance Fund Annual Reports.

These variations in contribution level directly contribute to gaps in payments to pensioners. In 2016, per capita expenditure for the urban employee scheme was 6805.4 yuan in contrast to 430.7 yuan for urban and rural resident scheme. Other contributing factors including the low cumulative balance of the new resident scheme, and its inevitable structural dependence on direct government financing. Figure 20 and Figure 21 provides a comparison between revenue sources of the residence-based and employment-based schemes in recent years. Without employer contributions, the resident scheme relies heavily on local government fiscal subsidies and central government fiscal transfers. For higher contribution tiers, local governments in coastal areas are required to match by higher fiscal subsidies with only 50% of central government compensation.
This partly explains why local governments in coastal areas are less keen to increase contribution levels.

It is worth noting however the urban employee scheme still receives greater government fiscal support by absolute numbers, reaching 61.1 billion yuan in 2016 in comparison to 22.2 billion yuan transferred to the resident scheme (Ministry of Finance 2017). The growing fiscal burden at central level in recent years and the persistent fragmentation in basic pension schemes despite expanded coverage have finally pushed the central government to announce several additional reform plans. The most publicly discussed reform was an incremental plan to integrate the civil servant scheme into the urban employee scheme at national level beginning 2015. Other reform measures such as building occupation and commercial pillars were also significant, though received less public attention.

**Figure 21 Urban Employee Basic Pension Insurance Revenue by Source**

![Urban Employee Basic Pension Insurance Revenue by Source](image)

Data Source: MOF Social Insurance Fund Annual Reports.
In 2015, the central government caught many observers by surprise when it officially proposed an incremental plan integrate the civil servant scheme after years of policy debates and failed experiments.\textsuperscript{96} Many applauded this reform as it marked a first step to integrate these two schemes and end long-existing dual track system. Most significantly, the reform plan mandates equal individual and work unit contribution levels for all newly employed urban employees and define benefits based on contribution level rather than administrative ranks. However, like the urban employee pension reform in 1990s, a grandfather clause as well as salary increase terms were added to allow retirees and current employees to keep their current benefit levels. A more controversial measure was to allow the current employed to use their employment years as contributing years. Since these individuals did not make actual contributions before the reform, it means the gap will be financed by fiscal subsidies. Nonetheless, many reform advocates considered this as an acceptable cost in exchange for breaking the ice.\textsuperscript{97}

At first glance, the 2015 reform can be viewed as a sign for increasing emphasis on “top-level design”. However, I argue that it is necessary to investigate the policy debates and processes and explain how the reform plan was formulated. A comparison between the 2009 healthcare reform and the 2015 pension reform demonstrate some significant similarities. First, domestic and international think tanks were invited to draft competing plans for national pension reform beginning 2013. Policy ideas gathered from 8 groups of participating policy experts eventually were considered and adapted by MOF and MOHRSS respectively. Between 2013 and 2015, policy debates evolved into two competing camps, one represented by MOF supporting a complete overhaul and adoption of a Swedish model of nonfinancial defined contributions (NDC),\textsuperscript{98} and the other camp represented by MOHRSS favoring smaller incremental reforms, while maintaining the PAYG social pooling system.\textsuperscript{99} Both sides, however, agreed that ending the dual-track system will
be a necessary step towards either radical or incremental reforms. Therefore, the successful 2015 reform can be explained by an increasingly deliberative and contentious process of bureaucratic bargaining, and a compromise between vested interests and reform advocates, with both sides sharing the same fear that the looming aging crisis will result in total collapse of the social insurance system over time.

A more recent reform move by the central government is the proposal of a “central adjustment fund system” (zhongyang diaojijin zhidu) of basic pension funds in mid-2018, which is intended to balance payment burdens of local governments and address the regional disparities in pension financing (State Council 2018). Instead of a more radical plan for national social pooling which will be strongly opposed by rich coastal provinces, the central government announced an incremental plan that will over time increasing the level of central extraction and redistribution from the provincial capital pool, starting from a small portion of 3%. To address local government concerns, central government commits to “continue supporting local governments in pension distributions” and “help guarantee timely and complete payments to retirees” (State Council 2018). The new reform also for the first time commits to establish a timeline and roadmap for national-level social pooling over time, although no concrete plan has been announced so far.

While it is still too early to systematically assess local government and societal responses, two opposing camps have criticized the incremental plan during policy formulation. The first view come from reform advocates who prefer a more radical approach, arguing that the central government should directly impose national-level pooling to avoid pushbacks from local interests and opportunism in local implementation (Dong 2017).\(^{100}\) The second camp largely represents rich coastal provinces with relatively healthy worker-pensioner ratio, and a large positive cumulative balance in employee pension funds. For example, a Guangdong NPC representative who is also a
local social security bureau official argues that such reform will lead to unfair redistribution because Guangdong has less pensioners in comparison to provinces with less migrant inflow ("100 Billion Pension Funds" 2014). Despite these oppositions, the eventual reform plan moved forward with an incremental path.

**Figure 22 An Emerging Multi-Pillar Pension Model in Central Government Reform Rhetoric**

![Diagram of pension model](image)

Source: Compiled by author based on State Council policy documents.

Regardless of the varying preferences in direction and pace of reform, the deliberative and bureaucratic bargaining processes helped forging new coalitions and identifying consensus among competing sectoral and bureaucratic interests. It also explains why incrementalism is increasingly favored over more radical approaches. On the other hand, political leadership change in 2013 has contributed to the acceleration of reform, but reform trajectories are still shaped by earlier policy debates and bureaucratic bargaining processes. By 2018, a new multi-pillar model has gradually emerged, with a more integrated basic pension scheme that preserves two tracks of employment- and resident-based schemes. The reform between 2014 and 2015 have sought to equalize
contribution and benefit levels between public and private sector employees on the one hand, and urban and rural residents on the other.

At the same time, policy borrowing from existing pension models from other countries is evident, but subject to constant re interpretations by bureaucratic interests, policy experts from competing campus, as well as local governments. In 2015 and 2016 the central government also proposed to further develop “enterprise annuities” (qiye nianjin) as a type of occupational pension and provide incentives for expanding the commercial pension insurance market. These in theory will serve as the second and third pillars in addition to a nearly universal though stratified basic social insurance pension scheme. As Figure 22 illustrates, this new welfare-mix model “with Chinese characteristics” structurally resembles the multi-pillar approach promoted by international institutions such as World Bank and institutionalized in developed democracies. Nevertheless, earlier local experiments have shown that policy layering has appeared to favor employment based basic pension scheme over all other alternatives. As the subnational comparisons illustrate, the incremental approach because of bureaucratic bargaining has created significant rooms for local agency.

Subnational Welfare Mixes: Pension and Elderly Care Reform in Shanghai and Guangzhou

Similar to housing and healthcare, I argue that pension and elderly care reform has led to development of relatively coherent subnational welfare mixes in Shanghai and Guangzhou. For elderly care service delivery, this means a stronger focus on the state sector in Shanghai, and private and community participation in Guangzhou. For pension reform, Shanghai has continued to favor policy layering that prioritize employment-based schemes and maintain a stratified payment structure to pensioners. By contrast, Guangzhou there has been greater emphasis on
protecting the interests of civil servants on the one hand and integrating rural migrants to support local economy on the other. The increasing emphasis of “top-level design” may impose some constraints on these existing variations, but the nature of incrementalism and experimentalism in central reforms remains unchanged. As a result, local interpretations and policy feedback remains an important condition for success or failure of central reform measures.

From State Monopoly to Incomplete Marketization: The Reform of Elderly Care in Shanghai

Before 1980s, the Maoist-era elderly care system in Shanghai shares similar characteristics of the stratified system at national level. Urban retirees were covered by labor protection and free medical care systems provided by work units, while the urban and rural poor who cannot rely on their families were covered by the means-tested “five guarantees” system at municipal level. The labor insurance and civil servant pension schemes gradually expanded their coverage since 1950s. covered less than 50% of the urban elderly until 1997. For those who were covered, however, strong state support guaranteed their quality of life after retirement. In 1983, average pension payments to retirees was 60 yuan per month while per capita living expenses for urban employee families was 36.38 (Shanghai Municipal Government 2018). On the other hand, the municipal government imposed strict eligibility criteria for the means-tested “five guarantees” program with approximately only 6300 urban and 3500 rural residents receiving elderly care assistance (Shanghai Municipal Government 2018).

Before 1980s, there were no separate elderly care institutions or dedicated research centers in Shanghai. By 1979, however, Shanghai’s elderly population with age above 60 reached 10.2% (Shanghai Municipal Government 2018). The elderly dependency ratio continues to grow following the implementation of one-child policy in the same year. By mid 1980s, the municipal
government began to explore ways to deal with the emerging aging problem. Local universities and researchers were invited to formulate reform plans, and new research centers were created in collaboration with the municipal government. A series of research papers were published, leading to the 1988 passage of *Shanghai Municipal Regulations on Elderly Protection* followed by several major revisions in the next two decades. Shanghai thus became the first city in China to actively cope with a foreseeable aging crisis. By contrast, national elderly protection laws were first established in 1996, 8 years after Shanghai’s initial proposal.

Similar to national level, Shanghai’s local policy network involves a variety of bureaucratic and research institutions under the “guidance” of municipal government. However, in contrast to consistent bureaucratic fragment and bargaining at central level, Shanghai’s local policy network is highly coordinated. On the bureaucratic side, an Elderly Interagency Joint Meeting led by the mayor was established in 1995 to coordinate policy planning for elderly care and other services. Bureaucratic and government affiliated agencies participating in interagency coordination includes the Bureaus of Retired Veteran Cadres, Labor, Social Security Administration, Civil Affairs, Finance, and the Municipal Federation of Labor Unions (Shanghai Municipal Government 2018). In addition, a local coalition of research institutions in affiliation with the government or local public universities were formed in 1980s to focus on elderly policy research. In 1993, the municipal government further integrated the local research network and formed the Shanghai Research Center for Aging (SRCA). In addition to local policy research, the center has played instrumental roles in engaging with the international epistemic communities of aging and a series of international seminars were held in Shanghai.

The coexistence of hierarchy and coordination in the policy arena has led to a relatively coherent reform plan and significant policy continuities overtime. It also created strong policy
feedback at national level and influenced policy models in other localities. Beginning 1998, SRCA started to conduct municipal-level surveys on elderly population every 2 to 5 years. The survey questions ranged from income, living condition, to quality of life indicators, and were used to inform local policy formulation. For example, the 1998 and 2003 surveys show that over 90% of the elderly population prefers “home care” over institutionalized long-term care (Shanghai Research Center for Aging 2003). Instead of expanding institutionalized care, Shanghai therefore announced a “9073” framework for elderly care in 2005, which means “90% taken care by families, 7% covered by community-supported home care, and 3% by institutionalized care” (Shanghai Municipal Government 2005). This model was later emulated and adapted by other localities, including “9055” in Wuhan, “9028” in Fuzhou, and the “9064” model in Beijing and Guangzhou.

Service delivery reform began as early as 1983, although over time the Shanghai elderly care model still prioritize direct state intervention in elderly medical care and to a less degree in long-term care, resembling trends in healthcare service delivery. Since 1980s, Shanghai began to develop a “home medical care” model complementing institutionalized elderly medical care. The “home care” hospital beds were supplied by large public hospitals, and the newly established public elderly hospitals or health centers. In 1986, Shanghai’s first dedicated elderly hospital opened in Jin’an District, where many civil servant and SOE retirees resided. By 1990, the number of home care beds reached 38404 provided by 191 local public healthcare institutions, with 4 municipal-level elderly hospitals and two elderly rehabilitation centers, all of which were public and directly funded and administered by municipal government (Shanghai Municipal Government 2018). When the aging crisis finally reached at national level by 2010s, Shanghai’s home care model has been highly institutionalized with more than 52300 home care hospital beds. Unsurprisingly, it was quickly adopted by MOH and recommended to other localities in 2016.
In addition, the municipal government has worked with district-level bureaus and private partners to establish nursing homes or assisted living facilities. The goal is to provide institutionalized long-term care to 3% of the elderly population in the “9073” model. Overtime, private participation in elderly care service delivery has significantly increased, although most of them focused on the “high-end” retirement homes providing care to wealthy seniors. Domestic private participation in “basic care” has expanded but still limited due to lack of policy support, and many of existing facilities struggling financially. Most low- and middle-income seniors still prefer public facilities, which are often larger and well-equipped and closer to downtown. This has resulted in long waitlists in public facilities and many have imposed strict eligibility criteria, limiting access to elderly with hukou or those who do not need full care.

According to a list provided by Shanghai Municipal Bureau of Civil Affairs in 2018, 308 out of 348 registered “basic care” institutions are public and only 40 are private institutions. Among public institutions, 200 are operated directly by subdistrict level government offices, while the rest 108 are operated by private or community partners. For private institutions, 32 registered as private non-profit and 7 as public-private partnership (Shanghai Municipal Bureau of Civil Affairs 2018). Table 15 Elderly Care Facilities in Shanghai provides a comparison between some of these elderly care facilities. Among all four examples provided, three of them are in downtown districts and the fourth is located in a suburban district. Counterintuitively, public facilities are often larger and more expensive, and those operated by district bureaus tend to impose strict hukou and local resident eligibility requirements. Some local policy experts have criticized the tendencies for municipal and district governments to invest in larger “luxurious” facilities, arguing that it leads to distortions to social welfare functions of public facilities and encourage their profit-seeking behavior (Tao and Han 2011).
### Table 15 Elderly Care Facilities in Shanghai

<table>
<thead>
<tr>
<th>Example</th>
<th>Institution Type</th>
<th>Land Use/Construction</th>
<th>Average Monthly Price</th>
<th>Service Capacity</th>
<th>Eligibility Criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>YP Social Welfare Center</td>
<td>Public</td>
<td>Administrative allocation</td>
<td>3000-3500 yuan</td>
<td>1000 beds</td>
<td>Shanghai hukou, local district residence preferred</td>
</tr>
<tr>
<td>RYX Retirement Home</td>
<td>Publicly-owned, privately operated</td>
<td>Government purchased private property</td>
<td>3850-5500 yuan</td>
<td>2500 beds</td>
<td>No hukou or residence restriction</td>
</tr>
<tr>
<td>HF Retirement Home</td>
<td>Private non-profit</td>
<td>Repurpose of former vocational school</td>
<td>2750-3200 yuan</td>
<td>300 beds</td>
<td>No hukou or residence restriction</td>
</tr>
<tr>
<td>CY Retirement Home</td>
<td>Private non-profit</td>
<td>Administrative allocation; self-built</td>
<td>1860-2140 yuan</td>
<td>140 beds</td>
<td>No hukou or residence restriction</td>
</tr>
</tbody>
</table>

Source: Compiled by author.

Despite some expansion in institutionalized care in recent years, before 2010s most elderly population still rely on their families for primary support, corresponding to 90% in the “9073” model. While other localities began to borrow the model by late 2000s, in Shanghai demographic shifts began to challenge the model’s core assumptions. The one-child policy and changing social attitudes led to increasing share of seniors living alone. According to SHRCA survey in 2016, 31.6% of Shanghai’s population with hukou are aged 60 or above with an average life expectancy of 83.18. More than 1.16 million elderlies live independently themselves rather than sharing a home with their children (Shanghai Research Center for Aging 2017). This has led to increasing demands for “socialization of care” and calls by local reform advocates to increase government subsidies and community support. Some local policy experts even recommended to change “9073”
to “85105”, meaning 85% of home care, 10% of community care, and 5% of institutionalized care (Tao and Han 2011).

These local demands coupled with marketization reforms at central level between 2011 and 2015 became the main driving factors behind local policy changes since 2014. In 2015, Shanghai published the first dedicated five-year plan for aging, and proposed a new model of community-based elderly care with “multiple layers, pluralized supply” to bridge the gaps left in the “9073 model” (Shanghai Municipal Government 2015). In general, there is a significant shift from direct government provision to government purchasing and public-private partnership, and a growing emphasis on complementarity between different service delivery models. In addition, service delivery has been further decentralized to urban community and rural neighborhood levels. Since the new framework is still at trial stage, the municipal government has introduced a varieties of new service delivery models, ranging from community elderly homes, community day care centers, elderly care vouchers, assisted elderly cafes, and rural neighborhood partnership programs (Shanghai Municipal Government 2017). As Table 16 illustrates, service capacity of these new models is rapidly expanding, although they are still quite limited in comparison to the growing demands given rising demographic challenges.

While private and even foreign participation are strongly encouraged in these new areas, Shanghai’s new framework is expected to involve high degree of indirect state intervention through increasing participation of SOEs in the foreseeable future. Specifically, timing of elderly service delivery reform coincides with new round of “supply-side” (gongjice) SOE reform that seeks to reduce overcapacity in traditional sectors, seek “new primary industries” (xinzhuye), and “mixed ownership reform” (hunhe suoyouzhi gaige) (Wang 2018). In contrast to healthcare and housing where SOEs are already dominating local service delivery, elderly care remains
unexplored by SOEs due to central and local restriction and lack of profitability. The incomplete marketization in elderly care therefore has become an ideal opportunity for SOEs to enter this rapidly expanding industry.

### Table 16 Emerging Elderly Care Quasi-Market in Shanghai

<table>
<thead>
<tr>
<th>Service delivery models</th>
<th>Instrument type</th>
<th>Number of facilities</th>
<th>Service Capacity (number of beds or visitors per month)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Institutionalized long-term care facilities</td>
<td>Long-term care</td>
<td>703</td>
<td>140400 beds</td>
</tr>
<tr>
<td>Community Elderly Homes</td>
<td>Short-term transition care</td>
<td>127</td>
<td>3430 beds</td>
</tr>
<tr>
<td>Community Day Care Centers</td>
<td>Day care</td>
<td>560</td>
<td>23000 visitors per month</td>
</tr>
<tr>
<td>Community Elderly Service Organizations</td>
<td>Consumer voucher for home care</td>
<td>334</td>
<td>120000 beneficiaries</td>
</tr>
<tr>
<td>Community Elderly Cafes</td>
<td>Elderly dining service</td>
<td>707</td>
<td>81000 visitors per month</td>
</tr>
<tr>
<td>Rural Neighborhood Partnership Programs</td>
<td>Informal care by neighborhood volunteers</td>
<td>500</td>
<td>NA</td>
</tr>
</tbody>
</table>

Source: Compiled by author based on Shanghai Municipal Government (2017).

In Shanghai, local SOEs in real estate and insurance industries have collaborated with private and nonprofit partners to form mixed-ownership elderly care management companies, therefore indirectly participating in service delivery. With closer ties with local government and policy networks, this new form of public-private partnership has been preferred by municipal and district governments. And unsurprisingly this new SOE model has enjoyed greater policy support in comparison to their private counterparts. Two models of SOE participation involves direct participation in service delivery in Shanghai. The first model is based on a mixed-ownership
structure. For example, Shanghai SY Elderly Care Corp was jointly formed by a local real estate group, a public university, and a private real estate developer with national reputations. Since its establishment in 2015, SY Corp has rapidly expanded, running more than 30 projects covering institutionalized care, day care, and rehabilitation centers across district. At the same time, more SOEs are now competing with foreign and private companies in the “high-end” market, which often involves building integrated communities that combine elderly care with healthcare and real estate development in suburban areas.

Shanghai’s elderly care system has experienced some level of policy change from the “9073” model that emphasized family support with limited government direct intervention, to a pluralized quasi-market model, through which the government regulates and purchase services from a variety of public, private and mixed-ownership providers. Interestingly, the incomplete marketization reform in earlier years have created opportunities for greater degree of private participation in comparison to healthcare and housing. While public long-term care facilities have demonstrated some profit-seeking trends, their shares a smaller portion of an underdeveloped service sector, in comparison to state-owned real estate companies or public hospitals in Shanghai. At the same time, as Shanghai now moves towards a booming “silver economy”, SOEs seem to be ready to enter into this field through emerging forms of public-private partnership encouraged by central and local governments. It is however still too early to assess the nature and potential influence of SOE participation, and whether they will over time facilitate or “crowd out” private participation.
Elderly Care Reform in Guangzhou: “Socialization” of Care with Private and Community Participation

In comparison to Shanghai’s growing challenge of aging, Guangzhou can be considered as a relatively young mega-city, contributed by its emphasis on export-oriented manufacturing, and a steady inflow of migrants from rural areas within Guangdong province as well as from nearby populous provinces. Guangzhou’s elderly population aged 60 above consists 17.3% of local residents with hukou by 2015, slightly above national average but significantly below Shanghai’s 31.6% in 2016 (National Bureau of Statistics China 2018). Unsurprisingly, this has led to less policy planning and coordination in elderly care until recent years. Earlier reform was largely designed to complement production regime reform that involves both SOE restructuring and the development of a strong export-oriented manufacturing sector. As a result, service delivery before mid-2000s focused on “socialization of care” for SOE retirees, which was gradually expanded to cover urban and rural employees in the private sector. On the other hand, institutionalized long-term care in Guangzhou emphasized private participation, although this approach has led to shortage and affordability issues at the same time. Responding to a changing demographics in recent years and central-level service delivery reform in 2010s, Guangzhou has transitioned to a community-based “9064” model with pluralized service delivery recent years.

Resembling Shanghai and elsewhere, the pre-reform elderly care was primarily provided by work units and rural communes, with supplemental role of municipal government in the means-tested “five guarantees” program. In contrast to Shanghai, however, SOE reform in Guangzhou since 1980s did not immediately led to “socialization” of elderly care. Although the municipal government established the Retiree Administration Commission (RAC) in 1989 under the municipal labor bureau, most retirees still relied on their work units in providing healthcare,
housing, and elderly services between 1991 and 1994 (Guangzhou 2018b). The deepening of nationwide SOE reform in 1990s and the massive laid-off of “surplus workers” however created significant pressure for further reform. In 1994, the municipal government published a new rule allowing work units to transfer their retirees to municipal and district level retiree administration agencies by paying one-time service fee of 3000 yuan per worker (Guangzhou 2018b). This marked the beginning of “socialization of elderly care”, although initial reform covered only SOEs that were undergoing bankruptcy, restructuring, or ownership transition.  

By early 2000s, the municipal government began to provide community-based elderly care to retirees in other types of firms if they participate in the newly established social pension and healthcare insurance schemes. In contrast to Shanghai’s earlier emphasis on medical care and institutionalized long-term care, Guangzhou focused on providing community-level “day-care” type of services. Initially, the total number of beneficiaries were quite small, with 31747 retirees or roughly 5% covered by the program in comparison to 608904 total retirees in 2000 (Guangzhou 2018b). With the completion of SOE reform, the welfare burden was largely shifted to individual responsibility and an informal insecurity model. Most of the urban and rural elderly population in Guangzhou were now relying on their family instead of state or work units.

Since 2001, Guangzhou began to institutionalize and expand the “socialized care” network and build community-level retiree administration and service centers through direct fiscal allocation. Some subdistrict communities also established their own facilities through fund-raising. By 2005, 95% of retirees were covered in the network, with 60.2% covered by community-based service centers (Guangzhou Municipal Government 2018). In the same year, the municipal government implemented Procedures on Preferential Treatment for Senior Citizens, while beginning to provide direct fiscal subsidies to extremely low-income elderlies in addition to
previously eligible communist revolutionaries. In addition, the municipal government encouraged seniors to form elderly mutual-aid organizations in both urban and rural districts, with more than 2300 established by the end of 2005 (Government 2018). In comparison to Shanghai’s model that largely relied on direct state intervention and marketized care, Guangzhou’s model was closer to the “socialization” model encouraged by central government.

While RAC has played vital role in coordinating care for retirees in Guangzhou, such role was less seen in the case of Shanghai’s municipal RAC. In general, Shanghai’s RAC system was more fragmented, divided by sectoral and work-unit level subdivisions servicing large SOEs and public institutions. In addition, Shanghai’s municipal level RAC has focused on building and operating “retiree apartments”, a form of long-term institutionalized care for retirees, in comparison to a clear community-centered service model in Guangzhou. Rather than directly involved in service delivery, the RAC network in Guangzhou has more frequently partnered with community and elderly mutual-aid organizations.

The focus on retired employees however soon shifted to expanding coverage for the rest of the urban and rural elderly population in Guangzhou. As discussed earlier, Shanghai developed a “9073” model as early as 2003. In Guangzhou, a “9064” model gradually emerged in 2010s as an adaptation from Shanghai’s original model and a respond to the looming aging crisis. Between 2012 and 2016, Guangzhou’s elderly dependency ratio increased from 21.75 to 26.53 per 100 working adults, resembling trends in Shanghai in 1990s and early 2000s (Guangzhou Municipal Government 2017). To solve the issue, Guangzhou has developed a pluralized service delivery model encouraging community, private and foreign participation in service delivery. For most public facilities, Guangzhou has established a “government regulated, market operated” (zhengfu
jiandu, shichang yunyin) framework, contracting management to private firms, community organizations or individuals (Zhao 2015).

By 2018, Guangzhou has 237 private elderly care institutions in comparison to 117 public ones. While public service delivery has increased since 2015, only 29 are large public facilities in urban areas, in contrast to 84 smaller facilities in rural areas providing means-tested care (Guangzhou Civil Affairs Bureau 2018). The bureau director also announced that they intend to keep the private-public ration at 7:3 by 2020 ("Dilemma of Elderly Care" 2015). Table 17 provides a comparison between four types of public and private institutionalized long-term care facilities. In comparison to Shanghai, Guangzhou’s public long-term care facilities tend to be less expensive, smaller in size, and less likely to locate in downtown area. The disparities between public and private facilities in terms of size and location are therefore negligible. On the other hand, about half of the private facilities are non-profit, although they often charge a high one-time admission fee in addition to monthly charges. For-profit private facilities are even much more expensive, resulting in affordability and access issues for less wealthy elderly population.

To resolve the shortage of public supply and affordability issues in private care, Guangzhou has rapidly expanded existing facilities, constructing new ones, and increased fiscal subsidies to both public and private facilities. In addition, the municipal government has followed a Hong Kong model to create an online waitlist system that centrally allocate public facility beds based on need and availability since 2015. Nonetheless, the significant dropout rates among applicants shows that most elderlies are unwilling to move to suburban areas, forcing the municipal government to shift its emphasis to the home care and community-based care pillars (Zhong 2015). Building on the RAC model, Guangzhou has established a relatively mature community-based service delivery network in addition to institutionalized care as shown in Table 18. While Shanghai outnumbers
Guangzhou in terms of number of long-term care facilities and their service capacities, Guangzhou has significantly more home care service organizations as well as day care centers.

Table 17 Elderly Care Facilities in Guangzhou

<table>
<thead>
<tr>
<th>Example</th>
<th>Institution Type</th>
<th>Land Use/Construction</th>
<th>Average Monthly Price</th>
<th>Service Capacity</th>
<th>Eligibility Criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>GZ Nursing Home</td>
<td>Public (urban)</td>
<td>Administrative allocation</td>
<td>1400-3700 yuan with a “reserve fund” of 20000 yuan</td>
<td>900 beds</td>
<td>Residents with hukou or migrants with “significant contributions”</td>
</tr>
<tr>
<td>SL Nursing Home</td>
<td>Public (rural)</td>
<td>Administrative allocation</td>
<td>1050-1450 yuan</td>
<td>108 beds</td>
<td>Free and prioritized admission for “five guarantees” elderly with hukou</td>
</tr>
<tr>
<td>CE Christian Nursing Home</td>
<td>Private Non-profit</td>
<td>Renting private property</td>
<td>1600-3700 yuan with one-time fee of 11000-12500 yuan</td>
<td>201 beds</td>
<td>No hukou restriction</td>
</tr>
<tr>
<td>SH Nursing Home</td>
<td>Private For-profit</td>
<td>Temporary use of SOE land</td>
<td>2100-3880 yuan with one-time fee of 8000-85000 yuan</td>
<td>900 beds</td>
<td>No hukou restriction</td>
</tr>
</tbody>
</table>

Source: Compiled by author based on service provider list published by Guangzhou Civil Affairs Bureau.

Another interesting comparison between these two cases is the increasing foreign participation in community-based care in recent years, in contrast to their earlier focus on “high-end” care. In this regard, regional economy seems to play important roles as Shanghai has attracted more private investors from Singapore, Japan and Taiwan, while Guangzhou as worked closely from Hong Kong and Macau under the CEPA framework. For Shanghai, foreign participation still
primarily takes the form of private capital investment in community-based facilities and provision of professionalized private care. In the case of Guangzhou, the collaboration with Hong Kong takes many forms, involving not only private investors but also policy learning and coordination with government agencies and local religious and community organizations such as Hong Kong Sheng Kung Hui and the Hong Kong Neighborhood Advice-Action Council.

<table>
<thead>
<tr>
<th>Service delivery models</th>
<th>Instrument type</th>
<th>Number of facilities</th>
<th>Service Capacity (number of beds or visitors per month)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Institutionalized Long-term Care</td>
<td>Long-term care</td>
<td>354</td>
<td>102107 beds</td>
</tr>
<tr>
<td>Home care service organizations</td>
<td>Home-based elderly care</td>
<td>3316</td>
<td>NA</td>
</tr>
<tr>
<td>Day care centers</td>
<td>Day care</td>
<td>3532</td>
<td>100% coverage for urban and rural communities</td>
</tr>
<tr>
<td>Elderly Café</td>
<td>Dining service</td>
<td>928</td>
<td>NA</td>
</tr>
<tr>
<td>Community Nursing Station</td>
<td>Home-based medical care</td>
<td>60</td>
<td>NA</td>
</tr>
</tbody>
</table>

Source: Compiled by author based on 2016 and 2018 data by Guangzhou Civil Affairs Bureau.

Although Shanghai’s “9073” model and Guangzhou’s “9064” model look similar in their names, in practice service delivery reforms in both cases are highly contextualized with strong influence of local and regional political economy. The shift towards community-based care in Shanghai will provide an opportunity to further compare reform trajectories in these two cases, particularly with greater degree of SOE participation in Shanghai in recent years in contrast to Guangzhou’s continued pro-market and socialization approach. In general, the Guangzhou model has demonstrated stronger consistencies with central reform guidelines that also emphasize a “socialization” approach rather than direct state intervention.
From Fragmentation to Integration? Shanghai’s Social Insurance Model in Pension

Before 1978, Shanghai’s pension system was marked by a dual track of civil servant and urban employee schemes that resembles national-level institutional arrangements. However, the economic reform has caused significant price and wage volatility, challenging the communist model of fixed pension provided by work units. While national-level pension reform officially began in 1990s, Shanghai’s pension reform started earlier in 1986 as a pilot program, when a new social pooling mechanism was introduced to work units starting from SOEs and later expanded to urban collective enterprises, with the goal of relieving their increasing welfare burdens, (Shanghai Municipal Government 2018). The municipal and district level governments collected work unit contributions based on a 25.5% fixed rate of workers’ salary, then allocated the revenue to work units based on their needed payments to pensioners. Individual contribution was not required at this time but was later mandated in the 1994 reform. Inadvertently, the introduction of social pooling served a redistribution function, reducing disparities in pension levels across work units since now contribution and benefit levels are tied with each other (Dai 1993). Shanghai was also the first city to implement annual price adjustments for pension in the same year, due to rising inflation pressure in late 1980s. A primitive form of social insurance was therefore first formed in Shanghai.

In urban areas, the social insurance model was first established among state sector employees. While the central government introduced the general reform framework in 1993, national level pension insurance reform did not start until 1998. As a result, local agency was significant in carrying out social insurance reforms across all these policy sectors at the same time. In the case of pension, local reform was based on a combination of policy borrowing from international practices, as well as experimentation and feedback in collaboration with local work
units (Dai 2008). With the expectation that SOE reform would soon lead to massive laid-offs, the municipal government began to invite local policy experts to prepare reform plans and conduct work unit level experiments beginning 1991. By 1993, Shanghai established the Social Security Administration Bureau and introduced the Procedures of Shanghai Urban Employee Pension Insurance in 1994.

Shanghai’s local agency however is strongly interdependent with its leading role in national economic reform as well as its territorial representation in central political institutions. Before the 1993 reform, municipal policymakers considered various foreign models, and reached a consensus that Shanghai needed reform model that “can be promoted nationwide, otherwise we will it will be soon reversed” (Dai 2008, Xiao 2009b). The final model that combines social pooling with individual account was an outcome of “constant discussions and debates with 11 central ministries and agencies” (Dai 2008). Furthermore, Shanghai’s 1993 reform plan was passed by municipal people’s congress in the form of local legislation, in contrast to the more frequent forms of bureaucratic rules, providing channels for greater societal input at local level before implementation. The successful implementation of social insurance reform in Shanghai at local level produced strong feedback effects at central level and eventually led to the promotion of Shanghai model at national level, as the municipal policy makers have expected.

With central government approval, Shanghai was able to implement a more comprehensive local reform that led to the institutionalization of a social insurance model across all three policy areas, covering housing provident fund as well as urban employee medical and pension insurance. Most notably, Shanghai civil servant pension scheme were incorporated into the social pooling system in 1994, marking a departure from national level trends of significant delays until 2010s. The civil servant scheme reform however was made possible by providing compensations to civil
servants and public-sector employees as well as maintaining a separate track for fund management and payments. While public employees were required to make a same contribution rate they were also compensated through consistently higher payment standards and voluntary supplemental insurance provided by their work units. Such partial reform has delivered mixed results. A 2010 study by Yang et al. shows that in comparison to Beijing where civil servant pension reform was delayed, Shanghai’s social insurance funds are under consistent financial pressure due to high payment levels to civil servants. Nonetheless, the integration has also significantly decreased local government direct fiscal expenditure on pension payments, allowing greater fiscal transfer to social insurance funds (Yang, Feng, and Sun 2010).

With a booming private sector and an export-oriented economy, Shanghai also quickly introduced pension insurance to employees in private firms and foreign investment companies in 1995. In rural areas, Shanghai was selected by Ministry of Civil Affairs as a pilot city for residence-based pension insurance as early as 1987 (Chun 2000). With 7 years of district-level policy experiments and gradual expansion, Shanghai finally introduced the rural social pension insurance in 1996 (referred as “rural insurance” below). By contrast, urban resident pension scheme was not introduced until 2011 when Shanghai was selected again as national pilot, although it was 15 years after the rural resident scheme was introduced. The considerable time gap shows strong top-down pressure in introducing residence-based schemes, in contrast to more bottom-up local agency in the quick introduction of employment-based schemes based on local developmental needs.

Between 1993 and 2011, Shanghai’s social insurance model therefore remains primarily employment-based with strong emphasis on social pooling supplemented by individual account. By 2006, Shanghai has established a “four pillars” model for comprehensive social insurance covering both pension and healthcare, as previously discussed in chapter 4. In addition, the small-
Town scheme and migrant comprehensive schemes provides additional coverage for rural employees and migrants, although the benefit levels are significantly lower in comparison to the civil servant and urban employee schemes. Interestingly, the small-town scheme was frequently used by municipal and district governments as a compensation mechanism to land-lost farmers due to urban development, and therefore its coverage was broader than those who are employed at town centers. Shanghai’s social insurance model therefore is often characterized as “broad coverage, basic protection, categorized and tiered” according to local policy experts (Dai 2008).

Table 19 “Categorized Solutions” in Shanghai’s pension system before 2010s

<table>
<thead>
<tr>
<th></th>
<th>Urban Basic Pension Scheme</th>
<th>Rural Social Pension Scheme</th>
<th>Small Town Social Pension Scheme</th>
<th>Migrant Comprehensive Insurance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Target population</strong></td>
<td>Urban employees</td>
<td>Rural residents</td>
<td>Rural employees and land-lost farmers</td>
<td>Migrants (primarily rural)</td>
</tr>
<tr>
<td><strong>Funding structure</strong></td>
<td>Social pooling + individual account</td>
<td>Social pooling + individual account</td>
<td>Basic insurance + supplemental insurance (25%+ x)</td>
<td>Social pooling without individual account</td>
</tr>
<tr>
<td><strong>Operation and Financial Management</strong></td>
<td>Social security administration</td>
<td>Contracted by county governments</td>
<td>Social security administration</td>
<td>Commercial insurance companies</td>
</tr>
<tr>
<td><strong>Contribution responsibility</strong></td>
<td>Work units, individuals</td>
<td>Towns and villages, individuals</td>
<td>Work units for basic, work units and employees for supplemental</td>
<td>Work unit or individuals</td>
</tr>
<tr>
<td><strong>Contribution Base and rate in 2009</strong></td>
<td>Individual salary income; 22% + 8%</td>
<td>Average salary income (county); 15% + 5%</td>
<td>60% of average salary (municipal); 25%</td>
<td>60% of average salary (municipal); 5-12.5%</td>
</tr>
</tbody>
</table>

Table 19 provides an overview of Shanghai’s four types of pension schemes and their differences before 2010s. The nature of social insurance pension determines that the payment level is primarily determined by the ability to contribute. As a result, disparities in contribution by work units and individuals across these schemes have led to significant gaps in overall payment levels to pensioners. In particular, the migrant comprehensive scheme has the lowest benefit levels. Migrants who have contributed more than 1 year can obtain an elderly subsidy certificate and receive a one-time subsidy of 7% of the cumulative balance of individual contributions when they reach retirement age. The highly fragmented social insurance system has been criticized by local reform advocates, who argue that such “categorized” solutions based on employment and residence status are creating fairness as well as efficiency issues. One argument was that such fragmentation would lead to less labor mobility and discouraging rural migrant participation in social insurance and shrinkage in contribution base in contrasting to rising payment levels due to the aging crisis (Xiao 2009a).

This “categorized solutions model” was soon challenged by changing central reform rhetoric towards a universal form of basic pension care in late 2000s and early 2010s. In particular, changes in central reform rhetoric seem to embolden local demands for reform as reflected to frequent citation of central policies by local reform advocates as appeared in scholarly works as well as media coverage. Between 2011 and 2012, Shanghai announced plans to incorporate rural migrants with labor contracts as well as those participated in the small-town scheme into the urban employee scheme. The municipal government set a transition period allowing gradual adjustments of contribution base and rates to the same level as urban employees. In 2014, Shanghai integrated the newly introduced urban resident scheme with the rural resident scheme into the urban-rural basic pension scheme, following central mandates in the same year. Further reform measured were
also proposed to civil servant pension schemes by introducing enterprise annuities, allowing
government agencies and public institutions to provide occupational pension to their employees.
At least structurally, Shanghai now has a more integrated basic pension system with two schemes
like the national model.

In practice, however, there are still initial signs of policy drift in the integration process.
For example, the municipal social security bureau introduced the concept of “parallel treatment”
(daiyu pingyi) in which case only annual adjustments will be equalized but not the current pension
payments (Shanghai Municipal Government Press Office 2017). This means the existing gaps in
benefit levels between these two schemes will not be compensated in the process of integration.
Interestingly, this was similar to the partial civil servant scheme reform in 1990s, where a de facto
dual-track system was created under the urban employee scheme. Unsatisfied with this reform plan,
some small-town scheme participants have organized protests at the municipal social security
bureau in 2017, demanding for “real urban scheme not fake urban scheme”.

On the other hand, the integration of migrant comprehensive insurance has raised questions
of who will benefit from this integration. Despite low participation rates among rural migrants,
migrant comprehensive insurance scheme has enjoyed greater cumulative balance in comparison
to other schemes, because of the large size of migrant population as well as their relatively young
age in comparison to local residents with hukou. According to local policy experts, by injecting
migrant comprehensive insurance funds, Shanghai’s urban basic insurance has immediately turned
from a negative to positive balance and is “good for the next five-to-six years” (“Shanghai Lowers
Contribution Rates" 2017). It also allows municipal government to lower contribution rates
across schemes as mandated by central government without further increase fiscal transfers.
Since 1980s, Shanghai has adopted an employment-based social insurance model for pension, healthcare and housing to complement SOE reform and the development of a booming export-oriented local economy. Earlier pension reform demonstrated that Shanghai’s strong territorial representation in central government policymaking as well as a highly coordinated local political economy. By early 2010s, however, this model is under significant pressure due to a combination of factors including changing demographics, local societal demands for reform, and central top-down pressure. Despite significant integration across these schemes at rhetorical level, in practice Shanghai has adopted an incremental reform approach by introducing multiple tracks within each scheme and maintaining a stratified payment structure. In addition, questions regarding who will benefit remains, as indicated by the case of incorporation of rural migrants into the urban employee scheme.

**Pension Reform in Guangzhou: Political Institutions and Mixed Results**

Guangzhou’s pension reform started as early as 1985 when the municipal government formed the Guangzhou Social Labor Insurance Company, which later evolved into Guangzhou Municipal Social Insurance Administration Center (SIAC). The timing of pension reform in Guangzhou preceded Shanghai’s 1986 reform, and national reform in 1990s. Guangzhou was also the first to establish a dedicated agency to managing social security, in contrast to Shanghai where social security administration continued to be a function of local labor bureau. Similar to Shanghai, Guangzhou’s reform was largely driven by growing welfare burdens of work units following economic reform, wage increase and price volatility, which in turn challenges fiscal capacity of the local state and its role as “last resort” for SOE welfare expenditures. Figure 23 shows that between 1980 and 1985, SOE pension and retirement expenditures increased dramatically from 55.1 million to 146 billion, constituting 36% to 43% of total SOE welfare expenditures.
To solve this problem, in 1986 the municipal government required all participating work units to contribute 14% of current employee salaries and retiree pensions and increased to 21.5% by 1988 (Guangzhou 2018b). By 1990, Guangzhou’s socially pooled labor insurance has covered not only all SOEs but also municipal-level collective enterprises, as well as contracted workers in addition to permanent employees in the state sector.

**Figure 23 Increasing Welfare Burden for SOEs, 1980-1985**


In the state sector, Guangzhou therefore completed the transition from the communist labor insurance to an employment-based social pooling system even earlier than Shanghai. Nevertheless, unlike Shanghai’s 1993 reform plan that incorporated individual accounts and was soon adopted as a national model, Guangzhou’s model involved only social pooling and requires higher contribution level by work units in comparison to individuals. Following the 1997 national adoption of the Shanghai model, Guangzhou made significant adjustments to its local social insurance system to introduce individual accounts and finally allows for participation by employer
and employees in the non-state sector. Table 20 compares the reform timelines in these two cases. In general, Guangzhou’s subsequent reform plan after 1997 demonstrated stronger consistencies with central reform guidelines, although some level of local agency was evident in the creation of separate schemes for agricultural and non-agricultural residents.

The gradual reform trajectories towards greater expansion of coverage and integration of schemes in these two cases also followed different patterns. First, rather than introducing a separate migrant scheme, Guangzhou incorporated rural migrants into the urban employee scheme from the beginning. This resembled trends in other cities in Guangdong province and the Pearl River Delta region, driven by their growing reliance on migrant workers, although Shenzhen rather than Guangzhou was the first city to experiment integrated model in 1994.112 By contrast, cities in Yangtze River Delta either adopted the Shanghai model of a separate migrant scheme, or the Zhejiang model of a dual-track system within the urban employee scheme. In both models, the migrant track or scheme was characterized by “low contribution, low pay” (Liu and Chen 2010).

Interestingly, Guangzhou fell behind in the incorporation of private sector into the urban employee scheme in 1990s but led Shanghai in introducing the urban resident scheme and then the integrated urban-rural scheme as a national pilot city. In comparison to the consistently stratified approach in Shanghai, Guangzhou has increasingly preferred an integrated approach for pension scheme and pushed for “public service equalization” among urban and rural residents and to a less degree rural migrants by 2020. This reform approach appeared to be favored by central government during the Hu-Wen era. in 2017.
Table 20 Timeline for Pension Reform in Shanghai and Guangzhou

<table>
<thead>
<tr>
<th>Reform Measure</th>
<th>Shanghai</th>
<th>Guangzhou</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transition from labor insurance to urban employee basic pension insurance</td>
<td>1993; social pooling plus individual account (later adopted as national model)</td>
<td>1992; social pooling without without individual account; introduction of individual account in 1998 following national reform</td>
</tr>
<tr>
<td>Reforming the civil servant scheme</td>
<td>1994; early but partial reform created dual-track system within urban employee scheme; new reform in 2015 with no set timeline</td>
<td>1995 provincial-level reform plan drafted with delayed and partial implementation in 1998; maintained dual-track system; new 2016 reform following national reform with 10-year transition period</td>
</tr>
<tr>
<td>Expansion of social insurance to non-state sector employees</td>
<td>1995 through a separate reform measure at local level</td>
<td>1998 following central government reform measures in 1997</td>
</tr>
<tr>
<td>Expansion of social insurance to migrants</td>
<td>2002; migrant comprehensive scheme with “low contribution, low pay”</td>
<td>1998; incorporated into urban employee scheme</td>
</tr>
<tr>
<td>Expansion of social insurance to rural residents</td>
<td>1996; national pilot program experimented in selected localities since 1989; non-agricultural rural resident and land-lost farmers covered in separate small-town scheme</td>
<td>2008; distinguished between agricultural and non-agricultural rural residents</td>
</tr>
<tr>
<td>Expansion of social insurance to urban residents</td>
<td>2011; national pilot program followed by nationwide implementation in 2013</td>
<td>2008; national pilot program followed by nationwide implementation in 2013</td>
</tr>
<tr>
<td>Integration of Urban-Rural resident scheme</td>
<td>2014; following national reform guidelines in the same year</td>
<td>2012; national pilot program followed by nationwide implementation in 2014</td>
</tr>
</tbody>
</table>

Source: Compiled by author.

On the other hand, the presence of strong vested interests in the state sector again has led to incomplete civil servant pension reform in 1990s and significant delays later, consistent with earlier discussions at national level. In 1995, a provincial-level reform plan was introduced but
strongly opposed by government and public institution employees during a provincial-level forum participated by provincial and municipal representatives. A significant portion of the reform plan was reversed or changed following the meeting, leaving the civil servant scheme largely intact until 2010s. These two seemingly contradicting patterns are consistent with findings in the healthcare chapter, indicating strong intervening effects of political institutions on formation and coherence of subnational welfare mixes.

The comparison between these two cases in terms of pension reform therefore seem to provide evidence for a conditioned form of local agency based on regional political economy as well as political institutional factors. First, earlier reform trajectories demonstrated a strong territorial representation of Shanghai in national government and almost a symbiotic relationship between national reform and local reform in Shanghai. By contrast, in Guangzhou local bottom-up reform measures on employment-based schemes were not adopted at central level and had to be adjusted into the national reform model that was largely based on the Shanghai experience. Provincial-level constraints and strong coalition of vested interests in the state sector also blocked civil servant pension reform similar to the case of healthcare. In recent years, however, local-central policy feedback seemed to be more evident in the case of Guangzhou, as the provincial and local governments have been actively expanding pension coverage and equalizing pension schemes across social groups. In this regard, Shanghai has been more reactive to the national level policy changes in recent years while attempting to preserve its current employment-based social insurance system by maintaining stratified payment structures in integrated pension schemes.
Explaining Policy Changes in Pension: Political Institutions, Policy Feedback and Subnational Welfare Mixes

The transition from communist pension and elderly care systems has demonstrated mixed effects of communist legacies and incomplete marketization. Similar to healthcare and housing, radical changes in reform orientation and rhetoric are often buffered by incrementalism on the ground and significant rooms for local agency. This section reviews the development of a social insurance model in pension and attempts to provide explanation as to why there have been significant local variations in reform trajectories, and why national pension reform towards a multi-pillar model will still face significant challenges despite greater emphasis on “top-level design” in recent years. Why is this the case? Table 21 provides an overview of the integrated employee and resident pension schemes and the target populations each scheme has covered. Although significant integration efforts have been made by central government, there are still significant disparities in terms of contribution and payment levels between different “tracks” of the urban employee scheme, as well as between the employee and resident schemes. These disparities have been contributed by not only communist legacies but also significant policy layering, drift and conversion during local implementation.

Table 21 Comparing "Tracks" under the National Basic Pension Insurance Schemes

<table>
<thead>
<tr>
<th>Urban Employee Basic Pension Insurance (“employee scheme”)</th>
<th>Target Population</th>
<th>Before reform</th>
<th>Nationwide Implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Urban Employees</td>
<td>Public-sector employees</td>
<td>Rural migrants</td>
</tr>
<tr>
<td>Before reform</td>
<td>Labor insurance</td>
<td>Civil servant scheme</td>
<td>Not covered</td>
</tr>
<tr>
<td>Nationwide Implementation</td>
<td>1997</td>
<td>2014</td>
<td>2006</td>
</tr>
</tbody>
</table>
In general, the integration of urban and rural resident schemes has been relatively smooth because both populations were largely left uncovered before the reform except for sporadic local pilot programs or experiments. In addition, both schemes were defined by “low contribution, low pay” and as a result relied heavily on government fiscal transfers. As discussed earlier in the chapter, this was due to the absence of work unit contributions and the low level of individual contributions. On the other hand, the disparities in contribution and expenditure levels between employee and resident schemes remain almost unbridgeable. In 2016, total contributions to the urban employee scheme reached 224 billion yuan in comparison to 7.37 billion yuan in the resident scheme. On the other hand, per capita expenditure for the employee scheme reached 25812 yuan, in comparison to 2174 yuan for the resident scheme. The gradual transition from employment-
based social insurance towards universalism is thus highly conditioned, with continued stratification between different segments of the population.

In contrast to quick institutionalization of the urban-rural resident scheme, the integration of the employee schemes has proven to be much more difficult, with strong presence of central bureaucratic fragmentation and bargaining on the one hand, and considerable influence of local agency under the disguise of incrementalism and experimentalism. Earlier reform processes at local level has strongly emphasized complementarity between SOE reform, fiscal decentralization and social insurance reform. The most difficult civil servant reform was largely left out, while local governments adopted different strategies in covering rural migrants based on local developmental needs. At central level, bureaucratic interests as well as more territorially represented Shanghai competed for influence in determining future reform trajectories. The adoption of an employment-based pension model at national level, and the delay of implementation of the residence scheme despite earlier experiment, demonstrated that pension reforms during this period were largely serving reform and economic development goals.

On the other hand, the reform trajectories of the civil servant scheme show that communist legacies in pension system has helped form strong vested interests within the state. In this regard, economic reform without political transition has shown its limits, as party cadres, civil servants and public employees continued to find ways to preserve their privileged status. At both central and local level, these insiders have exerted strong influence and at times create deadlocks in reform. In the cases of Shanghai and Guangzhou, partial reforms in 1990s only lead to de jure integration of civil servants into the social insurance system, while in practice a “dual-track system” has been maintained with continued direct fiscal support and minimum individual responsibility. It can be therefore characterized as a “low contribution, high pay” system in contrast to the “high
contribution, high pay” employee scheme, and the “low contribution, low pay” of the resident scheme. Even though structural integration has been made possible by more determined reforms since early 2010s, significant flexibilities have been left to local governments to choose a transitional period and apply local rules during the transition. Finally, the introduction of enterprise annuities as a second pillar so far have been used by local governments to provide compensations for upcoming changes to the civil servant scheme, while no specific implementation plans have been announced for the rest of urban employees.

Table 22 Agencies, Orientations, and Capabilities in Pension and Elderly care

<table>
<thead>
<tr>
<th>Agencies</th>
<th>Orientation</th>
<th>Capability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central Government</td>
<td>Competing bureaucratic interests such as MOL, MOF and MOHRSS; more fragmentation in pension in comparison to elderly care; policymaking as negotiation and compromise</td>
<td>Policy formulation in pension and elderly care, regulation, land use, fiscal transfer, unfunded mandates</td>
</tr>
<tr>
<td>Local Government</td>
<td>Reducing fiscal burden; less bureaucratic fragmentation in comparison to healthcare; pension as a tool for social stability and patronage; “marketization” or “socialization” of elderly care</td>
<td>Policy interpretation and implementation, administration of pension funds, “enabling” elderly care service delivery networks, local-central feedback</td>
</tr>
<tr>
<td>Work Units</td>
<td>Interests in retaining employees and meeting their retirement needs;</td>
<td>Matching employee contributions; provide supplemental insurance and enterprise annuities</td>
</tr>
<tr>
<td>Dominant social bloc</td>
<td>Vested interests within the state; strong opposition to reform unless compensated</td>
<td>“insider advantage”; local policy feedback; semi-veto power</td>
</tr>
</tbody>
</table>

Source: Compiled by author.

Table 22 provides a simplified summary of central and local agency based on empirical observations at central and local level. In comparison to housing, the highly incremental and decentralized nature of pension and elderly care reform has not led to an almost irreversible marketization process. Rather, it has produced a “socialist market insecurity” model in which
communist legacies and production regime reform interactively defined the winners and losers. At the same time, bureaucratic fragmentation, policy ambiguities and the lack of top-down pressure has given rise to local agency and facilitated the development of a variety of welfare mix models at local level, as exemplified by Shanghai’s “categorized solutions” and state-led quasi markets, as well as Guangzhou’s “integrated” approach and community-based service delivery.

**Conclusion**

This chapter has reviewed pension and elderly care reform in China which was marked by incomplete marketization during earlier reforms, and more recently an emerging welfare mix model with significant subnational variations. In general, pension and elderly care reform in China has faced the same types of obstacles as in other post-communist countries. However, how reform politics played out were significantly different in a “fragmented authoritarian” system with open economy. While privatization and commodification of pension was the dominant trend across the world in 1980s and 1990s, in China such reform proposals did not end up in complete adoption by either national or local governments. Rather, the reinterpretation and adaptation of foreign models have led to a different type of “hybridization” in China that involves strong agency of central bureaucratic interests and local governments. On the other hand, bureaucratic fragmentation at central level in contrast to greater hierarchy and coordination at local level helps explain why greater institutional coherence was seen in subnational welfare mixes, in contrast to the absence of a coherent national model before 2010s.

Instead of understanding recent central policy changes as successful imposition of “top-level design”, I argue that gradualism remains the central feature of the “new pension reform” despite its rhetorical emphasis on “state guidance, societal participation” in elderly care service delivery, and a “multi-pillar” pension model with a universal pillar of basic pension. As the case
studies of Shanghai and Guangzhou demonstrated, the meaning of these terms is subject to constant reinterpretations by bureaucratic interests and local governments during policy formulation as well as implementation. The constant bargaining between MOL, MOF and MOHRSS in pension reform often resulted in small, incremental reforms that would allow significant flexibility for local governments as well as long transition periods. Given the trial-and-error nature of many reforms in China, it is hard to predict whether current reform measures will be reversed in the future. On the other hand, signs of local agency are already evident in both elderly care and pension reform, as Guangzhou and Shanghai both developed their own interpretations on how to “guide” local service delivery and “integrate” the pension schemes.

As in the case of healthcare, regional political economy has strong influence in the development of different reform trajectories in Shanghai and Guangzhou, but their effects are still highly conditioned by political institutions and bureaucratic politics. With a large state economy and central government’s demands for further SOE reform, Shanghai’s elderly care reform has focused on encouraging SOE participation in service delivery through “mixed-ownership reform” and other means. On the other hand, recent relaxations of foreign investment rules in elderly care have facilitated a variety of foreign participation in elderly care, with greater emphasis on foreign capital investment in Shanghai. By contrast, in Guangzhou the community-based care model has facilitated greater policy coordination and learning within the region, and particularly with government, private investors and community partners in Hong Kong. Despite these significant variations in service delivery, nonetheless, pension reform in both cases have continue to favor state sector employees, with expanded coverage but low payments for urban and rural residents while leaving rural migrants the most disadvantaged.
CHAPTER 6
CONCLUSION

Introduction

Between 1980s and early 2000s, China gradually dismantled the communist welfare state and replaced it with an employment-based social insurance system and a market-maximized approach in service delivery. During this period, social policy reform was designed to complement economic reform and reduce welfare burdens of the state, rather than providing social protection or improving social justice. In recent years, however, the party-state has increasingly recognized the importance of social policy, taken a more proactive stance, and promising its leading role in providing better quality of life for all citizens. The rhetorical shift at central level is in part reflected in the development of social policy pillars in the twelfth and thirteenth development plan, which led to the introduction of a more comprehensive “basic public service equalization” framework covering almost all social sectors (State Council 2017).\textsuperscript{113}

Despite such rhetorical shifts, however, the new framework still grants significant institutional flexibilities and local autonomy, while policy implementation on the ground has demonstrated persistent subnational variations. Instead of a full return of the state, China’s new social policy reform has resulted in an emerging welfare mix model that emphasizes “public-private partnership” ($gongsi$ $hezuo$) and “pluralized supply mechanism” ($duoyuan$ $gongji$ $jizhi$) rather than direct state intervention, and “equalization of opportunities” ($jihui$ $jundeng$) rather than “equalization of outcomes” ($pinjunhua$) (State Council 2017). Furthermore, rather than seeking to impose more “top-level design”, the framework instead emphasized “strengthening of interactive cooperation between central and local, and between government and society” (State Council 2017).
This research has provided a preliminary evaluation of this new phase of social policy reform beyond rhetoric level, and whether it truly marks a reversal of earlier state-led marketization processes in local implementation. Does the new reform mean that China is now moving towards a more equitable and inclusive development model, in which the urban poor and rural migrants have now become “winners” rather than “losers”? The preliminary answer is no, or at least not yet. A detailed evaluation of the two subnational cases of Shanghai and Guangzhou in areas of housing, healthcare and elderly care reveals that the “return of the state” is limited in scope and varied across localities, and by no means represents a “restoration of the communist color”. In contrast to ambiguities and inconsistencies at national level, the subnational welfare models have demonstrated greater coherence among policy sectors, and greater complementarity with local growth strategies. In Shanghai, productivist elements in earlier marketization reforms have been preserved privileging urban employee over the rest. State actors such as SOEs, public hospitals, and public elderly care institutions have been dominant in the local service delivery network and enjoy greater government support. In Guangzhou, the inclusion of rural migrants in urban social insurance and greater reliance on private and community participation were largely driven by the manufacturing-based export-oriented growth strategy as well as provincial-level constraints.

Why is this the case? And why not more radical reform towards an unconditional form of universalism at national level, as recommended by some scholars and demanded by the public? In this study, I argue that the emerging welfare mix approach marked by increasing decentralized policy processes and significant subnational variations was an outcome of a domestic “two-level game”, in which various state and non-state actors are competing for influence at both central and local level. Similar to “hybridization” in post-communist countries, China’s emerging social policy framework involves significant policy borrowing and strong domestic agency in internalizing
various models from the West and its East Asian neighbors. The processes of such “hybridization” and the emerging new welfare mix approach remains deeply embedded in a highly fragmented, decentralized authoritarian party-state on the one hand, and increasingly diversified regional political economies on the other.

**Explaining Subnational Variations: Decentralized Authoritarianism and Subnational Growth Strategies**

Similar to other authoritarian states, regime legitimacy remains a primary driving factor behind major changes in political rhetoric and social policy discourses in recent years. However, this political logic itself is not sufficient in explaining increasing subnational variations and the resulting inconsistencies between reform rhetoric and implementation outcomes. It is therefore necessary to examine why common pressure from the top has resulted in varying responses from below. In this study, I examined two structural determinants for local agency at central level: 1) gradualism and experimentalism; and 2) increasing bureaucratic fragmentation. Both factors have contributed to increasingly decentralized and pluralized policy processes across policy sectors. In general, changing party ideologies and social policy rhetoric reflect not only preferences of elite factions controlling political power, but also bottom-up pressure both inside and outside of the state. An economic or social crisis may trigger societal demands for more radical reforms, although the party-state seldom responded immediately with radical reform measures. Rather, new reform measures often begin with local experiments or pilot programs, and their success or failures will determine whether national implementation will follow. The two-level reform processes therefore have contributed to greater local agency and increasing variations in subnational welfare production.
It is not thus surprising that the logics of gradualism and experimentalism have become the dominant paradigm at central level, with accompanying institutional reforms towards fiscal and policy decentralization that permit local agency. Although pro-market rhetoric appeared as early as early 1980s, nationwide marketization reform did not occur until late 1990s. Once the marketization processes started, local states were incentivized to go fully entrepreneurial, exploring their own ways of promoting economic growth and reducing welfare burdens. On the other hand, the 2003 leadership change from “elitist” to “populist” faction did not immediately lead to massive reversal of marketization programs. Rather, the timing of new social policy reform was driven by a combination of earlier failures, societal demands, as well as bottom-up feedback from local implementation. This has resulted in varying reform outcomes not only across localities but also across policy sectors, as indicated by stagnant national housing reform since 2007, a more successful national healthcare reform after SARs, and the more recent national pension and elderly care reform with mixed outcomes since early 2010s.

Another significant byproduct of earlier reforms was bureaucratic fragmentation in a political centralized authoritarian state. As soon as rhetorical changes occur, central bureaucratic agencies often become “policy entrepreneurs” themselves, advocating for their preferred reform plans originated from domestic policy experts and existing foreign models (Mertha 2009).114 Given the nature of the party-state, these agencies are far from independent actors themselves, and thus should not be viewed as veto players as in democratic contexts. Despite such constraints, they play important roles in channeling elite interests, societal inputs, as well as local government feedback. Greater bureaucratic fragmentation in this regard does not necessarily leads to more policy deadlock, but rather open opportunities for national debates on policy reforms and bureaucratic bargaining in negotiating compromises. In cases of healthcare and pension, the rhetorical
consensus on strengthening state capacity are still subject to competing interpretations regarding proper role of the state in relation to market and society, while in housing, such national consensus has not been formed in the first place.

These central-level dynamics have permitted greater local agency and overtime contributed to increasing subnational variations in welfare development. Until recently, local governments were incentivized to explore their own models of welfare provision with limited guidance or incentives from the top. Earlier central marketization programs have left significant built-in flexibilities and ambiguities across policy sectors that lead to reinterpretations and adaptations into local contexts. Still, the political logic itself does not provide sufficient explanation of why Shanghai can maintain a productivist logic despite increasing top-down pressure, and why Guangzhou have adopted a more inclusive and participatory approach even when they were incentivized to act fully entrepreneurial. In this regard, the ability to carry out local reform programs despite central incentives or disincentives seem to be most prominent in these wealthy coastal cities, but with varying degrees and directions that cannot be fully explained by logics of political authoritarianism.

Building on the model of variegated capitalism, this study explored how diverging strategies of export-oriented growth has contributed to subnational variations in welfare production. In response to common policy directives and pressures from above, disparities in local growth strategies have interacted with decentralized policy processes in generating “embedded” subnational welfare mix models, with varying articulations of state, market and family in welfare production. Table 23 provides a comparison of these two cities in terms of reform trajectories and outcomes in these two localities, as well as how these two cases differ across the three policy sectors examined.
Driven by a mixed economy model that emphasizes both SOE participation and foreign investment, Shanghai has developed a relatively coherent model of employment-based social insurance and state-led marketization approach in service delivery, with in less emphasis on social assistance. The local agency in Shanghai was enabled by its privileged status as a directly-controlled municipality with greater fiscal capacity, and strong central-local linkages and greater local representation in the political center. As a result, earlier national social insurance across all three sectors were largely built on Shanghai’s local experiments, showing strong local-central policy feedback.

**Table 23 Subnational Variations in Reform Trajectories and Outcomes**

<table>
<thead>
<tr>
<th></th>
<th>Shanghai</th>
<th>Guangzhou</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reform trajectories</td>
<td>Strong local agency and institutional coherence</td>
<td>Some local agency with less institutional coherence</td>
</tr>
<tr>
<td>Financing</td>
<td>Productivist and developmental rhetoric; high expenditure, high stratification</td>
<td>More inclusive rhetoric; low expenditure, some stratification</td>
</tr>
<tr>
<td>Service Delivery</td>
<td>Dominance of state actors, hierarchical policy network</td>
<td>Greater participation by private and community actors</td>
</tr>
<tr>
<td>Housing</td>
<td>Employment-based housing provident fund; asset-based welfare approaches</td>
<td>Employment-based housing provident fund; public rental approaches</td>
</tr>
<tr>
<td>Healthcare</td>
<td>Stratified social insurance model; dominance of public hospitals with delayed reforms</td>
<td>Less stratified financing system; more private participation</td>
</tr>
<tr>
<td>Pension/Elderly Care</td>
<td>Stratified social insurance model; preferring public providers</td>
<td>Less stratified financing system; more community participation and “socialization” of care</td>
</tr>
</tbody>
</table>

Source: Compiled by author.
The clear developmental and productivist logic in Shanghai’s model has led to stratified financing and service delivery, privileging urban employees and public service providers over the rest. In housing, Shanghai has borrowed the Singaporean model of housing provident fund and gradually expanded it to all urban employees. Such policy borrowing however was incomplete, as neither Shanghai or national reforms has adopted the healthcare and pension pillars in Singapore’s Central Provident Fund. At the same time, the municipality has adopted a stratified approach for healthcare and pension social insurance, keeping a separate scheme for rural migrants. Other cities in the Yangtze River Delta region soon followed the Shanghai model, showing strong sub-regional policy diffusion from Shanghai to these localities, but not vice versa.

In addition, the municipal government of Shanghai has provided limited social assistance to the urban poor on the demand side, in contrast to stronger fiscal support for state actors on the supply side. Social assistance programs in Shanghai such as public rental housing either requires urban residence with hukou or impose strict eligibility criteria for migrants based on skill level, education, and employment years. In service delivery, government direct support for SOEs and public service providers has resulted distortions in market mechanisms and dominance of state actors in local service delivery networks. Such distortions and “crowding out” of private actors was less seen in the case of Guangzhou.

In Guangzhou, the booming manufactured-based market economy and proximity to Hong Kong has led to a different form of local agency that encourages greater social inclusion for the “new urban poor”, as well as private and community participation in service delivery. Local agency in this case is derived from its location in Pearl River Delta, where significant local autonomy was granted during earlier reform to boost an export-oriented growth model. Such growth strategy
involves the development of a vibrant manufacturing-based private sector and heavy reliance on rural migrants as well as urban-rural integration.

The added layer of provincial government has strong intervening effects on local agency, leading to greater compliance with central government mandates in recent years, while causing deadlocks for social policy reforms in the state sector. In addition, local fiscal capacity has been weakened due to provincial mandates to redistribute its fiscal revenues to poorer regions. Such weakened capacity however turns out to be a “bless”, as less support for direct state intervention has interacted with a vibrant private sector to generate more pluralized policy processes and service delivery patterns at local level.

Despite weaker fiscal capacity, the municipal government of Guangzhou has been more active in mandating employers to make contributions for migrants across social insurance schemes and coordinating a local service delivery network with greater participation by private and community actors. Even though Guangzhou originally adopted the employment-based social insurance model, it has taken a proactive stance in incorporating migrants into the urban employee schemes and introduced residence-based schemes earlier than Shanghai. In both healthcare and pension, greater emphasis on community participation has led to comparable or even better service delivery performance despite lack of fiscal support. The increasingly pluralized policy process at local level has been accompanied by significant patterns of cross-jurisdiction policy learning and coordination in the Pearl River Delta between Guangzhou, Shenzhen and Hong Kong.

The comparison between Shanghai and Guangzhou therefore has demonstrated competing influence as well as interaction effects of political institutional factors and regional political economy. Once these local models are in place, “winners” of local policy reforms have strong interests in keeping these local models in place. Changing central mandates in recent years and the
increasing emphasis on “top-level designs” can be met with strong local resistance especially when they are incompatible with existing local policy institutions. Such patterns are particularly salient in the case of Shanghai, where central mandates to has been delayed, reinterpreted, and adapted.

Nonetheless, it is important to recognize that such local agency is highly conditioned and “embedded” in a politically centralized authoritarian party-state. To respond to this issue, the central government has sought to impose formal institutional constraints on local agency such as fiscal constraints and responsibility targets. On the one hand, there have been increasingly calls for fiscal recentralization in recent years, emphasizing greater central fiscal transfer as well as redistributive mechanisms between rich and poorer areas. MOF has been a strong proponent of fiscal recentralization, although it has been resisted by coastal provinces. On the other hand, cadre responsibility system remains a powerful tool for central control. ¹¹⁵ During marketization era, the responsibility targets have focused on growth targets, although such patterns are changing in recent years, with growing emphasis on social and environmental targets. Such constraints may to some extent limits local agency. But given greater fiscal capacity and stronger local political cohesion, I expect that this will have less effect on Shanghai in comparison to Guangzhou.

A second potential and informal constraint on local agency is compatibility of national and local reform objectives. Since success or failure of national pilot programs as well as indigenous policy experiments can shape future national reform trajectories, central government is often cautious about choosing pilot cities or promoting local models at national level. In Shanghai’s case, greater local representation in central political leadership during marketization period played important roles in adoption of Shanghai model in various national reform programs.¹¹⁶ For example, both Shanghai and Guangzhou developed their own definitions of social insurance since late 1980s to complement their local SOE reforms. National implementation of social insurance in
1997 however followed the Shanghai model which combined social pooling with individual accounts. Local records show that there was close coordination between local government and central bureaucrats during policy formulation. Such ability to project national influence is waning in recent years, as Shanghai’s developmental and productivist approach is increasingly inconsistent with national reform rhetoric. Still, Shanghai has been able to project its national influence in key areas such as affordable housing, healthcare and elderly care through central bureaucracies and subnational policy diffusion.

On the other hand, the provincial and municipal governments in Guangzhou seems to gain traction in piloting national reform programs such as “basic public service equalization” in recent years. A good example is the migrant comprehensive insurance scheme that was adopted in Shanghai and other cities in Yangtze River Delta. By contrast, in Pearl River Delta, most cities have chosen to incorporate rural migrants into the urban employee scheme from the beginning. The later model was then adopted by central government and promoted at national level. Despite the differences in timing, the current welfare mix model at national level has contained elements from both subnational models, with a “layered” approach of employment-based and residence-based approaches on the one hand and increasing emphasis on pluralized financing and service delivery on the other.

**Theorizing Welfare Mix in Decentralized Authoritarian Regimes**

Instead of developing its own state-led model, China’s recent social policy reform thus resembles trends of increasing hybridization in the west and post-communist countries. In general, it is marked by the development of a welfare mix approach in both financing and service delivery, addressing issues of informality and insecurity by borrowing and blending elements from Esping-Andersen’s “three worlds of welfare capitalism” and the Asian productivist welfare regimes. This
study is therefore less about distinguishing China’s welfare mix model from the rest, but more about identifying the agencies and processes through which the welfare mix approach becomes embedded in a post-communist authoritarian state where economic reform and uneven development has resulted in increasing subnational variations. As Table 24 illustrates, the ideal-typical elements of a welfare mix model are subject to constant reinterpretations by national and subnational agents and assigned with new meanings in processes of national policymaking and local implementation.

**Table 24 Welfare Mix with Subnational Variations in China**

<table>
<thead>
<tr>
<th></th>
<th>Ideal-type Welfare Mix</th>
<th>Welfare Mix in China</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Decentralization</strong></td>
<td>Devolution; localized financing and service delivery accompanied by political decentralization</td>
<td>Decentralized financing and service delivery without political decentralization; strong local agency in wealthy, coastal regions</td>
</tr>
<tr>
<td><strong>Competition</strong></td>
<td>Third sector with quasi-market mechanisms allowing for equal competition among state, market, and community service providers</td>
<td>Developing third sector with “guiding” role of the state; local variations in degree of competition and level of direct state intervention</td>
</tr>
<tr>
<td><strong>Participation</strong></td>
<td>Participatory policy processes involving a variety of state, market and community actors at central and local levels</td>
<td>Limited elite inputs in highly bureaucratic policy processes at central level; varying degree of market and community participation at local level</td>
</tr>
<tr>
<td><strong>Consumer choice</strong></td>
<td>Free choice of various financing and service delivery models based on needs and willingness</td>
<td>“layered” approach based on ability to pay, employment and hukou status; local definitions of “insiders” and “outsiders” in eligibility and access</td>
</tr>
</tbody>
</table>

Source: Compiled by author.

Despite increasingly pluralized policy processes and expansion of coverage, there are several inherent tensions in this embedded welfare mix model. First, the devolution processes in democracies often involves significant political decentralization along with increasingly localized financing and service delivery. In China, the authoritarian party-state maintains tight control over
local party cadres, SOEs, and other public service providers. Still, recent reforms have raised questions about whether a coherent national welfare model can work in China, given the decentralized nature of welfare provision and the highly uneven economic and social development across localities. Earlier retreat of the state has forced local governments in wealthier coastal regions to spontaneously develop their own definition of welfare mixes with greater institutional coherence with local production regimes. The increasing emphasis on “top-level design” in recent years has created a dilemma for both national and subnational agents, as central directives may face more institutional slippage during local implementation, and emerging institutional coherence at local level are somewhat interrupted by changing central demands.

Second, the role of SOEs and other service providers in the state sector remain ambiguous as they are often charged with conflicting goals of profit maximization and social responsibilities. In addition, they tend to receive greater policy support and in certain cases have crowded out private and community participation. In Shanghai, local SOEs, public hospitals and public elderly care facilities have dominated service delivery and continued to have preferential access to state resources such as land use rights, capital investments, and fiscal subsidies. The comparison between Shanghai and Guangzhou has shown that higher degree of direct state intervention in both local economy and welfare provision has led to greater distortions in market mechanisms and unequal competition between public and private service providers. By contrast, greater private and community participation may help not only reduce these inefficiencies but also improve service delivery performance.

Third, despite increasing pluralization of actors and interests, social policy processes in China differ fundamentally from democratic contexts where a variety of institutionalized channels facilitate citizen participation and support greater consumer choice. Two traditional forms of
participation, electoral politics and labor unions, have played minimal roles in Chinese context. Rather, bureaucratic politics have remained dominant in national and subnational policy arenas both before and after 1978. Across all three policy areas, representatives from the National People’s Congress (NPC) at times deliberate new legislations or question bureaucratic agencies, but the agenda setting power remains controlled by the State Council, the central ministries and to a less extent the NPC standing committee, which are all under control by top party cadres. In addition, the state-controlled All-China Federation of Trade Unions as well as its subnational affiliates has been largely absent from these major policy debates. The policy arenas at both national and subnational level therefore are still dominated by a relatively small group of party cadres and bureaucratic actors, whose preferences are often shaped by their desire to get promotion or institutional roles.

On the other hand, societal inputs taking the forms of expert opinions and public comments are now more frequently incorporated into policy formulation, though they are often intermediated and internalized by bureaucratic agents, with absence of institutionalized channels for open deliberation and debates. Bureaucratic fragmentation in this regard seems to provide windows of opportunity for greater societal inputs, although the decision-making power still resides with the party-state. On the demand side, the communist legacies and concerns for regime legitimacy have played important roles in creating and mobilizing vested interests, preserving a dual-track system and maintaining a pro-urban bias until recently. At both national and local level, state-sector employees have become powerful veto players, blocking reform unless themselves are sufficiently compensated.

Fourth, local governments are much more concerned with maintaining a tacit agreement with civil servants and the urban middle class, while welfare provision to the urban poor and rural
migrants are often determined by a developmental logic based on local growth strategies. It is therefore important to recognize the limits of “community-based” or “rights-based” approach in authoritarian context. For Guangzhou, such models were driven largely by economic and political necessity rather than accountability to disadvantaged social groups. Contrary to the human rights-based approach promoted by international institutions, greater inclusion of migrants and social protection for the urban poor in this case do not necessarily lead to empowerment of these disadvantaged social groups beyond their basic economic and social needs, nor should we simply expect increased representation of these groups in local political or policy processes.¹¹⁷

Building on their local success, these subnational models have become attractive alternatives for central reform in addition to the more “lofty” foreign models promoted by international institutions and domestic scholars. Overtime, such local agency has provided important feedback effects into central policymaking, as indicated by a blend of Shanghai’s productivist and state-led approaches and Guangzhou’s inclusive and community-based strategies in national reforms. While central government has played important roles in mandating “basic public service equalization”, the built-in ambiguities and flexibilities in the new framework continues to permit local governments to impose its own interpretations and developing their own articulations of mixed welfare production. As a result, I expect such patterns of subnational variations to endure, and that local-central feedback will continue shape future trajectories of national reforms.

**Directions for Future Research**

By comparing subnational variations in the emerging welfare mix model in China, this research has established a preliminary framework to analyze how “hybridization” has become embedded in Chinese context of economic reform without political transition and growing regional diversities in growth strategies and welfare production. Some interesting empirical patterns and
new theoretical puzzles have emerged during this research but were left underexplored due to time and resource constraints. These includes long-term influences of 2013 political leadership change, the relationship between local state authoritarianism and welfare mix, as well as cross-national comparisons on post-communist authoritarian states.

First, due to limited data availability and ongoing policy reforms, the impact of changing political leadership in 2013 is only briefly discussed but not systematically explored. During Hu-Wen era, it seems that China has developed a pro-poor and pro-rural focus in social policy, with greater commitment to government responsibility. Such reform attempts were not always successful, but they marked a significant departure from earlier reforms that largely benefited richer, coastal regions. While Xi Jinping’s “Chinese dream” can be viewed as somewhat a continued ideologically commitment to equity, the 2017 “basic public service framework” seems to lack the same level of commitment to government responsibility. On the other hand, the greater degree of political centralization in recent years may produce unintended effects on the increasingly plural policy processes. For example, the role of media framing on policy debates were more evident before 2013 and there are in general less coverage about debates in social policy reform in recent years.

Second, the emergence of community-based care and public-private partnership models and their relations to local state authoritarianism are worth further exploring. How should we characterize the relationship between local governments and these emerging private and community actors? How about their relationship with existing public service providers? Building on this research and Howell (2012)’s political economy approach on emergence of civil society organizations at local level, I expect further variations between Shanghai and Guangzhou in institutional structures and processes of civil society participation. It will also be interesting to
explore broader patterns across regional clusters, and whether there is any form of sub-regional variations. To understand the nature of local welfare mixes in authoritarian context, some research at organizational levels and further empirical data collection through interviews or surveys may be necessary.

Finally, this research has provided both theoretical foundation and empirical materials for further cross-national comparisons between China and other post-communist authoritarian states such as Vietnam and Russia. While it may be too ambitious to compare all three policy sectors, cross-national comparison on a specific policy area can help examine emerging variations in authoritarian welfare state developments by controlling shared communist legacies. Specifically, Vietnam seems to be a most “successful” case when it comes to housing reform, with strong participating roles by international institutions and a more active national legislature. For Russia, a potential interesting point of comparison will be recent pension reforms, which have been highly controversial and has resulted in social protests and may significantly challenge Putin’s legitimacy. It will be therefore interesting to compare how authoritarian politics in these countries have played out differently in leading to varying reform outcomes.
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According to the United Nations Development Program, China’s achievements include poverty reduction, universal primary education, and improving healthcare access. The UNDP report also identified three major contributing factors: rapid economic growth with gradual reforms; extensive government apparatus and progressive taxation; and declining population growth attributed to both deliberate government policies and natural outcome of economic growth (UNDP 2015).

Washington consensus originated from John Williamson’s proposal that developing countries should promote privatization, deregulation and trade liberalization. Chapter 2 offers a detailed discussion on the debates between Ramo (2004) and Williamson (2012).

Even the UNDP (2015)’s report which praised China’s achievements also recognizes the development challenges China is still facing, such as regional inequality, urbanization, and water and air pollution. Of particular interest to this research is UNDP’s recommendation to better integrate civil society in the development process, which can be viewed as an implicit critique of “strong state, weak society” in these domains.

According to the United Nations and World Bank, the share of urban population in China has dramatically from 16% in 1960 to 58% in 2017 (World Bank 2018a, United Nations 2018).

These issues and debates in existing literature on comparative welfare state and China are further explored in chapter 2.

In response to the 2008 Global Financial Crisis, Chinese government issued “new policy for social security” with the goal of helping employers to reduce their production costs, maintaining income and employment levels, and minimize the negative impact of the crisis on domestic consumption and demand (Cao 2014). This differs significant from China’s response to the 1997 Asian Financial Crisis, where the central government largely focused on reviving exports and improving financial stability.

Linda J. Cook’s book Post-communist Welfare States: Reform Politics in Russia and Eastern Europe provides a detailed account on how reform politics shape the trajectories of welfare state change in Russia and Eastern Europe. She argues that key determining factors are the balance of power between supporters and opponents of liberal reform, and capacities of post-communist states for revenue extraction, administrative control and policy implementation (Cook 2007).

For example, Hyun H. Son suggests that in the case of Tajikistan, the methods and approaches of the Soviet period was maintained despite the transition to a market economy. Contrary to common social insurance systems that require employees to contribute their own share, social protection benefits in Tajikistan remain non-contributory, meaning there are significant public transfers from the government to support the social protection system even for non-poor households (Son 2012).

For example, see World Bank’s Social Assistance System Strengthening Project, which is a pilot project for nationwide management and service delivery in four project provinces. In 2014, then Vice Minister of Labor, Invalids and Social Affairs Nguyen Trong Dam stated that “there exist too many social assistance policies, creating a huge burden on management systems and difficulties for beneficiaries, leading to low uptake… Our objective therefore is to build a consolidated and modernized social assistance system which lays the foundation for delivery of social assistance in the long term.” (World Bank 2014)

According to Lynette H. Ong, CCP institutionalized the cadre responsibility system to allow central leadership to exercise control over local cadres. This include “veto targets” such as maintaining social order, “hard targets” that are quantifiable such as tax revenue, and “soft targets” that are non-binding and difficult to measure and quantify, such as healthcare provision and social development (Ong 2011).

The National People’s Congress (NPC) and Chinese People’s Political Consultative Conference (CPPCC) can be viewed as two institutionalized channels for societal inputs in the central policy processes. While these institutions are often viewed as cooptation mechanisms and not representative of the general population, the delegates have been increasingly vocal on social and environmental issues.

For discussions on local state corporatism in China, see Howell (2012) and Tsai (2011). The tacit consent or “implicit social contract” as a concept has been applied to context of the Soviet bloc countries by Hauslohner (1987) and Cook (1993). More recently, Skyrms (2014) has explored the territorial dimension of the concept.

Neoliberalism is commonly defined as a market-driven approach that seek to minimize state intervention, with either “retreat” of the state in forms of decentralization, deregulation and privatization. Although highly contested, this loose definition of neoliberalism has been applied to China to analyze urban development, see for example Harvey (2005); Lee and Zhu (2006); He and Wu (2009); and Wu (2008).
Bob Jessop argues that such global trends should be viewed less as a converging form but a continuum of neoliberalism ranging from basic regime shift within capitalism to more limited policy adjustments to maintain another type of accumulation regime and its mode of regulation (Jessop 2002).

Both IMF and World Bank are now increasingly emphasizing tailoring and customizing to specific country’s economic starting points or special circumstances as well as capacity building, instead of focusing on strict macroeconomic adjustment and growth (IMF 2018, Bank 2005).

Jochen Clasen for example contrast social policy with environmental and economic policy and argues that beyond the generally accepted core areas such as income maintenance, housing, health and social services, there is no consensus on what should be included in the category. Some highly contested areas include tax credits or exemptions, education, and labor market policies (Wilensky 1985, Clasen 2004).

Esping-Andersen’s framework also provides foundation for analyzing the relationship between capitalist model of production and welfare state in respective countries. His categorization of liberal, corporatist-statist and social democratic welfare capitalism in some ways resembles Hall and Soskice’s analysis of “varieties of capitalism” in terms of an explicit institutional framework in identifying patterns of capitalist development, which I will elaborate further in the next section (Esping-Andersen 1990b, Hall and Soskice 2001).

This approach can be exemplified by Geof Wood and Ian Gough’s several attempts to categorize less-than-ideal or “imperfect” social policy regimes in developing countries, which they argue are resulted from lack of formal institutions and weak state capacity (Wood and Gough 2006a, Gough 2004).

Interestingly, Wood and Gough also classifies the “East Asian productivist” welfare regime under the informal security regime because it focus on investment in human capital but much less on providing security or decommodification (Wood and Gough 2006a).

See for example, Aidukaite’s discussion on welfare reforms in Central and Easter Europe (Aidukaite 2009, 2011).

Haggard and Kaufan for example distinguishes between patterns of social policy development in Latin America, Eastern Europe, and East Asia based on economic development strategies of import-substitution, export-orientation, and state-led development (Haggard 2008).

In addition to Haggard and Kaufman, Ian Holliday also argues that the core elements of productivism in social policy systems in East Asia has been maintained despite the Asian Financial Crisis and the implementation of structural adjustment programs.

For example, Baek (2005) argues for a developmental state model with Chinese characteristics but at the same time raised the issues of changing international circumstances and weakening social base.

Myles and Quadagno (2002) provides a detailed account of how different interpretations of “politics matters” by scholars such as Korpi, Skocpol, Pierson. They distinguished between the institutional or “polity-centered” approaches exemplified by U.S. scholars such as Skocpol and Pierson with the societal-centered approaches developed by European scholars such as Korpi (Myles and Quadagno 2002, Pierson 2004, Skocpol 1995, Korpi 2006, Korpi 1983).

While there has been rising public spending in recent years, public expenditure patterns reveal a much more rapid growth in military and public security, in comparison to social spending.

For discussions on the role of social capital in developed democracies and transitioning contexts, see Putnam (2012) and Aidukaite (2009).


30 For discussions on devolution and social policy, see Craven (2014) and Birrell (2009). For discussions on the role of supranational institutions, see Leary and Warner (2006), Gatenio Gabel (2016), and Cohen et al. (2011).

31 McNally contrasts with the Anglo-American and European continental models and argues that guanxi and state-led development are key distinctions (McNally 2012).
Inclusive growth has been a high priority on the global development agenda in recent decades and has been promoted by international organizations such as World Bank and United Nations Development Program (UNDP). There are competing definitions of “inclusive growth” but many agree that both poverty and inequality are directly relevant to achieving this goal (UNDP 2011).

A 2015 China-UN joint report discussed China’s major achievements across areas such as poverty and hunger reduction, education, gender equality, public health, and environmental sustainability (UNDP 2015). Another report by OECD however provides a more cautious assessment and argues that China needs to do more to bridge urban-rural divide and improve social and environmental policies to realize truly inclusive growth (OECD 2015).

After significant decline between 2010 and 2015, the Gini coefficient has risen again in recent years, with a moderate increase from 46.2 to 46.7 (National Bureau of Statistics China 2018).

Unofficial estimates of China’s Gini index are often much higher than the official ones. In a report by Beijing University in 2014, they measured the Gini coefficient by looking at wealth instead of income disparities and concluded that the wealth Gini coefficient is as high as 0.73 (Xie and Zhang 2014).

The only outlier was affordable housing. But in this case, the local governments focused on massive new construction of affordable housing projects, and often adapts or distorts central government initiatives for local developmental purposes rather than expanding access for disadvantaged populations. This issue will be explored further in the chapter of housing.

Xi in this report also announced his broader ideological framework of “Socialism with Chinese Characteristics for a New Era”. Part VIII of his report focused on social policy and proposed the following priorities in the long term: education, employment, social security (covering pension, health, and housing), poverty reduction and health. He also proposed a new “Healthy China Initiative” and a “law-based social governance model under which Party committees exercise leadership, government assumes responsibility, non-governmental actors provide assistance, and the public get involved” (Xinhua 2017).

Interestingly, Li used the identical lines from Xi’s party congress report. Nonetheless, Li’s social policy reform proposals were somewhat different and less concrete from Xi’s report and instead focused on short-term objectives in areas of pension and healthcare reform (Li 2018).

Ian Gough distinguishes between social policy in the North and the South and argues that the later missed the three key assumptions of western welfare states such as legitimated state, pervasive labor markets, and sophisticated financial markets (Gough 2004). Huber and Stephens focuses particularly on how redistributive social policy generate effects on inequality outcomes in Latin America countries, with particular emphasis on power constellations of domestic politics, as well as the link between poverty and investment in human capital (Huber and Stephens 2012).

John Hills (2011) in his analysis of the changing British welfare estate distinguishes these three categories and applied them in areas of pension, education, health, housing among others to understand the nature of public-private partnership.

By adopting the gradual institutional change framework into analysis of varieties of capitalism, (Hall and Thelen 2009) identify three mechanisms of institutional change were identified: defection, reinterpretation and reform.

Peck and Zhang (2013) argue that the variegated capitalism framework is more interested in uneven development under globalization and shifting macro-ecologies of accumulation and regulation. Most importantly, they argue that instead of equilibria and tendency for institutionalized coherence in VOC, there are multiple “sub-models” of development in China that often generate contradictory disequilibria and unequal political-economic competition.

Yang (2007) analyzes interesting patterns of diverging hybrid capitalism in Dongguan, Guangdong where Hong Kong and Taiwanese electronic firms are located. Zhang and Peck (2016) builds on his approach and argues that the capital-labor relationships are often conditioned by where the investors are coming from. Specifically, they argue that Singaporean and Taiwanese investors tend to favor a more benevolent and progressive industrial relations and facilitated the development of social insurance model in Sunan.

As mentioned earlier, this approach criticizes the methodological nationalism of the “varieties of capitalism” framework and addresses importance of spatiality in understanding capitalist development. They apply the concept to analyze “sub-models” and internal heterogeneity of Chinese capitalism, drive by their networked position in global production networks (Peck and Zhang 2013).

Comparative decentralization scholars have examined the effects of devolution and growing influence of subnational interests at national level (Bossert and Beuvaivas 2002, Birrell 2009, Cinner et al. 2012, Chaney and Wincott 2014, Craven 2014). In China, scholars have explored how decentralization and “fragmented authoritarianism” have led to increasing pluralization of policy processes at both central and local level (Mertha 2009, Tsai 2011). Nonetheless, Sheng (2009) argues that the territorial dimension created by decentralization works
differently in authoritarian single-party regimes. Specifically, it serves as a mechanism for co-optation rather than bottom-up electoral pressure.

46 Kornai points out that shortage and surplus economy coexisted in communist economies because there is always a shortage relative to the buyers’ buying intention. This is in direct contrast with the capitalist surplus economy, in which case there is always a surplus relative to seller’s selling intention (Kornai 1980, Kornai 2000).

47 Poland and Hungary before 1989 may provide interesting comparisons for China in the 1980s. Hungary’s economic reform took place as early as 1960s and the debates around the role of the state and market were very similar to those in China during 1980s. Stark and Bruszt (1998) summarized some of these debates into several dimensions and some are highly relevant in China’s post-reform context: foreign versus domestic ownership, spontaneous privatization versus privatization controlled and directed by state agencies, institutional versus natural ownership, and concentrated versus dispersed ownership

48 Scholars of factional politics often group Jiang and Zhu into the “Shanghai Gang” or elitist faction and Hu into the “Tuanpai” or populist faction

49 For example, one of the “democratic parties” (minzhu dangpai) in China proposed to amend the 1982 constitution to provide constitutional protection on housing rights (Zhang 2010). Others have argued for a more cautious legislative approach by establishing national comprehensive housing laws.

50 Due to data availability issues, it is unclear however whether increasing financial contribution by the private sector has been reflected in changes in the co-determination structure in Shanghai. Nonetheless, for those cities that have published HPF Administration Committee member list, most of them include limited participation by private sector. The majority of HPF Administration Committee members are commonly local CCP cadres, SOE managers, or government-controlled labor union representatives.

51 Only 2014 to 2016 data are available for Guangzhou.

52 The 2016 report in Guangzhou did not provide data on HPF utilization for either purposes.

53 Data collected and compiled by author from local planning and housing authorities, Shanghai Stock Exchange and the Shanghai division of the National Enterprise Credit Information Publicity System.

54 During 1990s, many work units worked with local governments to sell public housing units to their employees with below-market pricing.

55 It is interesting to mention however that the Central Provident Fund (CPF) in Singapore is a much more comprehensive system covering not only housing but also investment, education, elderly care, etc.

56 Chapter 2 discussed the logics behind the adoption of the social insurance model and the Sunan EOG strategy.

57 The data on Shanghai are compiled based on HPF annual reports issued by HPFAC Shanghai. The annual reports issued by HPFAC Guangzhou does not provide detailed breakdown on contributions by sector.

58 For example, MOHURD issued the first National Housing Provident Fund Report in 2014. The last time MOHURD published HPF related data was 2008.

59 According to an interview with MOHURD Minister in 2016, these draft revisions received more than 800 public comments and they were working on further revisions (Xinhua 2016) However, there has not been any update from SCLAO or MOHURD after 2016.

60 Central government fiscal transfers are often provided to poorer inland areas while most coastal urban areas rely on local government and private financing mechanisms.

61 Even in liberal market economies, economic crisis or general societal changes can result in periods of welfare expansion. Some scholars have argued that once these expansionary policies are in place, they create path dependent and policy feedback effects as the beneficiaries will become vocal supporters and politically organized to keep the policies in place (Pierson 2000). In United States the development and institutionalization of the social security system, Medicaid and Medicare can be traced back to Franklin D. Roosevelt in 1930s and Lyndon B. Johnson in 1960s. In United Kingdom, the National Health Service (NHS) has been retained after the neoliberal reforms in 1980s by Margaret Thatcher, although quasi-markets were developed for both financing and service delivery.

62 Between late 1960s and early 1970s, Mao decided to prioritize rural healthcare and access to care greatly improved in rural areas during this period. It is worth noting that China’s rural cooperative healthcare model during Maoist era was considered a highly successful case for low-income countries. Both WHO and World Bank recognized this success and considered China as an alternative model to the westerns of provision

63 Ministry of Health (MOH) has undergone several major institutional reforms and changed its name first into National Health and Family Planning Commission in 2016 and then National Health Commission (NHC) in 2018.

64 Ministry of Labor and Social Security (MOLRSS) later changed its name into Ministry of Human Resources and Social Security (MOHRSS).
The statistical standards for healthcare in China is significantly different from international standards. For example, societal expenditure includes social insurance funds expenditure as well as expenditures by employers or other social groups. WHO and other major countries however only have two broad categories of public and private expenditure, where direct government expenditure and social insurance funds are considered public and the rest are considered as private.

Another important player National Development Reform Commission (NDRC) did not take a stance during earlier stage.

The State Council then invited more universities and think tanks to participate in the process. The final reform plan was largely a compromised version between these competing plans.

The residence-based URBMI is not included here due to data availability on its target population. Some private and self-employed urban employees may use URBMI instead of UEBMI. For the rural NCRMS, National Bureau of Statistics and MOHRSS only provided data for 2010 and 2011.

The finalized version was also somewhat consistent with WHO models of universal coverage and emphasis on community-based primary care. However, there is no direct evidence on to what extent WHO had significant influence on the reform process.

Tier-3 hospitals are large comprehensive hospitals that were ranked top by the National Health Commission. In order to qualify for tier-3 a hospital no matter public or private should have at least 500 hospital beds, at least 11 required medical departments, and 1.03 healthcare technician and 0.4 registered nurse per hospital bed.

As a reference point, in 1978 on national average there are 11 licensed doctors per 10000 people.

MOH played a major role in selecting foreign models for local experimentation. Two major alternative models to Shanghai were the Suqian model that involved transformation of ownership structure and massive privatization of public hospitals, and the Wuxi model that followed the Hong Kong model of setting up an independent hospital administration council. Both models delivered mixed results and only the Wuxi model was included later in the 2015 national public hospitals reform plan.

According to Liao Xinbo, the former Deputy Director-General of Department of Health in Guangdong Province, the primary reason for lack of expansion in foreign-owned hospitals so far can be explained by high invisible barriers to entry due to monopoly of public hospitals, regulatory constraints on foreign hospitals, the payment structure of social medical insurance schemes, and the lack of healthcare professional mobility as a result of administrative barriers ("Foreign-owned Hospital" 2014).

The first “medical consortium” in Guangzhou was established in 2015 between the Guangzhou General Hospital and district-level community health centers ("First Municipal Medical Consortium" 2015).

Yin and He (2018) provides an useful comparison between Singapore and Hongkong’s healthcare financing models, arguing for significant variations among developmental welfare states (Yin and He 2018). Interestingly, both Singapore and China have moved gradually towards conditioned universalism in recent years, showing importance of political legitimacy concerns in authoritarian states.

The commercial sector employee medical insurance however was disrupted by the Culture Revolution and halted in 1969 (Guangzhou 2018a).

For instance, in Nanjing the provincial capital of Jiangsu which is adjacent to Shanghai, free medical care for national and provincial civil servants were kept until 2014 when the city finally announced it will integrate those covered into UEBMI. However, similar to Shanghai, the reform also proposed to fiscally subsidize “supplemental medical insurance” and “second reimbursements” which will financially compensate the influenced party cadres or civil servants.

For example, based on calculations of budgetary reports of municipal agencies and social insurance data, a local news report pointed out that in 2012 per capita government spending for municipal level civil servants reached 7800 yuan, in comparison to the average URBMI reimbursement of 106.36 yuan ("Timetable" 2013).

Empirical examination of revenue and cumulative balance patterns of social insurance schemes have exhibited similar patterns.

In a comparison between Singapore and Taiwan, for example, Sciubba and Chen argue that Taiwan’s model today is closer to the European welfare state model in contrast to Singapore’s model that still emphasizes society’s rather than government responsibility (Sciubba and Chen 2017).

For a detailed comparison between a PAYG social pooling system and a fully funded individual account please see the world bank pension primer at: http://siteresources.worldbank.org/INTPENSIONS/Resources/395443-1121194657824/PRPNoteTransition.pdf.

The All-China Federation of Trade Unions (ACFTU) receives 30% of the work unit contributions and primarily serves as a redistributive channel across work units nationwide. The rest 70% are retained by work units and used to finance firm-level social expenditures (Government Administration Council 1951).
“Five guarantees” literally means five types of government guarantees including food, housing, apparel, medical care, and funeral services.

Such patterns continued even after the reform. As discussed later, a universal form of residence-based national pension program was finally established after 2010s, which greatly expand coverage but maintains a relatively low benefit level so far.

Zhu Hao for example argues that the “socialization reform” was in fact dominated by a pro-market logic. Community elderly care services were created to reduce government and SOE welfare responsibility and were either too weak or too “marketized”, unable to meet the needs of most disadvantaged seniors (Zhu 2017).

SCORES was later integrated into the National Development and Reform Commission (NDRC) in 2003.

By reviewing policy documents published by MOL during late 1980s and early 1990s, I find that many of these policy documents responded to the problem of improper setup and utilization of these endowment funds across localities.

The World Bank “three-pillar” model was first conceived in its 1994 document *Averting the Old Age Crisis*. It proposed a model that combines “a publicly managed system with mandatory participation and the limited goal of reducing poverty among the old; a privately managed mandatory savings system; and voluntary savings” (World Bank 1994). This has been replaced by a new five-pillar model since 2005, adding a non-contributory social protection pillar and significant adjustments of the other pillars.

According to World Bank, a pay-as-you-go system means that “workers’ current contributions pay for pensioner’s current benefits” (World Bank 2018c). An alternative approach would be a fully funded individual account system through which workers’ contributions are accumulated and invested, resulting in greater returns for the individuals who are contributing more (World Bank 2018c).

By 2005, the State council reduced individual account to 8% and removed the work unit contribution and began local experiments to fully fund individual accounts. Policy debates however continued in recent years regarding whether individual accounts should be kept nominal, driven by European pension reform models.

The “grandfather clause” is prevalent in government pension programs which protect beneficiaries of the pre-existing benefit levels. In China’s civil servant and urban employee schemes, this clause is often prescribed as “old people old rule, middle people middle rule, new people new rule” (laoren laobanfa, zhongren zhongbanfa, xinren xinbanfa).

The central administrative reform in 2008 integrated the two ministries into Ministry of Human Resources and Social Security (MOHRSS), under which a National Civil Servant Bureau was established.

This number is calculated by author based on 2016 Social Insurance Fund Annual Report by MOF.

Numbers are calculated by author based on various Social Insurance Fund Annual Reports by MOF.

The 2014 State Council Circular specified the terms of local government subsidies and set the fiscal transfer conditions, which include full central government compensation to poorer inland provinces, and 50% compensation to richer coastal provinces (State Council 2014).

In an interview with Southern Weekly, a MOHRSS official said that the policy was scheduled to announce in February 2015 but was mentioned accidentally by Vice Premier during his National People’s Congress briefing in December 2014 (Feng and Ouyang 2015). Media coverage soon followed, generating broader societal debates about the plan. As a result, the central government decided to officially announce the new policy in January 3, one month ahead of the original plan.

In a 2017 interview, Zheng Gongcheng, a professor at Renmin University who participated in formulation of the new reform plan explained why he opposed the incremental plan originally but now decides to support it. According to Zheng, “it is better to support an incremental step towards the ultimate goal, rather than pursing a lofty plan that cannot be realized immediately” (“Empty Individual Accounts” 2017).

Due to limited space, details regarding the reform proposal of “NDC” with Chinese characteristics will not be discussed in this research. In general, it is viewed as an alternative path to fully fund individual accounts, which have been proven not fiscally sustainable based on earlier local policy experiments (Feng and Ouyang 2015).

This observation is based on author’s collection of academic articles published by these research groups as well as a series of investigative news reports by Southern Weekly and China Business Network (CBN) during the period. By 2017, those favoring the NDC model seem to gain an upper hand in the reform debate, although no concrete reform plan has been published by June 2018.

In a more recent article after the policy was announced, Dong Dengxin, a reform advocate from Wuhan University moderated his stance but still argues that national pooling should be realized as soon as possible (Dong 2018).
The enterprise annuities are set up by work units in collaboration with insurance companies and will be paid to pensioners when they retire. Most western developed democracies have established this system either as supplemental to a basic pension scheme, such as the U.S. 401K system or the Superannuation system in Australia.

According to local gazetteers, those who were eligible for “five guarantees” must meet three strict standards of “no direct relatives to rely on, no source of income, and no ability to work” as determined by the state (Shanghai Municipal Government 2018).

Municipal records showed that between 1994 and 1999, all 7500 affected retirees were transferred to RAC (Government 2018).

This trend has continued in recent years, although now with a growing aging population Guangzhou began to emphasize the elderly medical care and long-term care as well.

Numbers are calculated based on a list provided by municipal civil affairs bureau.

In 2015, Guangzhou has 112 private facilities with 35360 beds in comparison to 65 public elderly care facilities with 17657 beds (Guangzhou Municipal Government 2017).

Elderly café and community nursing station data are updated as new data are available in 2018 with others are based on 2016 core data on elderly care.

Due to media censorship the protest was not reported by domestic or local news. However, several overseas human rights organizations have reported the protest with photos of land-lost farmers in front of the municipal social security bureau.

Rural migrants are also less likely to receive payments when they retire, given that many of them lack information access and have returned to their rural homes.

Interestingly, the highly critical news article was posted by MOF on their website but recently deleted.

Since early 2010s, the central government has required local governments to equalize their contribution rates to 20% by work units and 8% by individuals. In Shanghai, work units were required to contribute 22%. Shanghai therefore has introduced a gradual plan of lowering contributions by 1% every 1-2 years.

While this model was often praised as more equalizing and inclusive, most rural migrants did not benefit from the integration as the urban scheme requires a minimum total contribution year and local residence at retirement for extraction.

The 2017 framework seeks to strengthen state capacity in service delivery covering policy coordination, fiscal capacity, government purchasing of services, as well as regulation and evaluation. At the same time, it promises a “complete, multi-layered, and sustainable” social insurance system that provides a conditional form of universal coverage for all Chinese citizens (State Council 2017).

Although bureaucratic politics have been a long focus in Chinese politics, the concept of “policy entrepreneurs” was only recently applied to explain increasing pluralization and bureaucratic bargaining in policy processes. For example, Daniel R. Hammond adapts the concept and use it to explain the agency of various bureaucrats in anti-poverty programs in urban china (Hammond Daniel 2013).

For more details about how the cadre responsibility system works and its potential dysfunction effects, see Landry (2008) and Whiting (2004).

Kyle A. Jaros for example argues that internal cohesion and upward political ties in subnational governments often enables them to have greater agency in policymaking, with strengthened capacity in formulating regional development strategies (Jaros 2016).

For further elaboration of a “human rights-based approach to social protection”, see UNRISD (2016)and Gatenio Gabel (2016).