The Authoritarianism That Listens: 
Economic Integration and Welfare Restructuring in China
Huisheng Shou
Christopher Newport University

Abstract

Can an authoritarian regime, lacking institutionalized channels of representation, listen to its subjects in a similar way a democracy does? To answer this question, this study explores the nature of China’s welfare change in the past decades, which has been characterized by the government’s effort toward a balanced distribution of benefits across social sectors. Curiously, however, such a move has occurred without significant political change that would lead to the shift of power distribution among these sectors, a condition presumably critical for welfare redistribution. What, then, has persuaded the government to redistribute welfare benefits towards politically disadvantaged social sectors such as the urban and rural poor through institutionalized manner that would tie their own hands and make long-term commitment?

Built on the “systematic vulnerability” model developed by Doner et al. (2005), this study highlights the importance of the structural change introduced by the interaction of China’s economic integration and its geopolitical constraints in inducing the government to listen to the demand of its subjects.

Key words: China; social assistance; authoritarianism; globalization; systemic vulnerability
I. Introduction

Authoritarian regimes are not known for being good at listening to their subjects, particularly to those politically marginalized social groups. When the situation gets sour and they have to listen, authoritarian rulers commonly resort to two instruments in their toolbox of political control: repression and bribe, with the latter referring to cash benefits that would buy off the dissatisfied population at the rough time.

It is against this common perception that China’s recent institutionalization of its welfare protection for the poorest poses interesting theoretical questions: Why would an authoritarian state compensate the poor and powerless in the absence of institutionalized channel of representation? Furthermore, why would the state, instead of using cash benefits, make long-term commitment to compensating the poor through institutionalized measures that would tie their own hands?

In this study, I will examine the institutional origin and change of China’s social assistance programs in order to understand the nature of the Chinese state in dealing with its economy and society in a context of globalization. In revealing the mechanism of institutional origin and change of the social assistance program, I will offer a theoretical model that focuses on the interaction of global and local dynamics, through which the government is induced to utilize institutional instruments to protect the poorest social sectors.

Specifically, I argue that economic integration produces an equalization effect on the wage differentials and risk perceptions among different sectors and social groups. As wage and risk gaps are narrowed, the demands for welfare protection across different sectors as well as their ability to exert political pressures on the ruler become increasingly similar, which induce the ruler to listen to the demand of every social sector. I suggest that this is a structural condition introduced by globalization that has produced a world-wide welfare transformation that, as Economist (2012) aptly claims, even turns the East Asian tigers into marsupial. Precisely because of the authoritarian nature of the regime that tends to offer lip service to the sectors
outside of its core constituency, the political elites are particularly motivated to tie their own hands through institutionalizing welfare protection in order to ensure that an effective welfare system can supplement their effort of building a competitive economy. On the other hand, the enabling effect of economic integration performs better in countries where the specific local conditions make political leaders particularly vulnerable and therefore more motivated to expand their political base through institutionalized protection. In short, the genuine commitment to protecting popular sectors through well functioning institutions must be understood by examining the interaction of global and local dynamics: the regime vulnerability makes a competitive economy critical for a ruler’s political survival; global competition and integration, on the other hand, makes it impossible to ignore any sector in order to survive economic competition.

II. Theoretical Debates and Evidence

To understand China’s welfare transition, it is imperative to place China into a broader context of the developing world. Yet, the literature of welfare state is built upon the experiences of western developed countries and faces serious problems of concept traveling. As the result, the theories have tremendous difficulties understanding the dynamics underpinning the welfare transformation in the LDCs.

Three theories dominate the discussion of the welfare state in a globalization setting, which has produced two well-known hypotheses that are against each other—the efficiency vs. compensation hypotheses. The efficiency theory argues that welfare state systems are inherently inefficient and uncompetitive against market forces due to their redistributive nature. Globalization is detrimental to the welfare state because competition for export markets and for “footloose capital” exerts downward pressure on labor costs, wages, payroll taxes, and import and export taxes, which reduces the basis for traditional social security contributions. (e.g., Zodrow and Mierszkowski 1986; Wildasin 1988), A great deal of speculation has been derived from this assumption, and ultimately led to the popular “race to the bottom” prophecy (Greider 1997; Amin 1997) that predicts the reduction of welfare protection and the erosion of social agenda as the result of globalization.
The efficiency argument is countered by the compensation hypothesis, which has two variants. The first one is what I call the “power-based compensation” theory, which emphasizes the mediating role of electoral institutions between international economic pressures and domestic political outcomes (Garrett 1998; Garrett & Lange, 1995). Influenced by the power resource theory (Esping-Anderson 1990), these scholars argue that the key determinant of welfare expansion is the strength of leftist parties and unions that are critical in ensuring labor-market institutions to be effective in negotiating between government and labor. When labor markets are highly centralized and well developed, labor and government can effectively coordinate economic performance with redistribution policies. On the other hand, when labor organizations are weak and decentralized, the level of compensation tends to be low. In this model, globalization plays, at most, a secondary role and its impact is often conditional on domestic political institutional configuration.

The second variation of the compensation hypothesis is what I call the “trade-based compensation” theory, which emphasizes the compatibility, and indeed the benefits, of welfare compensation with international economic integration. In this view, welfare states are not simply inefficient and redistributive but rather play important roles as social insurance against the market volatility generated by openness. The risks associated with international markets call for the intervention of governments in order to cushion the impact of globalization, which incurs risks that are primarily concentrated on certain sectors such as those exposed to trade. According to this model, higher unemployment and lower real wages during economic downturns force governments to increase welfare expenditures in order to prevent the escalation of discontent over increasing poverty and declining standards of living (Rodrik 1997, 1998; also see Cameron 1978; Ruggie 1982; Hays, Ehrlich, and Peinhardt 2002; Boix 2002). The result is a “race to the top” of welfare compensation induced by globalization.

In the context of developing countries, the three models collectively suggest a pessimistic future of welfare development. Whereas the efficiency model attributes the “race to the
neoliberal bottom” to the enormous fiscal constraints these countries face (Garrett 2001; Kaufman and Segura-Ulbi ergo 2001) and their lack of the luxury of borrowing on capital markets (Wibbel 2006), the power-based compensation theory believes that the left-labor movement in developing countries is too weak to fight against capitalists, either due to low skill endowments and the high level of labor surplus (Rudra 2002) or the underdevelopment of democratic institutions that further aggravates collective action problems among workers (Wibbel and Arce 2003). In the trade-based compensation model, the direct link between trade exposure and welfare compensation seems fragile given the serious fiscal constraints in these countries. In addition, as many authors have suggested, this model remains to be a black box in specifying the mechanism linking trade exposure and welfare compensation and therefore fails to explain why many developing countries are unable to provide such institutions even though their trade exposure is strong (Mares 2005; Huber and Stephens 2001; Adsera and Boix 2002).

In China’s context, social assistance, as a nascent program, has not yet drawn sufficient academic attention. In a limited number of studies, the focus is primarily on the problems and obstacles of the system rather than on the analysis of institutional origin and change. Underpinning these studies is the assumption that social assistance programs that aim to help the poor are not compatible with the authoritarian nature of the Chinese state. The focal point here is the urban-rural divide that has been characteristic to China’s structural problems. This divide has two consequences on the establishment of social assistance: one is the deep-seated ideological bias against rural residents that are mostly in need of social assistance (Guan & Huang, 2006; Zhang, 2009b); second is the lack of assistance resources or funding for rural areas that can be the outcome of both fiscal constraints and political bias (Cairang, 2001; Han, 2005; Hong, 2004). Together, these arguments well echo the theoretical debates of the three models mentioned above and suggest a gloomy future.

However, a quick glance at the data of China’s government spending on social welfare suggests that a simplified prediction is not warranted. China’s welfare development is neither a race to the bottom nor a race to the top. In the following figure, the government spending on
Social welfare is nothing but linear. The data are broken down into two categories: social assistance and on traditional pensions. The former targets the urban and rural poor and the later is to compensate the employees in the formal sectors. Prior to the late 1980s, the spending on the two categories moves in different directions. Since the late 1980s, while both spending is moving up, the social assistance spending is much faster than the spending on pensions. If the government spending can be taken as an indicator of government’s responses to different social sectors, the changing distribution of government spending as shown in the figure is suggestive but the current theoretic models do not seem adequate to offer a convincing explanation.

Figure 1. Government Spending on Social Welfare (% of Government Expenditures): 1978-2012

Note: The spending on GDP generates a similar trend. The data are not provided.

Data Source: China Statistics Yearbooks, various years; Civic Affairs Statistics yearbooks, various years.

The central problem in the current literature, particularly the pessimistic view about the future of the welfare state in China as well as the developing world, is that existing theories
mischaracterize the functions of the welfare state in a globalized economy and misunderstand the nature of economic integration. Both the efficiency model and the “power-based compensation” model incorrectly assume that welfare states are redistributive and anti-market in nature, while globalization is a menace to the poor. In a globalized world, therefore, welfare state does not seem to be able to survive. The trade-based compensation model, though correctly emphasizing the pressure of competition that is inductive for welfare expansion, fails to stress the complexity of this process and explain the mechanism of welfare change in the context of the developing world. The inadequacy of the existing theories therefore calls for new explanations of welfare change in the developing world.

III. Endogenous Protection Theory and East Asian Welfare Change

1. Globalization’s Equalization Effect
The globalization-welfare is a complicated one and globalization’s impact on welfare state, particularly in the developing world, is multifaceted, as shown in China’s case. To explain the different impacts of globalization on government spending, the starting point is the basic logic of “factor price equalization” theorem in the Heckscher-Ohlin-Samuelson model (Stolper and Samuelson, 1941; Feenstra, 2003: 31–63), which posits that trade openness helps reduce the price of factors, such as labor and skill endowed in different economies. In developing countries, since unskilled labor is abundant and the demand for them increases, their wages increase as well due to its comparative advantage compared to the skilled labor. Since social insurance is meant to compensate those who have the most stakes to lose and are more willing to pay for the premium, the link between skills and risks (Iversen and Soskice 2001) suggests that trade openness narrows the risk gap among workers with different skills and, as a result, equalizes the demand for welfare protection.

At the same time globalization changes the preferences of social groups with regards to state protection, it also promotes governments to adjust the welfare system at the supply side. Governments now have fewer incentives to maintain traditional welfare benefits. The fiscal discipline imposed by market competition makes generous benefits enjoyed by the
high-waged workers increasingly unbearable for governments. On the other hand, along with
the retrenchment pressures on traditional welfare programs, global competition and the
concern for long-term development also induce governments to expand social safety net
programs such as minimum wage guarantees, social assistance, health care, poverty relief,
among other programs that previously were downplayed in most developing countries but
have become increasingly important for countries to improve human capital infrastructure
and maintain a robust economy. In doing so, states are remodeling their role from “welfare
state” to “competition state,” in which, welfare effort is refocused toward a more
Schumpeterian “competitor” or “work-fare” state (Jessop, 1993; Cerney, 1995; Zysman, 1996).

2. Endogenous Model of Political Support

The above argument, however, is not straightforward to the existing literature that, in
understanding political function of compensation, tends to assume that politicians rely on a
fixed coalition to make welfare policies that exclude other groups from protection.
Underlying this approach is the assumption of labor homogeneity, which sees labor as an
anonymous commodity that can be aggregated into a single, undifferentiated factor (Iversen
2005). In both the power-based compensation model and the efficiency model, a zero-sum
game plays out between labor unions and capitalists. In the trade-based compensation model,
it is exporters and mobile factors against the import-competitors and non-mobile sectors. In
reality, however, we often observe that politicians compensate certain social groups, for
example, losers of trade openness, who are excluded from their coalition (Pahre 2008). This
puzzle is solved in the endogenous protection literature (Stigler 1971; Hillman 1982; Becker
1983; Grossman and Helpmann 1994), which suggests that public policies are often the
outcomes of politicians’ balancing of contending interests against one another.

More specifically, an endogenous protection model, in contrast, suggests that politicians, in
response to global economic pressures, weigh the marginal support between social groups
with conflict interests in order to maximize social welfare and political support (Grossman
and Helpman 1994) They compensate social groups only partially, reducing the harm to any
one group by spreading it around (Pahre 2008. Also see Hiscox 2001). The difference
between this endogenous political support model and the conventional coalition model can be illustrated in Figure 2, in a simplified style. Assume that a society consists of two major social groups – Left, indicating labor and low-skilled workers, and Right, indicating capital and high-skilled workers. In the coalition model, politicians who seek to maintain its political power look for the most powerful political coalition – either pro-Left or pro-Right – as their political base. As a result, politicians will make policies that fully compensate this coalition at the expense of another, which moves the policy outcome further away from the equilibrium compensation point, denoted as C’, where political support can be maximized. In the endogenous protection model, by contrast, politicians compensate partially each social group, but compensate more groups. The outcome is the policy that moves toward the equilibrium compensation policy point C’.

**Figure 2. Political Function of Compensation: Coalition Model vs. Endogenous Model**

![Diagram showing the political function of compensation between the coalition model and the endogenous protection model.](image)

Globalization’s equalization effect can perfectly apply to the supply side of compensation and reinforce politicians’ tendency of partially compensating social groups in a competitive economy. In developing countries’ particular context, the previous compensation model that is characterized by generous and skewed distribution in favor of a narrow range of beneficiaries, skilled workers in urban formal sectors (Mallet 1970; Mesa-Lago 1978; Wibbels and Alquist 2008), which held a strategic position in political coalition for
industrialization and political support (Little et al. 1970; Bates 1982), becomes increasingly unsustainable. Both the fiscal discipline imposed by market competition and the cost of restrictive labor laws employed by the previous system that hinders labor market flexibility and job creation make it increasingly difficult to defend the old coalition.

The result is that trade openness and market competition, in narrowing down the wage and risk gaps among different sectors, also equalize political support among various social groups. The previously marginalized groups, such as rural workers, women, urban workers in informal sectors, and those under the poverty line, become increasingly important for the healthiness of an integrated economy and for the long-term development. Governments have become increasingly aware that leaving any major social groups behind will backfire on their nation’s economic survival in international markets as well as their own political survival as well. Therefore it becomes critical to spread risks around among different social groups. To do so it is necessary to diversify protection programs in order to meet the demand from a diversified economy.

Thanks to this enabling effect, globalization, rather than producing a “race to the bottom,” creates more of a “move to the middle” in which governments pursue a moderate level of spending that nevertheless is broad, equal, and balanced in welfare distribution. In many developing contexts, this process can be volatile and may be hindered by various factors. But in a new environment where both economic pressures and the cost of political repression increase, the mechanism of maintaining political support is essentially similar for any regime that faces a shift, or more precisely, an expansion, of the “core constituencies.”

3. Local Dynamics of Institutional Change in East Asia and China

The caveat of the arguments developed so far, however, is that they provide a structural explanation of the trend underpinning the welfare transformation across the developing world but are not adequate to explain the variations among countries. Why politicians in certain countries are more motivated for this move to the middle and willing to restructuring their welfare system than others requires further explanation. Despite that the endogenous model makes it as if the change is inevitable, a balanced welfare distribution with moderate level of
spending seems to be an elusive task to most governments, which either fight for the status quo and refuse to expand welfare coverage or expand welfare benefits to the point that the economy may get overburdened.

In this regard, China and its East Asian neighbors stand out in the developing world in responding to the equalization force introduced by globalization. This is not to say that the welfare systems in these countries are superior to others in any sense. Quantitatively speaking, governments in this region still take a quite low level of financial responsibility for welfare protection in comparison. What is noticeable about these countries, however, is their willingness and capacity to steer their welfare transformation following what globalization dictates. In the past decades, these countries’ impressive economic growth has been labeled as “inclusive” or “shared” one, a key factor to explain the sustainability and robustness of these economies (Campos and Root, 1996; Cook, 1996; Kwon, 2009). Today, these countries are active in searching for a sustainable and robust welfare system that aims to reinforce the inclusiveness of their economy and they seem, again, capable of doing so. That leaves one to wonder about the local dynamics of welfare transformation in this region and what lessons, if any, these countries can offer to the rest of the developing world.

East Asian countries have been known for responding to globalization swiftly using robust and capable policies and institutions. Among the numerous studies in this regard, one particular theory stands out to be important and pertinent to this study. This theory argues that the robust institutions that distinguish these countries from most other non-western countries are rooted in the peculiar geopolitical and economic constraints on the rulers. Specifically, the rulers of these countries face severe security threats from either inside due to, for example, overpopulation or from outside, or both. The strong sense of insecurity presses the rulers to resort to strong institutions to promote economic growth that would generate revenues to finance their national defense and placate a restive population through side payments.

The accumulation of this line of literature is the “systemic vulnerability” model developed by Doner and his colleagues’ (Doner et. al. 2005) who argue that in explaining the organizational complexes underpinning the East Asian developmental states, the conventional wisdom’s
emphasis on “state autonomy” against the resistance from powerful social groups in making sound policies and implementing them is problematic in that it fails to specify the constraints on elite preferences and therefore fails to explain what make it difficult for politicians to preserve power through clientelist connections to the private sector alone and what encourages them to build new institutions for economic transformation.

To address this problem, the literature of elite constraints argues that the most important constraint on politicians in East Asian developmental states is their strong sense of insecurity from both within and outside of their national border. The insecurity presses politicians to build a broad coalition and emphasize the provision of broad collective goods rather than channeling largesse to key constituencies. Three factors are commonly considered to be important in producing insecurity for political elites: 1) severe external security threats that consume the substantial amount of revenues; 2) overpopulation that demands for a broad coalition; 3) the lack of natural resources for easy cash to buy off popular sectors. While the previous studies along this line of thinking tend to emphasize these factors in a disjointed manner, Doner et al. (2005) argue that many countries outside of this region face one or two of these threats as well but have failed to achieve the same level of economic growth. Most importantly, Doner et al. (2005) are particularly concerned with the exceptional capacity among the East Asian developmental states of upgrading their institutions overtime when the situation changes—such as moving up along the ladder of comparative advantage from labor intensive manufacturing to value-added one—and further institutional development is needed for this purpose.

Doner et al. (2005) argue that the upgrading capacity comes from the simultaneous interplay of three separate constraints which is powerful enough—making it both a necessary and sufficient condition—for not only the origin of developmental states but also for their capacity of institutional upgrading. As evidence, they cite Southeast countries including Phillippines, Thailand, Malaysia, and Indonesia as “intermediate states” (Evens 1995) that are capable of building institutions for economic development but not of upgrading them when needed. The reason is that at least one of the three sources of insecurity is missing in these
countries, which gives political elites opportunities to avoid hard development strategies through upgrading.

The logic of “systemic vulnerability” that underpins economic institutional development, I argue, can apply to the welfare institutional development, but requires certain modifications. However, although powerful in explaining political elites’ motivation for economic growth, the model is static in nature when taking geopolitical factors as the sole explanatory variables to explain welfare change in these countries, for which, the “move to the middle” is a recent phenomenon. The model suggests that welfare benefits are nothing more than side payments—in authors’ own language—that serve to buy off the popular sector. If that is indeed the case, welfare institutionalization and the quality of the institutions do not seem to be a major concern for politicians, as long as economic growth generates enough revenues for side payments.

As a result, the model is disconnected from the global dynamics introduced by economic integration that is critical for understanding welfare change. The remedy to these problems, I argue, is to incorporate this model into the endogenous protection model and to allow the global and local dynamics to interact in order to explain national variations. Geopolitical constraints provide exceptionally strong motivations from within to press political leaders to take a hard approach to deal with economic growth as well as related social issues in order to achieve the goal of wealth-sharing growth. Without local dynamics, the external pressures introduced by from globalization may not be sufficient to reach the full effect. Politicians would be much less likely to make full commitment to institutional upgrading and complementarity when needed. Instead they may resort to any resources available such as easy cash from their natural resources to delay the process. Scholars have long been aware that the speed of policy adjustment is consequential for macroeconomic management, which, in turn, may affect future policies, thus producing a path-dependency effect (Haggard et al. 1995). The extent to which governments are able to move to the middle in the welfare front in a timely manner in response to structural changes in the economic domain, therefore, is significantly contingent upon geopolitical constraints politicians face.
Global dynamics associated with economic integration, I argue, add an additional layer of uncertainty and vulnerability on governments and press them to adjust their policies and institutions constantly, in the exactly the same way the systemic vulnerability model specifies. Global dynamics, however, do not simply produce vulnerability. They also provide opportunities for governments to overcome the vulnerability by exploring international markets. This, in fact, is precisely what departs East Asian developmental states from most other developing countries since the 1960s. The process of institutional upgrading in East Asian NICs has been a process of these countries’ economic integration. A closer look at the change of these countries’ industrial structure suggests that moving up from low-skilled to high-skilled manufacturing around 1970s and later on to high-tech and financial sectors in the 1990s were intimately associated with these countries’ economic integration from cautious, protectionist measures of the early stage to full integration in the 1990s, particularly after the 1997 Asian financial crisis.

To sum, East Asian countries’ remarkable institutional development in the past decades cannot be simply the outcome of their geopolitical constraints. It is economic integration that has set up a framework in which peculiar local dynamics in this region exert their influence on these countries’ institutional development and made institutional complementarity between economic and welfare ones indispensable in this process that would otherwise be impossible to happen in an authoritarian regime that is not known for wanting to make a long-term commitment through institutions.

The implications of the emphasis on the interaction of local and global dynamics are two-folded. First, the revised endogenous model is a dynamic one. It helps explain why NICs in East Asia were able to change their fate after the 1960s but not earlier and why their major institutional upgrading took place in a few particular historical movements, even though their geopolitical features have remained to be a constant. Second, East Asian countries’ experiences, though remarkable, are not exceptional to the rest of the world. East Asian countries’ specific geopolitical features may be particularly inductive to institutional upgrading. The global dynamics, however, are universal and other countries can take
advantage of economic integration to find their own path to prosperity. The process may be longer than that in East Asia and the outcome may be less exciting when the three sources of vulnerability are not present simultaneously. But the opportunities are there for everyone that is willing to integrate. Sporadic successes have occurred in countries throughout the world with or without similar geopolitical constraints—Chile, Rwanda, Botswana, to name a few. The recent welfare transformation in many developing countries such as Southeast Asia and Latin America, which have traditionally been labeled as “intermediate states,” suggests that a move to the middle is taking place in a much larger scope today as globalization becomes intensified, even though the pace and magnitude of change varies across countries.

It is under such a background China’s welfare transformation can be better understood. China shares similar geopolitical dynamics with its East Asian neighbors. Its national peculiarities certainly will produce specific institutional arrangement and different trajectories of development from its East Asian neighbors. Yet, again, local peculiarities cannot resist the force of globalization and they exert their influence only within the confine of global environment.

IV. Institutionalization of Social Assistance in China

The welfare system in the post-Mao China has undergone significant changes in the past decades and the transformation is closely associated with China’s integration into the world economy (Shou, 2013). Welfare restructuring in China has been characterized by both the expansion of traditional welfare benefits—particularly social security and health care—to and the creation of the new social assistance programs for the urban and rural poor. In this study, I will focus on social assistance programs and, through this case, examine the interaction of global and local dynamics that induces welfare institutional change. In what follows, I will break down the process of institutionalization into four phases: 1. from 1993 to 1997; 2. from 1997 to 2003; 3. from 2003 to 2007; 4. since 2007.

1. 1993-1997: Local Experiments of Urban Social Assistance Reform

Along with more than a decade of economic reforms that successfully transformed the rural
economy, China’s urban economic reform remained slow. The key obstacle was the state-owned enterprises (SOEs) that were embedded into the hierarchical state bureaucracy. SOEs functioned as a proxy of welfare state to their employees with generous welfare benefits and rigid labor protection, which seriously hindered the competition of SOEs. The model was proved unsustainable as illustrated by the economic difficulties experienced by the urban residents in the late 1980s, which, in part, fueled the anger that eventually led to Tiananmen protest in 1989 and contributed to the clash between reformers and conservative forces in dealing with it. In spite of the cold political climate in the following years, coastal provinces continued to push their door open to foreign trade and investment and their economies continued to boom. The breakthrough came in 1992 after Deng Xiaoping toured Southern China and called for further reform and openness. As a result, the year of 1993 witnessed a series of economic reforms. As the figure below illustrates, China’s trade openness level increased significantly and steadily after 1992. But the most important feature of China’s openness is its inflow of foreign direct investment (FDI). FDI volume jumped from $35 million in 1991 to to $110 million, a growth rate of 152%. In 1993, the volume further increased to $275 million, making China the second largest FDI recipient country next to the United States.

**Figure 3. Trade Openness and FDI in China: 1978-2013**

![Graph showing trade openness and FDI in China](image)

*Note: Trade openness is measured by trade volume (the sum of imports and exports) as a share of GDP.*
Along with the inflow of FDI was the domestic economic restructuring, with the key component being the separation of government functions from enterprise management. To compete with the private sector in attracting FDI, SOEs must end their over-protected labor system and generous welfare benefits. Once the separation of state functions and enterprise management took place and firm managers were given autonomy to hire and fire their employees, the year of 1993 quickly witnessed a surge of so-called layoff workers from the urban formal sectors. These individuals kept their formal ties with their firms and might still enjoy certain allowances but their living conditions dramatically deteriorated after the previous welfare benefits were significantly cut. Urban poverty and instability became a new challenge to the government.

Prior to the reform, China operated a limited relief program (shehui jiuji) for the very poor. The coverage was very narrow, requirements were rigid, and benefits were thin. For example, in China’s urban areas, beneficiaries of the program included mainly disabled veterans and those commonly referred to as “three nos” - no working capacity, no stable income, no relatives or supporters. In rural areas, the beneficiaries were “five guaranteed households,” including the aged “three nos,” the disabled, and orphans. In 1992, only 190,000 urban people, or 0.06% of the urban population, received relief fund of 87.4 million yuan, and the per capita benefit was only 38 yuan per month (Tang et al., 2003, cited from Leung, 2006), about 25% of the average income per capita in urban areas (Wang Weiping, 2007: 140). In the rural area, the number of the individuals receiving the fund of “five guaranteed households” in 1993 was three million, 0.35% of rural population (Li and Jiang, 1996: 166. Cited from Zhang, 2010:46).

Most importantly, the relief programs were not institutionalized but instead characterized by arbitrariness and uncertainty. For instance, the benefits were handed out in a temporary basis, often taking place during holidays. In addition, the management of the relief programs was
highly decentralized. Local governments determined the level of benefits and the administrative units that handled the fund were grassroots governments such as township governments in rural areas and neighborhood committees in urban areas. The criteria for the eligibility of beneficiaries were determined to a very large extent by the grassroots officials who handed out the fund. The finance of the relief fund was also decentralized, primarily shouldered by local governments or rural collectives.

The reform called for restructuring of the program that would be able to handle the demand from a rapidly swollen population of the poor. Because of the decentralized nature of the previous relief program, the pressure was particularly acute to the local governments who were responsible for taking care of this group of individuals. It is, therefore, not surprising that the most economically advanced and open government, Shanghai, took the lead in local experiment. From the late 1992, the Shanghai government began discussing the strategy of dealing with the problem of urban poverty. A series of discussions and policies eventually led to the establishment of minimum subsistence support line for urban residents, effective from June 1993 (Cairang, 2001:98-99). A few months later, another coastal city, Xiaomen, Fujian, took the similar measure. These local initiatives quickly drew attention from the Ministry of Civil Affairs (MCA), which was responsible for the relief program. Concerned about the feasibility of promoting a nationwide program, the ministry took a cautious approach and decided in 1994 to conduct a pilot program in multiple cities. By the end of 1996, the minimum living standard guarantee program (MLSG), taking in various forms across regions, was established in 90 cities across 21 out of 30 provincial units. At the same time, some provinces also conducted experiments of rural social assistance program. By 1996, 256 country-level governments conducted the experiment (Zhang, 2010: 62).

A quick look at the regional distribution of the program suggests that the establishment of the program was determined by two factors: one is economic openness of the cities, and another the pressures of economic restructuring. Most of the 90 cities that established the program by 1996 are either in the coastal area where economies were the most advanced and open or in the central China or Northeast China that hosted China’s traditional heavy industries. They
commonly faced severe pressures of restructuring their traditional heavy industries that had been burdened by redundant workers and they found it impossible to utilize the traditional provisional relief programs to deal increasingly larger number of laid-off workers and individuals under poverty line. Instead, it became critical to establish a new institution to deal with this social problem. By contrast, most of the 9 cities--except Tianjing--that had not established the program by 1996 were from the western region that had much lower level of exposure to economic integration and therefore the pressure of restructuring (Zhang, 2010:61).

2. 1997-2003: Institutionalization of Urban Social Assistance Program

By 1997, the reform of SOEs that started in 1994 proved unsuccessful, as majority of SOEs continued running in red. In September 1997, the communist party in its 15th national congress meeting announced to adjust and improve the ownership structure and explore the multiple forms of public ownership. A comprehensive reform was launched and privatization of SOEs swept the country. The laid-off workers surged from 1997. Urban poverty became increasingly challenging, calling for further reform of social policies. The broader context of this round of reform, however, was the Asian financial crisis that started from June, 1997, a few months prior to the congress meeting. The financial crisis not only added the hardship on Chinese economy, as FDI and export volume were reduced (see Figure 3), but also fundamentally changed the government’s understanding of its previous development strategies and its perception of the previously widely appraised developmental growth model of its East Asian neighbors (Wu Xiaobo, 2008:95). The government realized that comprehensive reforms must take place across the board and institutional complementarity is necessary for the success. The crisis particularly underscored the need for more institutionalized social assistance policies and programs for people facing the risk of unemployment and poverty (Oritz, 2000, 2002). As the result, along with the SOEs, many other areas such as finance, rural economy, and social policies, including social security, public health, and education, now were included in the reform package (Wang, 2007).

Furthermore, the Asian financial crisis produced additional dynamics on China’s reform at
the ideological level. Prior to the crisis, the conservative force ferociously criticized the privatization as a threat to the socialist public ownership. Since 2005, their attacks had gained the momentum and created a chilly atmosphere that deterred many local governments from initiating reformist policies. The reformist force launched their own defense in 1997 and was supported by the central leaders, which, overwhelmed by the sense of crisis associated with SOEs, saw no other option in dealing with the disaster (Ma Licheng, 2008). However, it must be noted that the Asian financial crisis provided the additional dynamics to help the reformists to survive the attacks from the conservatives.

Within this context, the social assistance program was accelerated in 1997. The number of laid-off workers from formal sectors doubled in 1997 compared to the 1995 number. The situation helped the social assistance program to gain further attention. In the annual meeting of national congress, March 1997, establishing the minimum living standard guarantee program in urban areas became a key component of the 9th five-year plan. Nationwide implementation started. In early September 1997, a few days before the 15th national congress of the communist party began, the state council issued a circulation (no.29) that stipulated that all cities and counties in the nation to establish MLSG by the end of 1999, which was achieved by September 1999.

The system, however, had obvious flaws. Its decentralized and fragmented nature and the lack of financial support from the central government made the standards of coverage highly uneven across regions and difficult to implement. It is estimated that only about one fifth, or fewer, of the individuals under poverty line were actually covered by the program at the end of 1999 (Tang Jun, 2003:119), and the benefit level tended to be too low to help the recipient to make ends meet, and regional disparity was severe (Leung 2006).

The continued pressures eventually forced the central government to take a more active role in the system. The breakthrough came in September 1999, when the State Council issued “The Regulation of Minimum Living Standard Guarantee System for Urban Residents,” which marked the threshold of institutionalization of China’s social assistance program. The regulation made two significant improvements. First is to standardize the criteria and “cover
everyone in need [yingbao jingbao].” The second is to increase the subsidies from the central
government in order to reduce the burden on local governments.

Within the four months between the issue of Regulation and the end of the year of 1999, the
central government transferred 0.4 billion yuan to local governments, which also increased
their contribution. As a result, the total expenditure on the program reached to 2 billion,
increasing by 66.6% from 1998. By the end of 2000, the central government’s transfer
doubled to 0.8 billion, and the total expenditure on the program increased by 35% annually.
The coverage increased significantly as well. By 2000, the number of recipient was 4 millions,
compared to 1.84 millions in 1998.

Despite these progresses, the central government’s financial commitment was still far from
sufficient. The financial burdens jeopardized local governments’ incentives to implement the
policy. The goal of “covering everyone in need” was still not fulfilled, leaving a significant
amount of individuals without assistance. From 2001, the central government strengthened
the effort of implementation. First, local governments now were required to set up their
regulations and policies. By the end of 2003, all provincial units except Jilin, Shanxi, and
Guanxi had set up detailed regulations. Second, the central government drastically increased
its financial responsibility, as shown in the figure below. Compared to the meager 0.4 and 0.8
billion in 1999 and 2000, the central government’s subsidies increased to 2.3 billion in 2001,
an increase by 187%. Its share in total expenditure increased dramatically too. In 2002, the
central government’s subsidies first time took more than half of the total expenditure. By
2003, the share exceeded 60%. The increase of the central government’s financial
commitment encouraged local governments, particularly the provincial governments, to
increase their effort as well, which significantly reduced the burden that previously was
primarily on the lower level of governments, particularly county governments.

Geographically speaking, the distribution of the subsidies of the central government leaned
heavily toward the less developed areas where the need for assistance was the greatest and
the financial capacity of local governments was the weakest, such as the old rust belt in the
northeast and central areas, and the poorer regions in the west. From 2001 to 2003, five
coastal provinces including Beijing, Shanghai, Jiangsu, Zhejiang, and Guangdong, did not receive any subsidies.

Partly due to the improved financial situation, local governments increased the number of personnel and facilities of the social assistance program at various levels of governments. The mechanism of supervision and monitoring was also improved. At a broader level, the social assistance program and the concept of social safety net gained strong attention from media and scholars, producing a positive atmosphere to promote the implementation of the program. Various social organizations, domestic and international alike, began participating in the effort (Zhang, 2010: 112).

**Figure 4. The Expenditures on Social Assistance: 1999-2003 (100 million yuan)**

Data source: *Civil Affairs Statistics*, various years.

The result is impressive. In 2001, the number of the recipient increased drastically to 11.7 million, compared to 2.66 million in 1999 and 4.03 million in 2000. In June 2002, the number further grew to 19.3 million, promoting the Ministry of Civil Affairs to claim that the goal of “covering everyone in need” had been met. By the end of 2002, however, the number was further increased to 20.65 million, and again to 22.5 million by the end of 2003. Since then,
the number has remained stable around 22 million.

3. 2004-2006: Overcoming the Urban-Rural Divide

The progress, however, was far significant than the number of recipient and the amount of cash received by the poor. The more significant part of the reform was the establishment of a comprehensive system of social assistance so that the individuals receiving MLSG can also be assisted in various other areas such as employment, housing, health care, education, and transportation. Along the process of institutionalizing MLSG, the targeted assistance programs were under discussion and experimented in many locations. In 2004, the Ministry of Civil Affairs proposed the overarching goal of social assistance system by 2010: to establish a nationwide social assistance system with MLSG and disaster relief as the foundation and targeted programs as the supplement. In doing so, however, the challenge would be far greater than establishing MLSG alone for it requires not just money but also the concerted effort of various government branches at various levels as well as the determination of the central government to make it happen. In the next a few years, the Ministry of Civil Affairs issued a number of regulations, some of which co-issued with other ministries such as Finance, Construction, Health, and labor and Social Security. This suggests that the central government was fully committed in the system.

In addition to the consolidation of urban assistance programs, another significant progress since 2004 is the extension of social assistance program to the rural residents. Until 2004, the development of MLSG in rural areas had been slow, even though between 1993 and 1996, rural MLSG enjoyed relatively equal attention from the Ministry of Civil Affairs and many local governments. For example, the Ministry of Civil Affairs proposed in a 1996 conference to reform rural relief program and explore the rural MLSG program, and demanded the economically advanced regions to conduct pilot program in order to accumulate experiences. At the local level, many governments began their experiments. By the end of 1997, 997 county-level governments established rural MLSG program. The most noticeable were Shanghai and Guangdong, which established an integrated system of MLSG that simultaneously covered rural and urban residents, a practice that was only adapted
nationwide a decade later.

From 1998, however, the MLSG effort in rural areas was halted when the effort was primarily given to the urban MLSG in response to the surging number of urban laid-off workers. The daunting task distracted much attention and energy from the Ministry of Civil Affairs and the central government. Without the push and financial commitment from above, the local governments run out of steam. In fact, rural MLSG was even abandoned in some areas. For instance, between 1999 and 2000, the number of counties in Shangxi that had previously established the program dropped from 87 to 67, with the number of recipients decreasing from 54 thousand to 50 thousand and investment from 11.58 million to 10 million (Wang and Si, 2007). Nationwide, the same declining trend occurred in terms of the number of counties and recipients, even though the investment continued to increase in a moderate level (Zhang, 2010:122). The sequence of reform seems important in the process. Once the urban MLSG was in place and consolidated in 2003, the government began to refocus on rural MLSG from the late 2004.

The challenge in building rural MLSG, however, was more complicated than the distraction from urban MLSG. Up to the fall 2004, the central government insisted that most rural areas did not have the capacity to build MLSG due to the financial difficulties. However, the same concern of financial constraint had always been a focal point in the debate over urban MLSG throughout the entire process but eventually did not hinder the reform. The sheer size of the rural poor certainly made the government more reluctant to implement the program in rural areas than in the urban areas. But that concern does not explain the enthusiasm of both the Ministry of Civil Affairs and some local governments in experimenting rural MLSG prior to 1997. The fundamental reason to explain the slow process of institutionalization of rural MLSG was the deep-seated bias in the previous development strategy against agriculture and rural residents, which, in the past decades, were excluded from the state protection but instead entirely relied on rural collectives to finance the relief funds. The urgency of building rural MLSG was therefore not great enough for the government to take it seriously prior to 2004. The effort thus could be easily distracted by the urgency of building urban MLSG.
The biases against agriculture and rural residents, however, began to change around the early 2000s when rural problems became overwhelming. Along with the decay of rural governance, rural infrastructure was severely outdated and damaged, and social conflicts followed (Shou, 2015; Bernstein and Lu, 2003; Unger, 2002). The slow income growth in rural areas led to the skyrocketed urban-rural income gap. In 2005, the gap for disposable income was 3.22:1, compared to 1.74:1 in 1974, an 85% increase in two decades, according to the data published by the national statistics bureau. Along with the rising income gap were a series of problems facing the future prosperity: slow urbanization, imbalanced economy heavily relying on cheap labor and distorted currency, and, ultimately, the associated vulnerability of the economy to the global market. It became apparent that the growth model embraced by the country in the past two decades, which was built upon the sacrifice of agriculture and rural residents, would be unsustainable. The concept of “Lewis turning point” - later on “middle income trap” -- entered the public discourse after a number of years of rapid growth was expected to slow down soon. The importance of ramping up domestic demand--with agriculture and rural residents being the key component of the new markets--became clear.

In the midst of a sense of crisis and vulnerability, attention was turned to the neighboring East Asian countries for guidance. A widely discussed case was South Korea’s “Saemaeul movement” (New Community or New Village Movement”) that started in 1970s and was believed to eventually help South Korea avoid the middle income trap. The initial step was to reform the rural tax system. In 1998, “reducing peasant burden” was written into government documents. From 2000, the pilot reform was launched. By 2003, the state council decided to make the reform a nationwide effort. In early 2004, the government announced to repeal agricultural taxes all together in five years, which was in fact achieved by the end of 2005.

Within this background, a series of pro-agriculture and pro-rural policies were made around the early 2000s and eventually accumulated to the “New Countryside Construction” scheme that was formally adapted into the 11th five-year plan during the CCP congress meeting in Spring 2005. The key components of the scheme include restructuring agricultural productivity, improving agricultural infrastructure, establishing the New Rural Cooperative
Medical System, and universalizing the nine-year compulsory education system and increasing the educational subsidies to poor families.

The rural MLSG became part of this sweeping package of reform. A series of government documents from 2004 indicated the increasing emphasis on rural social assistance. The society-wide attention was given to the program and a public debate on the feasibility of universal MLSG, which involved not only the domestic experts but also international organizations such as the Asian Development Bank’s Chinese agency, rose between 2004 and 2006, which helped the central government clarify the understanding of the reform. The consensus eventually was formed at the end of 2006, when the government formally announced to implement rural MLSG nationwide from 2007 (Zhang, 2010:136-7; Zheng Bingwen, 2006; Zheng Gongcheng, 2006).

4. Since 2007: Building an Universal and Integrated Social Assistance Program

By summer 2007, after the remaining seven provinces joined the force, all provincial units established their rural MLSG. The number of individuals covered by the program increased by 30% compared to that at the end of 2006 (Li Guoli, 2007). However, the system remained fragmented due to the criteria used by local governments. Regional disparity and low level of benefits remained to be an issue. In some less developed regions, the principle of “covering everyone in need” was still not fully fulfilled. In July 2007, the State Council issued an notification that clarified the criteria for coverage and level of benefits, and demanded the provincial governments to increase their financial responsibility. Since then, the focus has been to narrow the gap between urban and rural MLSG and integrate the two systems into a universal scheme of welfare protection.

In fall 2007, the CCP in its 17th congress meeting announced a comprehensive and integrated social welfare system, with social security, social assistance, and social relief as the foundation, basic pension, medical care, and MLSG as key components, and charity and private insurance as the supplement. From then on, the official language no longer separates “urban” and “rural” in referring to the nationwide social welfare programs. The primary
efforts have been given to improving the quality of rural MLSG in terms of coverage and level of benefits. Assisted by the concerted efforts by the multiple levels of governments in both financial and institutional commitment, the progress has been significant in the following years. Figure 1 has shown the significant increase of social assistance expenditure in a broader sense in both rural and urban areas since 2007. The figure below shows the growing trend of MLSG in urban and rural areas since 2003. The number of recipient of urban MLSG has been stable since the early 2000s at about 22 million, while rural recipients increased significantly from 2007 and reached a stable level of 53 million after 2010. The expenditures on both rural and urban MLSG increased significant after 2007, and the gap was narrowed. By 2009, expenditures on rural MLSG surpassed its urban counterpart.

Figure 5. Recipients (left, 10 thousand) and Expenditures (right, 100 million yuan) of MLSG: 2003-2012

Data source: Civil Affairs Statistics, various years.

The 2008 world financial crisis produced a chilly impact on China’s exporters, which had a strong presence in rural areas. That promoted the central government to further increase its subsidies in rural MLSG. In 2009, the central government’s financial commitment for the first time surpassed that of the local government, jumping from previous year’s 42% of total government subsidies to 63%, helping to further reduce the urban-rural gap (Civil Affairs

Along with MLSG, targeted social assistance programs such as education and medical care have also been institutionalized and consolidated. As evidence, the figure below shows the increase of medical assistance subsidies that started from 2004. Although its share in government expenditures remains to be rather small, the pace of increase, particularly for rural areas after 2008, is impressive.

Figure 6. Medical Assistance Expenditures (100,000 yuan): 2005-2012

Data source: Civil Affairs Statistics, various years.

V. Conclusion

China’s social welfare programs have made significant progress in the past two decades. Two things stand out in this process. First is the extension of the social assistance benefits to the vast majority of the rural poor. And the second is the institutionalization of the program that lays a solid foundation for future improvement and for developing other welfare programs. Given the daunting challenge of the urban-rural divide that has constantly troubled the China’s reform in the past decades, this progress is particularly impressive.
In an authoritarian regime, this progress does not sound straightforward to understand for it is against the nature of authoritarianism to extend the benefits to the poor outside of its core constituencies, particularly given that the sheer size of the rural poor in China is intimidating for any authoritarian ruler to handle. Even though sharing economic benefits with the powerless as a strategy of continually excluding them from power-sharing is not uncommon in authoritarianism (Naughton, 2007), buying-off does not sound an accurate description of the dynamics underpinning China’s newly established social assistance program that is characterized by solid institutions and the government’s strong commitment to the long-term development.

The process of institutional creation and development described in this study has demonstrated that the process was not a smooth one but instead riddled with constant debates if not the all-right resistance. The occasional policy retreat, such as that on rural MLSG from 1997 to 2003, demonstrates that the process can be fragile when formal channel of representation is lacking for the politically powerless poor to defend their interests. Precisely because of the fragility of this process and the relative success in China’s social assistance program, however, we must provide a solid explanation as to what has prevented the Chinese authoritarian ruler from utilizing the clientelist approach to preserve power and what has instead encouraged them to tie their own hands through solid institutions.

This study has offered a theoretical framework to explain the mechanism underpinning the institutionalization of China’s new social assistance system in a changing environment. The analysis has illustrated that the process was intimately associated with China’s integration into the world economy. In every critical juncture of China’s economic transition, such as in 1993, 1997, 2002, and 2008, the institutional change of the social assistance program can be seen as a direct response to the pressures introduced by China’s integration. On the other hand, the response would not have been successful had the politicians lacked strong sense of crisis from and vulnerability to their populace. Only when the pressures from both the global and domestic levels are strong enough simultaneously, would the politicians be willing to pay attention to what their subjects demand for. Ultimately, it has been the interaction of the
competitive pressures from global markets and its vulnerability to its domestic pressures that induced the authoritarian ruler to listen.
References:


Little, Ian. Tibor Scitovsky, and Maurice Scott. 1970. *Industry and trade in some developing...*


Thomas Bernstein and Xiaobo Lu, Taxation without Representation in Contemporary China (Cambridge: Cambridge University Press, 2003);

2005.


Wildasin 1988


