This chapter gives a brief overview of the changes in the welfare policies of China since 1949 when the Communist Party came to power. It shows that the welfare policies in China are centred on two themes: facilitating economic growth and social stability. The two however are intertwined. Social stability to some extent is partially achieved by sustained growth, but not limited to growth. The development of the welfare state plays two roles: picking up the vulnerability exposed by the changes in economic growth; and responding to the social pressure that threatens instability. Despite the fact that China has moved from a command economy pursuing Communist ideology to a market economy following “Socialism with Chinese Characters”, the approaches the state has responded to in changing welfare needs have not really drifted away from economic growth and social stability. What has changed is the understanding of the types of policies and institutions that can help maintain growth and social stability in general, and both are crucial for maintaining the Communist Party’s authority.

There are many ways to define the stages of reform in China. To show how pursuing economic growth and social stability has led to welfare changes, this chapter presents the welfare history in chronological order: (1) pre-1978, the period of Central Planning; (2) 1978 to 2003, the period in which economic growth played a dominant role; (3) 2003 to 2011, the period that many scholars claim to be the “spring” of social policy, and (4) 2012 up until the present, the Xi-Li period.

Central planning and the setting up of the welfare state (pre-1978)

In the early 1950s, China set up a state welfare system that was modelled against the Soviet Union. In the post-war period, the Communist government was challenged both economically and politically. The country was in dire poverty. The Communists were concerned about international hostilities and the return of National government in exile. It was understood that to make the country strong and prosperous, it was necessary to develop heavy industries and build up national defence power. As a result, heavy industries became a national priority for the coming years.

Several conditions needed to be satisfied for the strategy to work. (1) Labour costs in heavy industries should be kept low. (2) Workers should devote their lives to their jobs, and heavy
Welfare state changes in China since 1949

industries should be guaranteed a good labour supply. The welfare state in the early stages of Communist China was intended to help meet these conditions (Lin et al. 1996).

The welfare state was intended to take care of a worker’s basic welfare needs so that he or she would not worry about earning a low income. The state at the same time minimised the overall spending on a worker by providing services on a large scale and the welfare level remained stringent. Second, the welfare entitlement was tied to a person’s Household Registration (Hukou), and a person was discouraged from moving to other jobs or to other parts of the country (Lin et al. 1996). To facilitate labour control, urban welfare comprised two parts: employer-based welfare and government welfare. Employers (work units, Danwei, including enterprises), government agencies and the attached institutions played different roles in the system (Dixon 1981). Employers provided a number of welfare items, including housing, healthcare and health checks, nursery, dining halls, subsidies for transport and heating, hardship funds, pensions, childcare, and funeral expenses. Apart from the formalised welfare, depending on the work unit, workers could receive various in-kind benefits such as labour protection products (including gloves, masks, depending on the industry concerned), summer cooling products and life products (including food and sometimes family appliances) during festivals, etc. The state took up poverty relief for people who could not receive support from their employers and extended families. The two-tier system guaranteed that workers would find it difficult to change jobs, as their welfare entitlement was tied to employment.

During this period, the rural welfare system was a collaborative system in which members of the communes received five guarantees: food, clothes, heating, children’s education and funerals for the dead (Cheng 2008). With the help of the dual Hukou system, it was very hard for peasants to migrate to cities (Li and Piachaud 2006).

On the whole, the urban welfare system during the Central Planning era followed three principles: guaranteed employment (iron rice bowl), egalitarian and from cradle-to-grave welfare coverage (Ngok 2010). To maintain such a system, the national income had to grow steadily in order to cover the increasing population. The economy indeed grew. However, Mao’s leadership was challenged politically. To stay in power, he started waves of political campaigns aiming to secure his political authority and the focus on economic growth shifted (Weatherley 2006). It is difficult to tell these days whether, if there had been no political campaigns, the economy would have grown smoothly. Theoretically, the national strategy to prioritise heavy industry suffered from several problems. First, the closed economy and public ownership cultivated disincentives to improve productivity and encouraged welfare dependency (Leung 1994). Second, the egalitarian ideal when put into practice turned out to be in favour of party members, and people in more senior positions in terms of welfare entitlements (Bian and Logan 1996). Also, the long-lasting rural–urban divide cultivated a strong sense of privilege among urban residents. The impact of the Hukou system is so profound that, even to this day, many urban residents take it for granted that the welfare coverage they enjoy should not be offered to rural–urban migrant workers in cities and not to farmers.

Following Mao’s death, the political and economic situations became unstable. Reform to leave the Central Planning System gained wide support, despite the fact that Mao had appointed a loyal supporter, who was soon sidelined politically. Reformers were able to push for radical changes in the welfare regime.

Increasing economic efficiency, political freedom and the reconstruction of the welfare state (1978–2003)

The post-Mao leadership, particularly Deng and his followers, believed that a free market could improve economic efficiency and ultimately lead to economic prosperity. The previous welfare
system (to 1978) was considered to be a burden for economic efficiency. It had been reformed to free the enterprises from providing social services.

Politically, the Communist Party and the government, though reluctant to make radical changes in the political system, had gone through some transformations. For example, the top leaders were not allowed to stay in power for more than two terms. After Deng’s retirement, a new rule was introduced that allowed members of the Standing Committee for the Political Bureau to remain in power for no more than two terms. Although this is not democracy, the fixed terms made it impossible for a leader to become the next Mao. The recent history shows that when a new leader came to power, he tried to establish that he did not follow his predecessor slavishly during his term of office. He would come up with a new theme that would become his own guiding theory. This practice left room for making major shifts in the foci of the “Reform” at least every other two political terms. However, the shift is not without its limits. Sticking to Communist Party leadership has always been in the constitution. This means that despite the dramatic changes, great efforts were devoted to maintaining the “Socialist” skin. At the same time, it reassured the people that the social welfare they had enjoyed in the past would not be taken away from them immediately. This was a particularly important promise at the early stage of the reform. Therefore, years into the reform, many people still had “a sure sense of their entitlement to social security and services and an equally sure sense of the governments’ matching obligation to supply these” (Croll 1999).

This period comprises two stages: 1978 to 1989 (Huaguo Feng, replaced by Deng Xiaoping who was followed by Hu Yaobang); 1989 to 2003 (Jiang Zemin).

The defining feature of the period between 1978 and 1989 is the great effort to break the institutional barriers that prevented the economy from being liberalised. Various economic reforms were unleashed, such as the rural household responsibility system, the manager responsibility system in urban enterprises, price reform, labour contract reform, etc. All these changes in the economic system were intended to give the economy greater flexibility and push individuals to become more independent.

Immediately after 1978, unemployment became a serious problem. Fast population growth encouraged by Mao generated great difficulty in arranging jobs for young people in the 1960s and 1970s. In the planning era, unemployment had long been taught as the fatal weakness of capitalism. To avoid social tension, many young people were sent to the countryside to support the development of the remote areas. When the Cultural Revolution ended, tens of millions of people returned to their hometown. Many of them could not find jobs and often turned to alcoholism and violence (Li 2008). Social stability was seriously threatened.

To solve the problem, a number of policies were introduced. First, economically the state started to promote entrepreneurship. The initial success of some self-employed people motivated many others. Some people with formal jobs also left to enter the private sector. However, they soon learned to appreciate the value of the work unit welfare they used to enjoy. Their higher cash income might not be good enough to cover the loss in welfare benefits. The work unit welfare became the bottleneck of economic liberalisation (Wu and Xie 2003). Second, it was believed that unemployment was ultimately an oversupply of labourers. Therefore, in 1981, the “One Child Policy” was introduced to reverse the population trend set by Mao. This policy also had profound implications for welfare provisions in the coming years. Third, a social security system was set up. The intention was to reduce the welfare burden of work units, i.e. employers, the state and individuals were expected to share the costs. A social pension system was also set up to help establish social pooling of pension funds. Finally, enterprises were required to gradually withdraw from providing social services. Some social services were taken care of at the community level.
In rural areas, the collective social protection system also stopped as the rural collectives were replaced by household responsibility. At the same time, to cope with rural poverty, organised development programmes were introduced to relieve rural poverty (Ngok 2010).

However, the marketisation process was not smooth. Economically, there were several rounds of inflation, which caused panic responses from the public. As a result, reforms in housing privatisation, pricing systems and the labour contract system were put on hold several times. They were only resumed when the economy improved. During the same period, determined economic liberalisation also reassured that there would be no return to the Mao-style government and the pursuit of political freedom surfaced. Several waves of movements in the 1980s, especially the one occurring in 1989, made the top politicians realise that the threat to challenge party authority was real. For several years after the crackdown in Tiananmen Square in 1989, reformers became hesitant. Until 1992, a speech given by Deng reassured that marketisation would continue.

After 1992, radical changes in the state’s role in providing welfare took place. During this period, political reform was brushed aside. Politicians championing market liberalisation were appointed to top positions to make sure that the direction of economic reform would not be reversed and radical political reforms would be avoided (Perry 1993). The central theme of the reform during this period was to improve economic efficiency and open the economy more widely to the world. However, some scholars began to worry that fast introduction of overseas competition would jeopardise the ability of Chinese enterprises to develop. Chinese enterprises and businessmen were not yet skilful enough to compete internationally. Newly established enterprises would need a transitional period to develop before they could face up to the market challenges (Leung 2003). Also, without the support of a proper social security system, state sector enterprises bearing all the welfare burdens would find it difficult to compete in the market. The then successful example of the four Tigers in the Pacific region (South Korea, Taiwan, Hong Kong and Singapore) backed this line of argument. These countries were export-oriented. The state played an important role in cultivating business competitiveness. Major export industries such as car manufacturing in South Korea were subsidised and supported by the state (Unger and Chan 1995).

In this context, there was a louder call for economic reform but the steps were cautious. A social security system was designed to break up the close linkage between employers and welfare. A housing provident fund was set up at the end of 1991 to help people buy houses in the private market. At the same time, the public rent level was increased in order to push people out of the rental sector (Li 2005). In 1994 a new welfare framework was introduced to include social insurance, social relief, social welfare, special care and mutual help, and individual savings accounts (Ngok 2010).

However, the marketisation process was not smooth. The country experienced several rounds of inflation, which caused panic responses from the public. As a result, reforms in housing, price and labour contracts were put on hold several times and only resumed when the economic situation improved. At the same time, the political movements in the 1980s called for political democratisation. For several years after 1989, the direction of reform remained unclear until 1992, when a speech given by Deng reassured that marketisation would continue.

The ten years between 1992 and 2002 witnessed radical changes in the state’s role in providing welfare. Deng’s speech defined the spirit of the reform during this period: the country would focus on removing the institutional constraints for the prosperity of the market economy. During this period, political reform was brushed aside. Politicians championing market liberalisation were appointed to top positions to make sure that the direction of economic reform would not be reversed and radical political reforms would be avoided (Perry 1993).
The central theme of the reform during this period was to improve the productivity of existing state and collective enterprises and encourage business investment from other sources. However, as more private and foreign enterprises were set up, the pressure to move to free competition caused major concerns in the Chinese business and academic circles. Some scholars argued that despite the growing private sector, state and collective enterprises were still the largest employers in China. After the long-lasting state planning and control, Chinese enterprises and businessmen were not yet used to the challenge of market competition. Newly emerged industries would need a transitional period so that they could grow before they could become full-fledged competitors with foreign companies which had far more resources and better management skills (Leung 2003).

Also, without setting up a social security system, Chinese enterprises in bearing all the welfare burdens would find it difficult to compete in the market. What is more, the successful example of the four Tigers in the Pacific (South Korea, Taiwan, Hong Kong and Singapore) also supported this line of argument. These countries/regions were known for the state’s active promotion of export-oriented industries. Many industries such as car manufacturing in South Korea were heavily subsidised and supported by the state (Unger and Chan 1995). A large country like China would need to have “brand names” created locally.

To fulfil the dream of making domestic businesses competitive, in the early 1990s there were some moves in the establishment of a social security system. The first was the guideline to establish a multi-tiered social protection system in 1994 which included social insurance, social relief, social welfare, special care, and mutual help and individual savings accumulation (Ngok 2010). A housing provident fund was set up in 1991 to help people save money and pool funds to build up the capacity to buy houses in the private market. At the same time, the public rent level was increased in order to push people out of the rental sector (Li 2005). On the whole, in the early 1990s, there were louder voices for reform but the steps to achieve it remained cautious.

However, state protection did not generate the expected economic outputs and many state enterprises continued to run inefficiently. Hesitation of the reformers portrayed as a success of “incremental reform” generated the expectation from the public that Chinese reform would be less painful than the reforms in East Europe. However, increasingly, it was realised that the heavily subsidised sector sucked in scarce resources that were crucial for new businesses. The overall costs of the reform might not be lower than the “Big Shock” (Fan 1994). In the late 1990s, there were signs of dissatisfaction about the outcomes of the reform. Falungong emerged as a direct challenge to the Communist Party’s authority. Although it was soon cracked down upon as a cult, some of the social problems raised by the movement such as healthcare and its popularity reminded the reformers that without taking decisive measures to improve the social safety net the legitimacy of the Communist government would be challenged.

Economically, the East Asian economic crises and the radical reforms South Korea had to go through in the late 1990s woke up the Chinese reformers. At the same time, several rounds of negotiations at the GATT and WTO put pressure on China to open the economy further. To level the playing field, state enterprises would need to operate in the same way as private enterprises. To achieve this, Chinese enterprises needed to face reform in the following aspects.

The first was the guarantee of lifetime employment. Unemployment, still a politically sensitive term then, was expressed in the form of “Xia-Gang”, in which workers were laid off but continued to receive welfare benefits from ex-employers. To help people cope with the shock of Xia-Gang, a social safety net with three protection mechanisms was adopted: a social insurance against unemployment; living allowances offered by previous employers or the re-employment centres; and a minimum income guarantee system.

The second was pensions. In 1997, a basic pension insurance system that would be contributed to by both the enterprises and individuals was set up which comprised a social pooling
account and an individual account. With some further changes in 2000, the system is still in use today (Li 2014).

The third was healthcare. In 1998, a basic health insurance scheme that involved employer and individual contributions emerged. Thirty per cent of the contributions were put in the individual’s account and the rest were put in the social pooling account. At the same time, hospitals began to operate like private businesses. The idea was that competition would make it possible for hospitals to improve productivity.

The fourth was housing. In 1998, employer housing provision was officially abandoned. New employees were expected to use the money they had accumulated in the housing provident funds or get bank loans to buy houses in the private market (Li and Gong 2003).

However, these moves were logical. As commented on by Ngok (2010), the entitlement was based on status rather than on needs; for example, more senior cadres were able to enjoy more subsidies for larger housing and better healthcare coverage. Another problem was that each social insurance item had its own account. Adding all the accounts that a person held together, the total contribution rate became very high. The result was inactive participation and the coverage rate was low.

During this period, other areas of welfare state were also reformed. For example, rural education was reshaped to improve education efficiency, and schools were merged and more concentrated. However, it affected poorer students in remote rural areas (Li and Piachaud 2006).

On the whole, welfare reform during this period (1992–2002) was part of the attempt to improve economic efficiency. The economy started to take off and foreign direct investment flew into China. The government of this period enjoyed its success. Jiang Zemin also suggested that the Communist Party should represent “advanced productivity” and local government officials were measured by their GDP contribution.

These changes may be observed through the changing spending pattern by the government. As shown in Table 19.1, total government expenditure had dropped from about 30 per cent of GDP to 11.7 per cent in 1997. The trend had begun to reverse from 1998 when the then Prime Minister Zhu Rongji was determined to introduce radical reforms in the enterprises. The amount spent on unemployment benefits increased faster in the following years. This was because more workers became Xia-Gang. Government expenditure on education had increased and its importance as a proportion of total expenditure began to drop after 1998 as a result of the policy to consolidate rural education and improve efficiency. As Li and Piachaud (2006) argued, the reduced expenditure hurt rural areas the most. At the same time, the importance of state spending on healthcare also dropped during this period. This matched progress in enterprise reform. However, it is important to note that overall expenditure on the poor was marginal in comparison to other spending, showing the minimalistic approach to prevent welfare dependency.

From pro-growth to social harmony (2002–2012)

In contrast to the earlier period in which efficiency was the only priority, starting from 2002, the national development strategy was changed to “prioritising efficiency and giving consideration to fairness”. This change was influenced by several economic and political factors.

First, after joining the WTO, China was soon turned into a workshop of the world. One reason behind the transition was its rich supply of cheap labour. However, for many years rural workers had not been officially allowed to work in cities. They suffered from various discriminations and could be evicted to the countryside or even arrested when they were caught working “illegally” in cities. This policy became increasingly unpopular. Apart from the concerns about
Table 19.1  Social expenditure and percentage of total government expenditure

<table>
<thead>
<tr>
<th>Year</th>
<th>Education 100 million yuan</th>
<th>Education % of TGE</th>
<th>Social security and employment 100 million yuan</th>
<th>Social security and employment % of TGE</th>
<th>Health 100 million yuan</th>
<th>Health % of TGE</th>
<th>Total government expenditure (TGE) 100 million yuan</th>
<th>TGE % of GDP</th>
<th>GDP 100 million yuan</th>
</tr>
</thead>
<tbody>
<tr>
<td>1992</td>
<td>728.8</td>
<td>19.5</td>
<td>228.6</td>
<td>6.1</td>
<td>3,742</td>
<td>13.9</td>
<td>26,923</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1993</td>
<td>867.8</td>
<td>18.7</td>
<td>272.1</td>
<td>5.9</td>
<td>4,642</td>
<td>13.1</td>
<td>35,334</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1994</td>
<td>1,174.7</td>
<td>20.3</td>
<td>342.3</td>
<td>5.9</td>
<td>5,793</td>
<td>12</td>
<td>48,198</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1995</td>
<td>1,411.5</td>
<td>20.7</td>
<td>387.3</td>
<td>5.7</td>
<td>6,824</td>
<td>11.2</td>
<td>60,794</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1996</td>
<td>1,671.7</td>
<td>21.1</td>
<td>461.6</td>
<td>5.8</td>
<td>7,938</td>
<td>11.2</td>
<td>71,177</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1997</td>
<td>1,862.5</td>
<td>20.2</td>
<td>523.6</td>
<td>5.7</td>
<td>9,234</td>
<td>11.7</td>
<td>78,973</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1998</td>
<td>2,032.5</td>
<td>18.8</td>
<td>590.1</td>
<td>5.5</td>
<td>10,798</td>
<td>12.8</td>
<td>84,402</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1999</td>
<td>2,287.2</td>
<td>17.3</td>
<td>641</td>
<td>4.9</td>
<td>13,188</td>
<td>14.7</td>
<td>89,677</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2000</td>
<td>2,562.6</td>
<td>16.1</td>
<td>709.5</td>
<td>4.5</td>
<td>15,887</td>
<td>16</td>
<td>99,215</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2001</td>
<td>3,057</td>
<td>16.2</td>
<td>800.6</td>
<td>4.2</td>
<td>18,903</td>
<td>17.2</td>
<td>109,655</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2002</td>
<td>3,491.4</td>
<td>15.8</td>
<td>908.5</td>
<td>4.1</td>
<td>22,053</td>
<td>18.3</td>
<td>120,333</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2003</td>
<td>3,850.6</td>
<td>15.6</td>
<td>1,116.9</td>
<td>4.5</td>
<td>24,650</td>
<td>18.1</td>
<td>135,823</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2004</td>
<td>4,465.9</td>
<td>15.7</td>
<td>1,293.6</td>
<td>4.5</td>
<td>28,487</td>
<td>17.8</td>
<td>159,878</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2005</td>
<td>5,161.1</td>
<td>15.2</td>
<td>1,552.5</td>
<td>4.6</td>
<td>33,930</td>
<td>18.3</td>
<td>184,937</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2006</td>
<td>6,348.4</td>
<td>15.7</td>
<td>1,778.9</td>
<td>4.4</td>
<td>40,423</td>
<td>18.7</td>
<td>216,314</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2007</td>
<td>8,280.2</td>
<td>16.6</td>
<td>5,447.2</td>
<td>10.9</td>
<td>2,581.6</td>
<td>5.2</td>
<td>49,781</td>
<td>18.7</td>
<td>265,810</td>
</tr>
<tr>
<td>2008</td>
<td>10,449.6</td>
<td>16.7</td>
<td>6,804.3</td>
<td>10.9</td>
<td>3,593.9</td>
<td>5.7</td>
<td>62,593</td>
<td>19.9</td>
<td>314,045</td>
</tr>
<tr>
<td>2009</td>
<td>12,231</td>
<td>16</td>
<td>7,606.7</td>
<td>10</td>
<td>3,994.2</td>
<td>5.2</td>
<td>76,300</td>
<td>22.4</td>
<td>340,507</td>
</tr>
<tr>
<td>2010</td>
<td>14,670</td>
<td>16.3</td>
<td>9,130.6</td>
<td>10.2</td>
<td>4,804.2</td>
<td>5.3</td>
<td>89,874</td>
<td>21.8</td>
<td>413,030</td>
</tr>
<tr>
<td>2011</td>
<td>18,586.7</td>
<td>17</td>
<td>11,109.4</td>
<td>10.2</td>
<td>6,429.5</td>
<td>5.9</td>
<td>109,248</td>
<td>22.3</td>
<td>489,301</td>
</tr>
<tr>
<td>2012</td>
<td>26,420.6</td>
<td>21</td>
<td>12,585.5</td>
<td>10</td>
<td>7,245.1</td>
<td>5.8</td>
<td>125,953</td>
<td>23.3</td>
<td>540,367</td>
</tr>
<tr>
<td>2013</td>
<td>24,488.2</td>
<td>17.5</td>
<td>14,490.5</td>
<td>10.3</td>
<td>8,279.9</td>
<td>5.9</td>
<td>140,212</td>
<td>23.6</td>
<td>595,244</td>
</tr>
<tr>
<td>2014</td>
<td>23,041.7</td>
<td>15.2</td>
<td>15,968.9</td>
<td>10.5</td>
<td>10,176.8</td>
<td>6.7</td>
<td>151,786</td>
<td>23.6</td>
<td>643,974</td>
</tr>
<tr>
<td>2015</td>
<td>26,271.9</td>
<td>14.9</td>
<td>19,018.7</td>
<td>10.8</td>
<td>11,953.2</td>
<td>6.8</td>
<td>175,878</td>
<td>25.5</td>
<td>689,052</td>
</tr>
</tbody>
</table>

Source: China Statistical Bureau, China Statistical Yearbook, various issues.
human and social rights, preventing rural workers from entering cities forced employers to hire workers in the black market. This increased the risks and labour costs of enterprises. It affected the competitiveness of enterprises that relied on cheap labour supply the most.

Second, the wealth accumulated by the lucky few did not trickle down. On the contrary, income inequality increased. The Gini coefficient increased to 0.45 in 2005. Both the rural—urban income gap and the urban income gap increased over time. Dissatisfaction became visible. Wang (2010) found that between 1988 and 2006, when income inequality increased, there were clearly more criminal offences. There were also numerous protests which were either suppressed or appeased. However, some public concerns such as unaffordable healthcare, urban poverty traps and increased social inequality reminded the reformers that economic growth needed to be accompanied by social development. In 2003, the SARS crisis shocked the urban Chinese population. As the disease spread quickly, the urban middle class who were once reluctant to help the poor in their healthcare costs began to understand the negative externalities of unaffordable healthcare.

Third, several long-term and structural problems demand a more balanced approach to achieve economic development. As summarised by Zhang et al. (2007, pp. 16–22):

1. The increased social needs of an ageing society were the direct outcome of the “One Child Policy” introduced in the 1980s.
2. When rural labourers moved to cities, only the elderly and young children were left in rural areas. The need for care increased dramatically.
3. Cities suffer from a range of illnesses, including overcrowded housing, congested public transportation, high employment pressure, environmental pollution, greater social division and inequality, emergence of ghettos, shortage of water and energy, and higher crime rates.

To cope with these pressures, social development was put higher up the agenda than before. A further elaboration was made in 2005 to bring forward a development strategy to maintain social harmony.

The first major move during this period was to encourage urbanisation. Not only would urbanisation increase labour supply for industries, but also rural workers being able to send money back to their homes had contributed greatly to rural poverty reduction (Ravallion and Chen 2007). The initial idea was to unify the rural and urban labour market and make it easier for migrant workers to take up jobs in cities. As shown in Figure 19.1, starting from 2000, the proportion of the urban population had already increased owing to reduced labour mobility control. As time moved on, it was understood that to further push for urban industrial growth and increase service sector development it was necessary to make it possible for migrant workers to feel a sense of belonging in cities and to have their basic needs met. In the past several years, some social security coverage was extended to migrant workers.

The second area was the policies that helped reduce rural poverty. In 2006, agriculture tax was abolished completely. Starting from 2009, a series of rural social protection schemes were introduced, including pensions, assisting the single elderly who do not have support from extended families and rural minimum living standards support.

The third area was healthcare system reform. This reform is still in progress and faces many challenges. A health insurance system that demands individual and state contributions is being set up in cities. A rural health insurance system is planned to cover the whole country over the next two years. In terms of healthcare delivery, the foci are healthcare cost control and the somewhat hostile relationship between doctors and patients. These demand more fundamental
changes in hospital systems and improvements in the monitoring of service suppliers. However, hospitals have long been operating like profit-making businesses.

The fourth main area was housing reform. The 1998 reform had successfully enabled people to own buy homes and increased the home-ownership rate dramatically (Huang and Yi 2011). However, urban housing has become increasingly less affordable for ordinary wage earners. Young people, lower income groups and migrant workers find it difficult to afford houses in cities. They end up living in rented accommodation in urban villages and peri-urban farmhouses. A housing security system has been developed since 1994. It has three elements: subsidised home ownership; housing provident funds that people can borrow against at more favourable terms; low-rent public housing for the poor and half-market rental housing for new-comers to the local labour market.

Urbanisation and abolition of rural agricultural tax helped reduce rural poverty and narrow the rural–urban income gap. However, as more poor people moved into cities, some rural poverty was urbanised and the urban income gap grew as a result (Ravallion et al. 2007). The numbers of collective protests and riots regarding land acquisition and labour rights, and crime rates increased more than tenfold between 1993 and 2007 (Chen 2009). To calm down protesters, one-off cash payments and administrative powers were used to fight the fire. For example, powerful actions were used to make sure that construction companies payed their workers on time, and pensions to retired teachers were increased in various cities.

The 2007 financial crises put strains on China’s export businesses. Tens of millions of migrant workers lost their jobs. To avoid a major recession, it was considered necessary to restructure the economy to reduce dependency on export and boost domestic demand. To achieve this, a whole range of policies that were economically oriented but at the same time had social implications were introduced. The areas of investment include: (1) affordable housing and slum clearance; (2) rural basic infrastructures and poverty reduction; (3) transport network and urban power supply; (4) healthcare, education and cultural facilities in rural areas; (5) infrastructure for environmental improvement; (6) technology advancement and service sector development; (7) disaster relief; (8) income growth; (9) tax reform; and (10) financial support to economic

![Figure 19.1 Urbanisation rate (per cent of urban population).](source)

*Source: China Statistical Bureau, *China Statistical Yearbook*, various issues.*
growth. It is not difficult to see the intention to maintain economic growth and at the same time strengthen the “weakest link” in the social front.

However, the massive increase in public spending turned out to be inflationary. Housing and food prices grew rapidly. The increased monetary supply pushed local governments to look for opportunities to support real estate development which caused land speculation and land grabbing from farmers (Wang et al. 2010). These activities and the anticipation of further inflation became destabilising once more. To damp down public resentment, in 2010 the government introduced serious control of housing market speculation and decided to spend large sums of money to build subsidised housing for ownership and renting and resume government supply of public housing. These policies have so far helped curb the housing price increase and house prices in many large cities have dropped significantly. The policy, though welcomed by the general public, caused strong protests from private housing developers. The government had not succumbed to the appeal of developers.

**Economic stimulation and greater emphasis on social stability (2012–the present)**

Xi Jinping came into power in 2012. This was at a time when the effects of the economic downturn were seriously felt (Li and Mayraz 2016). The CCP can no longer continue riding on the optimism of fast economic growth to claim legitimacy. As Xi openly expressed, he was concerned with the possibility for the CCP to lose power (Shao 2015). Following this, a range of new policies were introduced to redirect the party image from a state–business alliance to a state–mass alliance and at the same time to be business-friendly. The efforts include the anti-corruption campaigns, economic restructuring and supporting entrepreneurship, infrastructure construction, including building roads to connect remote rural areas and building seaports in coastal areas, and urbanisation and poverty reduction. The idea is to maintain the momentum of economic growth, and improve political trust through sharing the benefits of reform with the poorest people. This strategy is not only used within China but also championed internationally by the Chinese government through the Belt-Road initiative (Huang 2016). The central logic is that if the government pursues growth at the same time helping the poorest, it can enhance growth as well as improve political trust. The logic may not be easily accepted internationally, but it has clearly worked to a great extent in China where a paternalistic government showing goodwill and demonstrating strong capacity has been well received by the Chinese public.

The focus on state welfare reform during this period has several core elements: reducing poverty, enhancing the social inclusion of the migrant population and enabling the new family planning strategy.

**Poverty reduction**

Poverty reduction is a top priority during this period. Both economic and social policy tools are used to reduce poverty. From the perspective of social policy, the goal was to maintain the bottom line. The efforts during this period are quite different from the earlier poverty reduction efforts described as an “irrigation approach” which means providing cash transfers to poorer areas without trying to target the poorest. The hope was to raise the overall water level. However, such an approach may mean that the not so poor people in these poverty-stricken counties hijacked the money, leaving the poorest without any support. The new approach is about targeting the poorest population more precisely. The core is to identify the poor population, understand the causes of poverty, design poverty reduction initiatives and use resources efficiently.
Poverty identification was a labour-intensive task. In 2016, more than two million people were sent into rural villages to carry out poverty identification: 9.29 million people who received welfare benefits as the poorest were disqualified because they did not fit the criteria, and 8.07 million who were not counted were now included.

In this round of poverty reduction, all civil servants concerned are paired with a subject of poverty reduction, which may be a household, a village or a county. The responsible civil servants are held accountable for the poverty reduction outcomes of the subject. Lower ranking officials were teamed up with individual households and higher ranking officials were responsible for the performance of villages or counties. Poor performance in poverty reduction may have negative implications for their career.

Poverty reduction methods during this period focus more on empowerment rather than redistribution, which means that people not only receive cash transfers, but also get help in starting their own businesses, growing more profitable plants, etc., so that they can make a living by themselves. By pairing the civil servants with the poorest people, they work together so that the poorest persons can have a personal adviser along the way. At the same time, a case management account is established for each poor person and poor village, and addresses the causes of poverty using multiple poverty alleviation resources. The account is managed dynamically to make sure that the successful cases will not return to poverty again. Some preliminary outcomes show that between 2013 and 2016, more than 10 million people escaped poverty in rural areas each year, with a total of 55.64 million out of poverty. The incidence of poverty dropped from 10.2 per cent at the end of 2012 to 4.5 per cent at the end of 2016. The income growth of the people living in the poorest areas in the country is higher than the national average (Wang 2017).

**New urbanisation**

To further integrate the migrant population into urban life, a series of new policies were introduced in July 2014 which set up a single national resident registration (Jumin Hukou) system for both rural and urban populations. The reform severs the link between Hukou and welfare entitlement. The idea is to provide long-term residents with equal access to social services and welfare. However, the policies published turned out to be a compromise between local and group interests. Urban residents have been complaining about the “bad behaviour” of migrants, in particular related to housing, and urban residents are not happy that migrant children may compete with their own children for the limited quota to enter universities.

It differentiates large and small to medium-sized cities, and encourages rural migrants to settle down in smaller cities. Therefore, in the small cities, it is easier for migrants to settle down permanently and welfare rights are easier to acquire. At the same time, the central government advised cities with more than five million people to be cautious about further expansion. It also requires the largest cities, such as Beijing, Shanghai, Guangzhou and Shenzhen, to tightly control population inflow.

In implementation, local authorities are allowed to implement the policies taking into account local circumstances. This means they have discretion regarding the settlement requirement. As a result, not only the largest cities but also even medium-sized cities biased their policies towards the labour force that are considered to be “useful” to the local economy. The largest cities further tightened up the entry requirements and made it more difficult for the migrant population to obtain local Hukou (Li et al. 2016). However, given the reform of the welfare system, migrant workers, even those without Hukou status, can have access to most services. The main disadvantage of not having Hukou is children’s education. Migrant children are still not entitled to equal education. They find it difficult to complete their high school
education. If they want to go to university they have to return to their home province to prepare for the exams.

**New family planning**

According to the 2015 *Social Service Development Statistical Communique* (Ministry of Civil Affairs 2016), by the end of 2015, China’s population aged 60 and over had reached 222 million — equivalent to 16.1 per cent of the total population. Further, the population aged 65 and over had reached 143.86 million — about 10.5 per cent of the total population. According to an estimate by Hu and Yang (2012), the actual old age dependency ratio had reached 5:1 by 2012, which is a greater level of dependency than the 8:1 estimated by the official statistics. This ratio will reach 3.5:1 by 2020. According to the estimate of the 2013 *Human Development Report of China* (UNDP China 2013), at the end of 2011, some 9.1 per cent of Chinese people were older than 65. According to this report’s estimate, this figure will rise to 18.2 per cent by 2030 — higher than in most industrialised countries.

Since the One Child Policy was introduced, there have been serious criticisms of it based on human rights violation. There were also criticisms of it for its causes of selective abortions which resulted in gender imbalance. These criticisms failed to persuade the policy makers to change this “fundamental national strategy” (*jiben guoce*). This is partly because of the powerful economic argument made out of economic considerations. The One Child Policy has been considered a good strategy to improve economic performance. Demographic change is perceived to be a source of economic growth (Cai 2009).

What has indeed resulted in the abandonment of the One Child Policy was the pressure of a fast ageing population, which caused the recent introduction of the New Family Planning Policy (also referred to as the Two Child Policy). An ageing population has serious economic consequences: (1) an unsustainable urban pension system; and (2) declining labour supply. Obviously, an ageing population may also bring in business opportunities for the aged care industry. However, it was soon recognised that the aged care industry also suffered from serious shortages of qualified labour supply. These arguments have been put forward as a looming threat to the future of economic growth. In 2017, the One Child Policy was terminated.

**Conclusion**

This chapter shows that since the Communist Party came into power in China, social welfare has been actively used by the state to boost economic growth and maintain Communist Party authority. In different periods, there are different priorities. Sometimes economic growth dominated and sometimes political concerns were brought to the fore. These changes also showed a pragmatic approach and a changing perception of the relationship between growth/party authority and social development by the Chinese policy makers. In this sense, welfare spending was mostly part of a bigger strategy, either an economic or a political one.

So far, the social support system in China has evolved to include a residual state welfare and social insurance system. The state plays a growing role in legislating, administrating and delivering certain basic welfare and social services (e.g. minimum income guarantee, disaster relief) to the lowest income groups in both urban and rural communities. Social insurance schemes jointly contributed by employers and employees are in place to cover pensions, part of healthcare, childbirth, unemployment and industrial accidents. A similar forced savings scheme is also used to support first-time home buyers. On the whole, the state is reluctant to take on more responsibility for the disadvantaged unless they pose a threat to the stability of society.
Prioritising economic growth and political stability may have some advantages in the sense that it requires the government to be responsive to immediate threats. In a way, even without democracy, for those social groups more ready to put pressure on the economy or destabilise the country, ad hoc welfare benefits may be more likely to go in their direction.

Despite the fact that there is disagreement with the view that the Chinese government has provided public services owing to social stability concerns (Duckett and Wang 2017), it is not difficult to see that at the centre, social stability and reinforcing the CCP’s power is not a negotiable term. Any ideas, policies or public goods that can contribute to it or can be justified by local officials or élites to contribute to the CCP’s core concerns can be introduced or experimented. The combination of growth and stability and the eagerness for the CCP to remain in power to a certain extent secured the political will of the Chinese leadership and the local government leaders to pursue a welfare system that would become more inclusive and supportive to the long-term development of the country.

However, this approach also suffers from some challenges.

• The fragmented welfare benefits are difficult to unify, as policies aiming at maintaining social stability would be unavoidably biased towards the group with the loudest voice. This may be observed through the unequal growth in the pensions of public sector and private sector retirees, and the repeated refusal to allow rural children to enter urban schools, in particular schools with a good rating.

• The pragmatic and incremental reform leads to frequent policy changes and sometimes U-turns. It also tends to blur the division of responsibilities between central and local governments. As a result, it is often difficult for policy enforcers, and causes confusion and even frustration among the people.

Note

1 Bingqin Li, Associate Professor and Director of Chinese Social Policy Program, Social Policy Research Centre, UNSW of Sydney, Australia (Bingqin.li@unsw.edu.au).

References


Welfare state changes in China since 1949


Bingqin Li
