

**Welfare Regionalism in China-A Study of Social Insurance Implementation in  
Wenzhou and Kunshan**

by

**WU Xiao Fang**

**A Thesis Submitted to**

**The Hong Kong Institute of Education**

**in Partial Fulfillment of the Requirement for**

**the Degree of Doctor of Philosophy**

**09/2013**



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## ABSTRACT

Welfare Regionalism in China

— A Study of Social Insurance Implementation in Wenzhou and Kunshan

by WU, Xiao Fang

The Hong Kong Institute of Education

### Abstract

In recent decades, China has experienced the impact of decentralization in its labor welfare implementation which is transforming the country's welfare system. The new welfare regime in China has resulted in a highly fragmented social insurance system. This research is carried out in this particular policy context to explore the rise of welfare regionalism in China, with particular reference to the varieties of social insurance implementations in the coastal areas. To understand this issue, this research is conducted in two parts.

Based on a critical review of existing literature, this research integrates the theoretical approaches of the welfare production regime and the local politics of China to develop an analytical framework for examining welfare



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regionalism in China. In order to identify what institutions have caused the different social insurance implementations in a number of coastal cities, fuzzy-set/qualitative comparative analysis (fs/QCA) is adopted. The findings reveal that local production regimes have trumped central government designs and they have more leverage on social insurance development in China. More specifically, the decentralization policy doesn't follow a progressive social insurance strategy, which is attributed to the industrial regime characterized by the high-tech industry and big-firm dominance. In contrast, with the decentralization policy, it was discovered that a production regime dominated by small privately-owned firms and a general skills profile tend to hinder the expansion of labor insurance.

In addressing how social insurance are implemented at the local level, a case study was conducted, with particular attention given to how different stakeholders interact in shaping the formation and implementation of social insurance schemes in Wenzhou city in Zhejiang province and Kunshan city in Jiangsu province. A booming private economy and long-term collusion between the local business sector and local government have created in Wenzhou a pro-business welfare system, in which there is minimal welfare



provision for the labors. Under this welfare regime, almost all the migrant workers are excluded from labor insurance. In contrast, with a successful industry upgrade, the celebrity effect and state-led development, Kunshan has developed a generous welfare system and one that is more equitable. The findings in this research have demonstrated that regionalism remains an enduring feature of the Chinese welfare regime.

The research results, together with existing theories of varieties of welfare regimes, have given us new insights into analyzing welfare regionalism in China. The implications for welfare regionalism are three-fold. It is a peculiar policy process in China, in which combination of local discretion and central intervention has facilitated welfare formation in China. As a result, a fragmented configuration of social insurance schemes has emerged in China, putting obstacles to the proliferation of a national welfare policy. In addition, this has contributed to the paradigm shift of Chinese welfare regime research from stratification to regionalism. How to achieve a national welfare state under the current fragmented welfare regions in China will be an ongoing and heated debate. (487words)



## ACKNOWLEDGEMENTS

The Mater said, at thirty, I had planted my feet firm upon the ground. This dissertation is especially dedicated to my coming thirty, with a good relationship with God, more time for accompanying my parents, a marriage and a desirable job as a college teacher.

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WU Xiao Fang, Flora

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## LIST OF ABBREVIATION

BHRSS	Bureaus of Human Resources and Social Security
BOF	Bureau of Finance
CCP	Chinese Communist Party
CCPB	Central Committee Political Bureau
CME	Coordinated Market Economies
CPPCC	Chinese People's Political Consultative Conference
CSR	Corporate Social Responsibility
FDI	Foreign Direct Investment
FIEs	Foreign-Invested Enterprises
fs/QCA	fuzzy-set/Qualitative Comparative Analysis
GVIO	Gross Value of Industrial Output
HIU	Healthcare Insurance for Urban Workers
HMW	Healthcare Insurances for Migrant Workers
ILO	International Labor Organization
IT	Information Technology
KATI	Kunshan Association of Taiwanese Investors
LME	Liberal Market Economies



MF	The Ministry of Finance
MOHRSS	Ministry of Human Resources and Social Security
NCCCCP	The 16th National Congress of the Chinese Communist Party
NPC	National People's Congress
NRC	New Rural Cooperative Medical Insurance
OECD	Organization for Economic Cooperation of Development
OEM	Original Equipment Manufacturing
PR	Proportional Representation
PRC	People's Republic of China
PRD	Pearl River Delta
SIB	The Municipal Bureau of Social Insurance
SMD	Single-Member Districts
SMEPA	The Small and Medium Enterprises Promotion Association
SMEs	Small and Medium Enterprises
SOEs	State-owned Enterprises
TVEs	Township and Village Enterprises
VOC	Varieties of Capitalism
YRD	Yangtze River Delta



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## CHAPTER 1

### INTRODUCTION

#### 1.1. Introduction

This chapter introduces the research problem, research objectives and questions, research significance, definition of the key concepts and the structure of the present dissertation. The major objective of this research is to understand why labor insurances being implemented by different coastal cities in China with similar socio-economic status are becoming diverse and varied in offering welfare protection to labors. More specifically, this research attempts to examine how different stakeholders, particularly the local government, local enterprises and workers, interact when developing policies and implementation strategies of social insurance schemes in selected cities in the relatively economically rich and developed coastal areas.

To understand this issue, specific research questions are further formulated, with adoption of fuzzy-set/qualitative comparative analysis (fs/QCA) to discern the



impacted institutions firstly. In order to examine how social insurance regionalism has happened in coastal areas with similar economic status such as Wenzhou city in Zhejiang Province and Kunshan city in Jiangsu Province, this research focuses on the dynamic process of policy implementation.

More specifically, the core question of this research is related to how the fragmented labor insurances have evolved in China. Against the policy context of decentralization, this research argues that local circumstances have more leverage than the plans of the central government in the implementation of social insurance in China. The findings reveal that the booming private economy and collusion between local private entrepreneurs and local enterprises have hindered the expansion of local labor insurances, and thus a pro-business welfare provision regime has been developed. In contrast, the findings also show that high-tech foreign industries and strong capacity of the local government has facilitated the expansion of local labor insurances, and thus a comparably equitable welfare provision system is developed. In this regard, China has evolved different welfare production regimes, which stand for complementary between production system and social insurance system in the present dissertation. The research results have contributed to the paradigm shift of Chinese social insurance research from



stratification to regionalism. The quest to build a national welfare citizenship under the fragmented welfare regions in China has thus constituted an ongoing heated welfare debate.

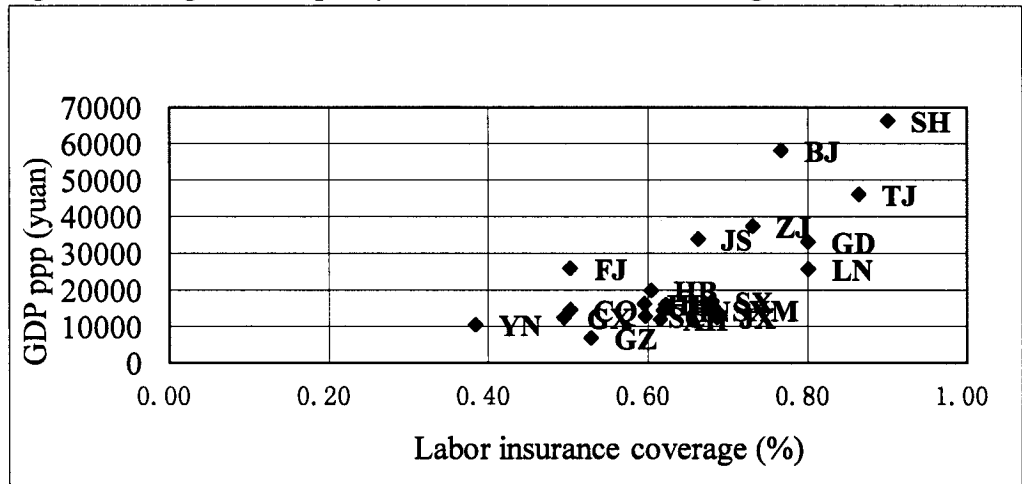
## 1.2. Identification of the Research Problem

The research problem of this dissertation is motivated by the ongoing debate on fragmented labor insurances in China. During the social insurance reform in the past two decades, the evolution of a new welfare regime in China has led to a highly fragmented system. From observation, some local innovations or models have popped up as typical examples and received much publicity, and have helped these schemes gain prominence among the people. For instance, the Dongguan model has created a unified system in which migrant workers and urban workers share the same institution and thus shows no institutional discriminations. The Shenmu model has become a buzz word as a pilot program offering free medical care. Still, urban-rural integration in the social insurance system is realized in the Suzhou Model. These local models show different developments and directions of reforming China's national social insurance system and thus have attracted considerable attention from both scholars and policy makers (Peng & Ngok, 2012).



In addition, from an empirical perspective, emerging localized implementations tend to highlight a noticeable trend of regional inequality in the configuration of Chinese welfare regime. As Figure 1.1 below suggests, there is a wide variation in the different intervals of social insurance coverage offered by different provinces. In such a large country, uneven regional growth has translated into different levels of social insurance development. Social insurance in the more developed regions cover a higher portion of workers than that in the less-developed regions. The deeper observation lies with the fact that, a fragmented welfare regime has emerged in China in which each city and county implements different policies and operates its own social insurance fund. The regional varieties in both the policies and their coverage have encouraged the rise of welfare regionalism in China, with particular reference to the fragmented social insurance schemes among different regions.

Figure 1.1 Regional Disparity of Social insurance Coverage



Source: National Bureau of Statistics of China (2010).

It is noteworthy that, the fragmented labor insurances in the country are highly related to the particular reform process in China. Since the 1980s, the main thrust of reform in China has been the local trials of policies. China thus has stressed “local experience” and “local adaptability”. The central government has selectively absorbed local experiences into national policymaking. In this regard, the combination of decentralized experimentations with central interference has made China’s political economy highly innovative in finding policies and institutions to handle complex challenges and avoid large-scale social breakdown (Heilmann, 2008). In the welfare sector, China has learned from the experiences of local trials in exploring the social insurance system for urban workers by applying the principle of “crossing the river by feeling the stones”, since China has a huge price in rigidly copying the Soviet Union model without taking Chinese experiences into consideration at the time of the founding of the People’s Republic of China (PRC)<sup>1</sup>. However, this policy model has brought about some side effects in the long run. Within this process, local interest groups have emerged, and they tend to favor the local interest rather than the overall welfare of the nation; these local interests tend to adopt a local protectionist stance rather than sharing local public goods with outside parties. Consequently, there emerged a fragmented and

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<sup>1</sup> The details will be given in Chapter Two.

localized welfare regime in China.

We must note that, understanding the fragmentation of social insurance market in China requires a further reflection at its increasingly decentralized structure.

Decentralization denotes an institutional arrangement where sub-national governments have substantial autonomy in making its own policies in all areas of governance (Riker, 1964, p.12). China's decentralization policy in its social policy and welfare protection started in the early 1980s. Accompanied by fiscal decentralization, local governments gained greater autonomy and flexibility in deciding how to generate revenue and spend it (Oi, 1992; Mok & Wu, 2013).

Reflected in the realm of social insurance, the central government has retreated from the original socialist (or *danwei-based*) system defined by life-time employment and all-encompassing welfare, and has transferred the responsibility of providing social insurance to the local governments under the inflexible principle of jurisdiction (*shudi guanli*) (Zuo & Hu, 2001). In the early 1990s, the Chinese central government initiated fiscal reform by changing the rules for sharing locally collected revenues with the central government in order to strengthen its extractive capacity (Wang & Hu, 1993). Nevertheless, this wave of fiscal decentralization has provided local governments with limited incentives in taking responsibility for



welfare expenditures but motivation for hoarding the savings for territorial industrial developments. In this regard, local governments became very exclusive and protectionist in nature, as regional social insurance schemes are almost entirely financed through local budgets (Painter and Mok, 2010; Tang & Liu, 2012; Mok and Wu, 2013).

This fragmentation of social insurance has created hurdles for the ongoing social insurance reform in China. Firstly, the risk pool is limited since each region runs its own social insurance funds, thus creating serious obstacles to the redistribution across regions (Cook, 2011). In addition, it has obstructed individuals' equal access to social insurance although theoretically all citizens in one nation should enjoy the same rights (Ngok, 2011). The most pressing problem is that labor mobility has been dramatically hindered by different institutional designs across regions and has become a problem at the national level (Zheng, 2009). With these concerns, scholars and policy makers in China have devoted considerable efforts to consider and debate on how to unify the fragmented local social insurance policies into a single national policy. Recently in June 2012 the central government issued its Twelfth Five-Year Special Development Plan for Social Security, declaring the government's intention of navigating various local policies and establishing a





national social insurance system. Therefore, in terms of the challenges of fragmented welfare regimes, this research is of great significance in contributing to this discussion.

China is not alone in the debate about decentralized welfare regimes. Since the 1980s, decentralization has emerged as an international trend and brought far-reaching impacts to welfare states worldwide. The debate over decentralization is in a way a reflection of how the central government treats local governments, and western countries have accumulated rich knowledge in this aspect. The theories in political economy have long claimed that decentralization impedes expansion of the welfare state (e.g. Tiebout, 1956). In their arguments, decentralization is considered a veto point or extra obstacle to greater social expenditure, this is because multiple levels of governments need to agree and coordinate in order to implement new social policies. Another school also contends that decentralization decreases social spending (e.g. Tsebelis, 2002). Decentralization refers to a shift in greater responsibilities of revenue and expenditure towards the sub-national governments, and thus provides low incentives for welfare expenditures. But the question lies in whether these theories which have been developed in mature western societies can be applied to explain China's situation or not? Or put in



another way, whether China has converged with the western countries in uniform welfare retrenchment? Thus, the present study serves a second objective of developing new theoretical insights for analyzing decentralization and the welfare state in China.

Regarding the negative social consequence, the central government in China has made some efforts to balance the disparity. The State Council of China published a White Paper on Social Security in early 2004, which showed tolerance to the different paces of progress among the regions, but declared that “the regions should establish a social security system in accordance with their economic development”<sup>2</sup>. Yet, the trend of fragmented social insurance development is still noticeable especially in the coastal region. This dissertation focuses on one specific question, “under the similar level of economic development, why have different patterns of social insurance development emerged in different regions of China”.

Many coastal cities have achieved a high economic growth and thus are financially able to pay for better labor protection schemes. At the same time, these cities and their neighboring regions share the salient commonality of embedding high

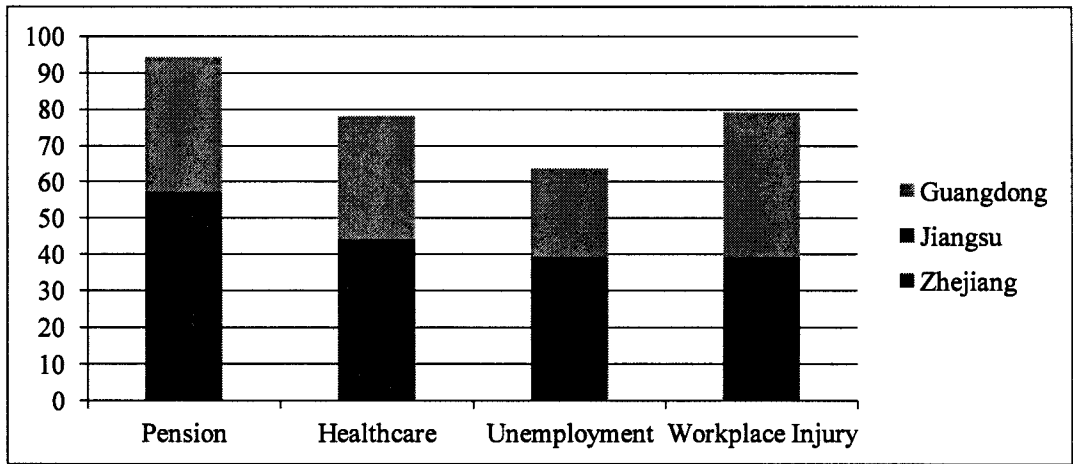
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<sup>2</sup> For details refer to: [http://news.xinhuanet.com/zhengfu/2004-09/07/content\\_1952488.html](http://news.xinhuanet.com/zhengfu/2004-09/07/content_1952488.html).



proportions of non-state sectors in economic success through rapid marketization, as well as an intense concentration of long-term migrant population who brings tremendous pressures to urban public goods (Solinger, 1999). However, their responses are different from comparative perspectives: Guangdong has developed a relatively higher social insurance coverage, while Zhejiang's sits in the bottom (Figure 1.2 below). More broadly, their labor insurances coverage is inconsistent with their economic achievements with less than 40 percent coverage, although theoretically economic growth is the “ultimate cause” of welfare state expansion (Wilensky, 1975). Amid the local variance, asynchronous developments of social insurance could also be observed, and generally local governments are inclined to develop old-age pension scheme rather than other insurance schemes.

Figure 1.2 Coverage of Social insurance in Guangdong, Jiangsu and Zhejiang



Source: Meng & Zhou (2008).

Then the questions arise, why do implementations vary across localities, despite the fact that these cities are among the richest and financially most enable to provide a better labor welfare? Why do the local governments have different preferences for different social insurance schemes? Why has China's state sector failed to penetrate into fragmented welfare territories to unify the insurance market? These questions constitute the areas of this study. This research highlights welfare "*regions*" instead of the traditional welfare "*state*" in China.

### **1.3. Research Objectives and Research Questions**

This research sets out against the brief policy context outlined above to have the following research objectives:

- (1) To examine how fragmented social insurance regimes have evolved in China by scrutinizing the dynamics of local policy implementation;
- (2) To examine how different stakeholders interact in shaping the formation and implementation of social insurance schemes at the local level;
- (3) To develop new theoretical insights in analyzing the decentralization and welfare state in China.

In addressing the above research objectives, a few specific research questions are

developed as follows:

- (1) Why implementations of social insurance vary across the well-off localities with similar level of economic success?
- (2) What are the major institutions causing varieties of social insurance implementations at the local level?
- (3) What are the forces driving the implementation of local social insurance policies in the local governments?
- (4) How do local governments shape local social insurance policies?
- (5) How would the local employers exercise their bargaining power in shaping local social insurance policies?
- (6) What major strategies have the local employers adopted in implementing local social insurance policies?
- (7) How would the local workers exert their influence in shaping the local social insurance policies?

#### 1.4. Research Significance

According to the discussion above, this research aims to examine how social insurance policies are carried out in the coastal areas of China, and why different local labor policies are produced. The significance of this research is three-fold.



(1) Through examining the local policy process of labor insurance, this research aims to provide valuable insights into how the policy makers in China navigate the various social insurance policies.

(2) By drawing on the discussions on decentralization and the welfare state in the world, the investigation of the Chinese experience in this research helps to reflect upon how the existing theory of public policy could apply to analyzing China's situation.

(3) If not, this study would provide new theoretical insights in analyzing Chinese welfare regionalism in general and fragmented labor insurances in particular.

### 1.5. Definitions of Key Concepts

This section makes explicit definitions of welfare and regionalism, which are the key terms in the title of this dissertation.

***Definition of welfare*** This research examines welfare regionalism in China, with particular reference to the varieties of social insurance policies at the regional level, which is defined as local welfare production regime in the present dissertation. Regime is a concept of typology to conceptualize and classify

different policy patterns, and welfare production regime in the present dissertation denotes complementariness between production system and social insurance system among the localities. Moreover, without specific explanation, this dissertation uses social insurance, social security and welfare interchangeably in China's context<sup>3</sup>.

The literatures usually present a confusing picture when it comes to the usage of the term “welfare state” and its related concepts, such as social security and social insurance. All three concepts are European inventions and answers to the problems created by industrialization. A feature of early industrialized societies is, once the bread-winner became unemployed, retired, injured, the whole family would drop into poverty as government welfare protection is nonexistent (Hills, John, Ditch & Glennerster, 1976, p.14). In order to combat this kind of industrial poverty, labor insurances provide protection against the full range of market and life-cycle risks, including unemployment, retirement, sickness, workplace injury and disability, maternity and childbearing, and death (through benefits for surviving family members). Through state legislation, social insurance socializes workers' risks by making the risk pools compulsory not only to workers but also

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<sup>3</sup> To some extent it is for usage convenience. More importantly, as some scholar explicitly put, it has been usual to identify the beginning of the modern welfare system in China with the establishment of social insurance.



to employers (Rodgers, 1998, p.18). Since pension, healthcare insurance and workplace injury are the most significant forms of labor insurances in the post-industrial and developing countries, particular attention will be paid to these types of insurances.

The concepts of social security and welfare state are closely linked to labor insurance. From a historical perspective, social security through either social assistance or social insurance contributes to social stability by maintaining a protection system for workers and their dependents. Social assistance can be traced back to *the Elizabeth Poor Law* in 1601, which was primarily concerned with social order through policies to support the poor. This is also perceived as the opening of state intervention instead of the role of traditional charity (Guy, 1984, p.297-308).

The term “welfare state’ came to public usage after the publication of *the Beveridge Report* in 1942, while the beginning of the welfare state could be traced back to the 1880s when Bismarckian Germany enacted its first social insurance legislations on sickness, accident and disability benefits. Furthermore, the concept of welfare state is based on T.H. Marshall’s concept of social citizenship, defined





as “the state has an obligation to smooth out any gross inequalities by the guarantee of a basic standard in terms of income, shelter, food, health and education” (Heater, 2004, p.272). Welfare state experienced a large expansion in the 1950s beyond social insurance. It refers to state interventions to improve the wellbeing of its citizens by providing cash or in service in the realms of housing, education, social security and so on. In conclusion, the provision of support that range from social assistance to social insurance and eventually social security by the state is captured by the concept of the welfare state (Flora and Heichenheimer, 1981, p.27).

***Definition of regionalism*** This section defines regionalism in context of the current work, dwells more on the definition of regionalism, since it is the core of the present dissertation. Regionalism here refers to institutional arrangement of decentralization. In recent decades, many formerly centralized states have been decentralizing, a notable example in China. Particularly decentralization is widely recognized as one of the most important mechanisms in promoting China’s economic rise during the last three decades. Through decentralization, the local governments have been successfully entrenched with the incentives of “competition for growth” (Jin, Qian & Weingast, 2005).



What then is the meaning of decentralization? Politically, decentralization is a strategy of relieving various burdens of excessive centralization accumulated during the period of state formation (such as high taxes, regional suppression, cultural stagnation, and fears of ethnic extinction) (Schultz, 1979, p.14). Socially, decentralization is a mechanism to improve efficiency as the local officials are closest to people in need and best able to identify and deliver appropriate services (Rousseau & Zariski, 1987, p.17). Organizationally, decentralization may rationalize interest articulation and decision-making by permitting local discretion in the policy development process (Rousseau & Zariski, 1987, P.22) <sup>4</sup>.

Social and organizational dimensions are taken into consideration in this research as they evolve into the issue of policy development in China. Since local discretion is deemed indispensable in interpreting and executing the policies of the central government, this study defines the term regionalism as policy discretion instead. Regionalism is a two-fold concept, on the one hand, it is deemed as a prominent policy development process in China in that the central government actually allows local authorities to shape policies at their own discretion; while on

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<sup>4</sup> More usage could refer to: Walder, D. B. (1991). Decentralization: Recent Trend and Prospects from A Comparative Governmental Perspective, *International Review of Administrative Sciences*, 57(1), 114-116; and Wolman, H. (1990). Decentralization: What It Is and Why We Should Care, in Robert J. Bennett(ed.), *Decentralization, Local governments, and Markets: Towards A Post-Welfare Agenda*, Oxford: Clarendon Press, pp.30-40.

the other hand, implementations of local policies have led to the fragmented configuration of policies in China. This begs an important question guiding the present dissertation: under what circumstance and to what extent do local governments increase their discretion in managing local affairs?

Discretion is a legal concept, which measures the power or right to decide or act according to one's own judgment. Generally, the contents of policy in the paper are not able to contain all the possibilities and thus leave substantial room for bureaucrats in the execution of their work. Lipsky is the first to adopt the term "street level bureaucrat" to denote those public service workers who have substantial discretion in implementing public policies during the course of their work. She argues that individuals in public services typically face choices, competing demands and dilemmas in their work (Lipsky, 1980, p.3).

In a similar vein, "policy-reframe" is carried out during the implementation phase, which is accompanied by genuine intergovernmental devolutions of authority. Usually, the central legislation sets a basic policy framework but leaves room for local authorities in implementing policies at the local level (Box 1.1). Based on the broad framework provided by the central government, the provincial



governments specify a number of principles, formulate policies and transfer them to the municipal (county) governments for further implementation. Finally, three or four layers of intergovernmental policy makings constitute a complete picture of social insurance implementation in China (Zheng, 2009). Through this process, therefore, policy implementations are differentiated from each other at the bottom level. It constitutes a localized, fragmented but legal social insurance system in China, eventually leading to welfare regionalism in China.

#### Box 1.1 Local Discretions in the Articles of Social insurance in China

##### *Decision on Establishing Basic Old Age Insurance System for Enterprise Employees* (Article 33)

“With regard to the treatments of the employees in private enterprises and individual workers, it is stated that “the detailed measures shall be stipulated by the governments of each province, autonomous regions and municipalities”.

In 1997, the State Council promulgated the *Decision on Establishing a Uniform Basic Old Age Insurance System for Enterprise Employees* (Article 26)

It is stated officially that “the contribution rate and benefit level shall be determined by the governments of each province, autonomous regions and municipalities”.

##### *Interim Regulations on Collection and Payment of Social insurance Premiums* published (1999)

“The premium agencies (tax agency or local social insurance bureau) shall be fixed by the governments of each province, autonomous regions and municipalities”.



(Cont.)

In 2005, the State Council launched the *Decision on Improving Social insurance for Enterprises Employees* (Article 38)

“The governments of each province, autonomous regions and municipalities could formulate their own interim method on benefits calculation”.

Source: Zheng (2009).

## 1.6. Structure of This Dissertation

This part introduces the chapter arrangement of this dissertation.

Chapter One presents the research problem, specific research questions, research significance, definitions of key concepts, and the structure of the thesis. It provides both the phenomenal and theoretical backgrounds leading to social insurance regionalism in an increasingly decentralized China.

Chapter Two introduces the policy background from which fragmentation of social insurance policies in China has evolved. To accomplish this, a snapshot of social insurance in the world and its history are given. Next, three phases of social insurance development in China are outlined, including the establishment phase (1950-1978), transformation phase (1978-1998), and expansion phase (1998-now).

In addition, the decentralized administrative system of social insurance in China is



discussed.

Chapter Three reviews the theoretical models for a variety of welfare regimes.

This chapter firstly reviews the four dominating approaches in accounting for the varieties of welfare regimes in western literatures. Next, the focus is shifted to the literatures in accounting for the varieties of welfare regimes at the local level in China.

Chapter Four presents a theoretical framework guiding the whole research. It firstly introduces the welfare production regime and local politics in China, and both of them integrate the theoretical framework. Based on the theory, five research hypotheses are developed. Finally, an analytical flowchart of this dissertation is given.

Chapter Five discusses the methodology of this dissertation. It firstly presents a mixed method design, and then describes the approaches of data collection in qualitative and quantitative phases. Next, analytical methods, including fuzzy-set/qualitative comparative analysis (fs/QCA) and case studies are elaborated. Finally, case selection would be presented.



Chapter Six investigates the different institutional conditions of local social insurance developments by expanding the scope of our case studies to nine cities, and fuzzy-set/ qualitative comparative analysis (fs/QCA) is employed. The findings are as follows. In terms of the production regime, big firms and high technology input are necessary conditions to achieve a high coverage in pension, healthcare insurance, and workplace injury insurance. In contrast, the coverage of pension and healthcare insurance would stay at low levels when the local production regime is dominated by small enterprises and the private economy. Meanwhile, our analysis has confirmed the negative relationship between decentralization and expansion of local social insurance.

Chapter Seven examines the case of Wenzhou, which stands out for its slow, deviant, and resistive pattern of social insurance implementation. It consists of seven sections. The first section introduces the Wenzhou model. The second section examines the evolution of social insurance from 1998 to 2010 in Wenzhou. From the third section, we move into the analytical part. Section three explains the analytical framework. Section four discusses the ground institutions in which policy implementation has been embedded. Sections five and six explore the weak incentives for both the local government and local enterprises in carrying out



social insurance policies. Thus their collusion is formed by making use of their existing political clout and exploiting the local network to evade their social insurance responsibilities; this is discussed in the final section.

Chapter Eight examines Kunshan to observe a showcase in social insurance implementation, which contrasts sharply with the Wenzhou case. Chapter Eight consists of seven parts. The first part introduces the Kunshan model and provides an overview of some key factors that have promoted the rise of Kunshan city. The second part presents local social insurance development that qualifies Kunshan as a pioneer. In the third section, the analytical framework is explained. The fourth part discusses the ground institutions in which Kansan's policy implementation is embedded. Section five investigates the incentive structure of the local employers from the perspectives of cost, skill, corporate social responsibility and bargaining position. Section six mainly examines the incentives for the Kunshan government, in terms of interaction with the central government, local innovation, financial capacity and administrative capacity. The whole story demonstrates the indispensability of local authorities and central political support in the expansion of labor insurances. The story doesn't end here. The final section describes policy manipulation by the Kunshan government. The final section offers concluding





observations regarding the Kunshan case.

Chapter Nine is the discussion and conclusion of this dissertation. This chapter is arranged by examining the achievements of the three research objectives of this dissertation. It firstly revisits the research findings regarding the institutional conditions in addressing a variety of welfare regimes in the coastal areas of China, as well as compares the social insurance implementations between Wenzhou and Kunshan. Following this, the chapter summarizes the findings and the development of welfare production regimes in different regions of China. Next, the theoretical and empirical contributions of this dissertation are summarized. The research limitations and a possible future plan are discussed in the final section.



## CHAPTER 2

### POLICY BACKGROUND OF SOCIAL INSURANCE DEVELOPMENT IN CHINA

#### 2.1. Introduction

Several major shifts in the area of welfare have occurred since the foundation of People's Republic of China (PRC), such as shifts in terms of the basic system of welfare from a government run “cradle-to-grave” welfare system to welfare privatization, shifts in terms of the role of the government from that of a well-rounded “caregiver” to a retreated regulator. Given the number of policy shifts impacting welfare development in China, however, the livelihood problems have not been well-solved but have remained prominent issues during the past two decades as table 2.1 suggests.

Table 2.1 Position of Social Security in Top Concern

Year	Rank	Votes
2011	2	68845
2010	1 (pension )	104649
2009	8	42925
2008	10	-
2007	10	16530
2006	8	-

Source: Xinhua Net. Top Concerns to Address at Sessions of NPC and CPPCC”. Retrieved from <http://npc.people.com.cn/GB/28320/213483/index.html>.

Table 2.1 suggests that the Chinese people in general disagree with the extent to which Chinese officials have been able to come up with effective reforms to cope with various crises in labor insurance. There is widespread discontent amongst the people which poses serious challenges to the current government. As suggested by several ongoing online polls ahead of annual sessions of the National People's Congress (NPC) and National Committee of the Chinese People's Political Consultative Conference (CPPCC), social insurance has consistently featured prominently on people's top ten concerns from 2006 to 2011, and the issue even top the ranking in 2010. This highlights the gaps and tensions in China's social insurance reform rather than showcase its achievements and progress.

Bearing in mind that the issue is one of people's major concerns, this chapter aims to scrutinize the policy background accounting for why labor insurances have become fragmented in China. To accomplish this, this chapter first gives an outline of the history of social insurance development in the world, followed by a brief description of the three phases of social insurance development in China, including the establishment phase (1950-1978), transformation phase (1978-1998), and expansion phase (1998-now). The third section discusses the decentralized administrative system of social insurance in China.



2.2. Social Insurance

Concept of social insurance lacks a standard textbook definition. In general, it falls between commercial insurance and social assistance (Bodeheimer & Grumbach, 1992) . The empirical experiences of all states are posited in this spectrum. The premium and payment are completely corresponded in commercial insurance, and social assistance is a tax-based system without any requirement of financial contributions. Social insurance is in-between commercial insurance and social assistance in five dimensions (Table 2.2).

Table 2.2 Spectrum of Social Insurance

	Commercial Insurance	Social Insurance	Social Assistance
Participation	Voluntary		Compulsory
Payment	Premium-based		Means-tested
Fund	Earmarked		Unified distribution
Payment Rate	Actuarial calculation		No equivalence
Financial Source	Individual payment		Tax
Management	Market		Government

Source: Yang (2000).

Table 2.1 suggests on the one hand, social insurance absorbs users' pay, which is the principle in commercial insurance; while "social" refers to its nature of a compulsory system run by the government, such as social assistance (Yang, 2000). Social insurance is the most significant form of social insurance. The development of social insurance is highly associated with two issues.

*Social insurance has evolved as an answer to development problem.* Social insurance in the modern sense originated from Germany, Bismarck's government formally launched series of insurance acts including the *Sickness Insurance Act* in 1883, *Accident Insurance Act* in 1884 and *Old-age Act* in 1889 in order to ease the tension of the labor movement. Before labor insurance, a large number of low-income laborers were excluded from labors' voluntary insurance schemes. Thus they had become the major source of social unrest at that time. In other words, though as a sign of social progress, social insurance is adopted for the purpose of labor-movement relief when first introduced (Bärnighausen & Sauerborn, 2002) .

Gradually social insurance became the answer to labor insecurity in the late nineteenth century, during which time the whole of Europe was industrialized.



Compared to an agricultural society, the risks for workers in an industrialized one were exponentially magnified, including death, old-age, workplace injury and so on. Workplace accidents causing serious injury or even death to workers would cut off the affected worker's family income in an unexpected manner. Thus risk pooling and social insurance were necessary to workers to avoid income interruption. Social insurance through state legislation is thus an institutional response to socioeconomic inequity (Rimlinger, Bottomore & Coates, 1974).

Thereafter, social insurance has been closely associated with capitalist society. On the one hand, industrialization has dramatically expanded the tax base, and thus financially enabling modern societies to accommodate compulsory labor insurance. In addition, the welfare state is perceived as an effort to cope with the specific problems created by capitalism, such as class conflict and recurring economic crises. Thus, it denotes attempts by the local elites to integrate the working class without fundamentally altering the institutions and distribution of private property (Flora & Heidenheimer, 1998, p. 23).

Western countries soon joined this wave. For example, Britain passed the National Health Insurance Act in 1911, providing free healthcare for workers. The U.S

passed the Social Security Act during the Great Depression, providing a relatively comprehensive welfare provision, including pension, unemployment benefits, and other subsidies to the elderly, disabled and children. Promoted by the International Labor Organization (ILO), social insurance quickly spread to all the Organization for Economic Co-operation and Development (OECD) countries. By the end of World War II, social insurance had been accepted by post-developed countries, such as Latin American and East Asian countries (Hu, 2012). The establishment of social insurance shows that at least some consensus has been reached in modern society that people's tolerance to the poverty and inequality was limited; on the other hand, the policy efforts has shifted toward advance prevention instead of post relief.

***Development of social insurance is highly associated with the notion of social citizenship.*** Especially important are the contributions of T.H. Marshall regarding the concept of “citizenship”, which is the core of social insurance through state intervention. Marshall argues that political development induces incremental development of citizenship rights, with civil rights becoming universalized in the eighteenth century, political rights in the nineteenth and social rights in the twentieth. Civil citizenship is the rights of people to pursue individual freedom.



Political citizenship is related to the right to vote and engage in sovereign parliaments. Social citizenship is manifested as the obligation of the state to guarantee a secure level of social welfare according to the standards prevailing in society (Marshall, 1963).

Nevertheless, the realization of social citizenship is related to the notion of “de-commodification” introduced by Esping-Andersen. Esping-Andersen defined this concept to measure the extent to which “a citizen does not need to rely on the market for his or her basic needs under the circumstance of income interruption” (Esping-Andersen, 1990, p.19). The measurement is based on three indicators, expenditure of the welfare state, the conditions for various benefits through state programs, and the replacement of income by benefits. It aims to find out “the extent to which the normal living standards of an average industrial worker are protected through legislated rights to benefits” (Korpi, 1989, p. 314).

### 2.3. Development of Social insurance in China: Historical Review

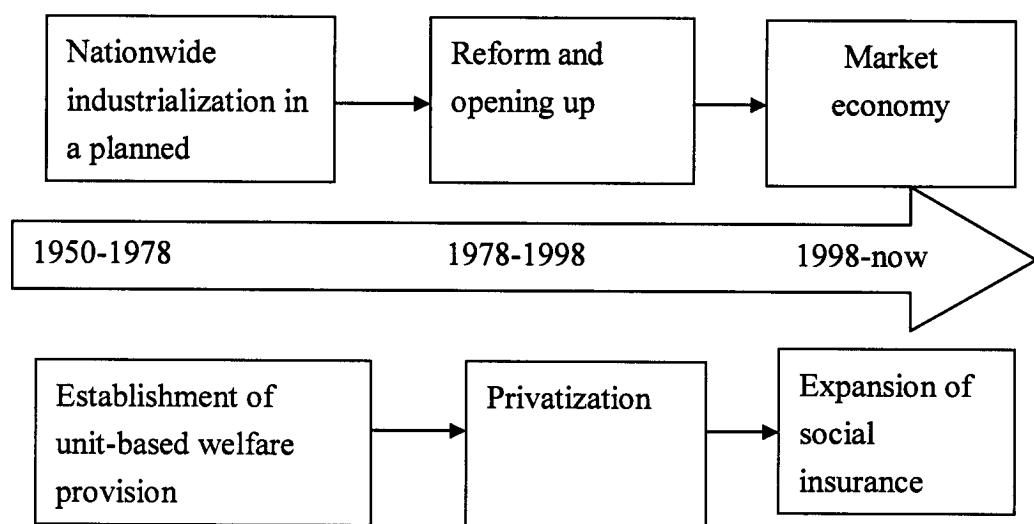
Social insurance in China could be understood to have developed in three phases (Figure 2.1). The first phase is the *Establishment Phase (1950-1978)*. The



Chinese Communist Party (CCP) had committed to a development strategy through rapid industrialization. The Chinese party state created in the 1950s a work unit-based welfare system to provide elderly services, medical treatment and housing to urban dwellers; these programs were exclusively state-funded. The second phase is known as the *Transformation Phase (1978-1998)*. Under the reform and opening up of the country since 1978, large-scale closure of state-owned enterprises and strong growth of private enterprises were the driving forces which transformed the *danwei*-based social insurance system to a type of “social” insurance. The third and most recent is called the *Expansion Phase (1998-now)*. The National People’s Congress (NPC) in 1993 pledged to intensify efforts to promote the market economy, social insurance is required for all workers regardless of the ownerships of their firms. Thus in 1998 China has stepped into an era of “social policy” (Wang, 2008). For details of feature of three phases of development, see figure 2.1.



Figure 2.1: Three Phases of Labor Welfare Provision in China



**Phase I: Establishment of Urban Labor Insurance, 1950-1978**

Assisted by the Soviet Union during the cold war, China created the first Urban Labor Insurance System in the early 1950s. The main welfare services were provided by the state via different work units. The employees made no contributions to their insurance but received pension, free medical treatment, and injury compensation as part of a package of non-wage benefits (Duckett, 2003a; 2004). However, the Soviet model turned out to be too costly, and expenditure had doubled by the late 1950s. Hence, in the following two decades, the Chinese leaders initiated mass campaigns to modify the Soviet model in order to customize the welfare institution to fit the Chinese condition. During the Cultural Revolution (1970-1976), the social insurance system broke down, and it was later partially rebuilt (Zheng, 2008).

China's urban labor insurance system inherited some features of the Soviet model.

The first was the abolishment of unemployment insurance based on the premise that there was no unemployment in socialist countries. Secondly, labor insurance was paid for by "soft budget". Long-term local insurance benefits, education and housing were financed by the state budget, and workers were not required to contribute. It was fundamentally different from the principle of user pay<sup>5</sup>. Thirdly, the Chinese system established occupational funds for workers in some key industries to respond to rapid industrialization, such as railway, iron and steel, and postal service. (Dixon, 1980, p.10-20).

However, labor insurance was beset by many problems by the end of Mao's era. Since 1957 a major and enduring problem identified by the officials was financial burden<sup>6</sup>. The other problem is limited coverage. The Soviet system was a universal system covering all workers except for collective farmers. However, in China's system during the 1970s and 1980s, insured workers were largely from medium and large-scale state enterprises, whilst small enterprises were almost all

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<sup>5</sup> In the capitalist practice of social insurance, in which both employers and employees need to contribute to the social insurance fund and the government promised to cover the deficit only when the funds are insufficient for payment.

<sup>6</sup> The causes for the high cost were multifold. There were opinions that the system design itself, which was copied from the Soviet model without modification, was ill suit to the Chinese condition. Second is the considerable overuse. And the third is that the benefit level was set too high. Some attributed the rising cost to poor supervision and administration of the social insurance system.

excluded. The year 1969 signaled a turning point in the history of labor insurance in urban China, it was the year the Ministry of Finance retreated from its responsibility to provide insurance pooling delegating the task to the work-unit level. The small risk pool eventually caused financial un-sustainability and triggered the meltdown of the whole urban social insurance system (Duckett, 2004).

During the entire 1980s, *The Chinese Welfare System 1949-1979* written by Dixon (1981) systematically examines this phase. It is the first book to introduce the welfare systems of socialist China to the world. In his opinion, the labor insurance system featured employment-based privileges, and welfare provisions varied in their generosity depending on their work units. Walder (1988) pointed out that the reliance between cadres and workers constituted a patron-client relationship, and thus formed a typical welfare structure in China and further exerted a large influence on the future welfare development.

## **Phase II: Transformation of Social insurance System, 1978-1998**

By the early 1980s, China's reform agenda has shifted to the reform of state owned enterprises (SOEs). The issue of replacing the existing social insurance



system by a new social insurance system was widely debated. On the one hand, the current enterprise-based welfare system had become problematic and unsustainable<sup>7</sup>, on the other hand, ILO played a crucial role in “promoting” world models of social insurance in the transition phase in China<sup>8</sup> (Hu, 2012).

By the late 1990s, establishment of social insurance with emphasis on social pooling to replace social insurance became feasible. SOE reform had released a growing number of urban workers to society and thus detached them from the work-unit welfare system. At the same time, new forms of employment had emerged with marketization, such as self-employment and labor in the private sector, which were institutionally excluded from the work-unit system (Duckett, 2003a). Secondly, the growing financial burden on the state and its enterprises has

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<sup>7</sup> The burden of funding social insurance of the SOEs became heavier as they usually have more retired and elderly workers than the non-SOEs. In some cases, individual SOEs failed to distribute the pension to their retired workers on time and in full. How to expand the pooling and sharing the risks thus became a real issue for the central government. In addition, since a considerable amount of social insurance funds had been destroyed during the Cultural Revolution, the social insurance system has transformed to a pay-as-you-can system from pay-as-you-go system. This means that the system was financially unsustainable. Moreover, the other problem came from the challenges of aging. It was officially calculated that, in 1978 there were 2.48 million retired employees; whilst about two million workers and 0.6 million elderly cadres were still working but have actually reached retirement age. Consequently, social insurance funds, especially pension funds, could not make ends meet.

<sup>8</sup> China resumed its membership of International Labor Organization (ILO) in 1981. On the one hand, ILO actively involved itself in China’s social insurance reforms by seizing every opportunities to promote the international model of social insurance; on the other hand, under international pressure, the top leaders understood at least some features or lessons of international social insurance development. First, to cope with the aging population, China also needed to accumulate social insurance funds. Second, individuals should take some responsibility for contribution. The social insurance reform was carried out amid the dispute between conservatives and reformers, and eventually in the 1990s reforms were able to continue based on the “social” insurance models (Hu, 2012).

made the social insurance system unable to provide welfare to workers (Zheng, 2008, p. 56) . One study shows a decline in the dependency ration from 30.3:1 in 1978 to 4.6:1 in 1996 (Chen, 1999). Thus social insurance was under exploration since the 1980s.

The main thrust of the reform of social insurance was local trials of new measures to socialize pension and healthcare insurance. It was a bottom-to-top approach. As discussed in the establishment phase (1950-1978), the central government had paid a price for strictly copying the Soviet model and not taking the Chinese experience into consideration, and thus in the reform China has placed much emphasis on “local experience” and “local adaptability”<sup>9</sup>. The State Council embarked on national programs of “*Basic Elderly Insurance System for Urban Employees*” and “*Healthcare Insurance System for Urban Employees*” in 1991 and 1998 respectively. The 1994 publication of labor law further launched workplace injury, unemployment, and maternity schemes<sup>10</sup>. Since then , China has

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<sup>9</sup> In 1984, the cities of Jiangmen and Dongguan (in Guangdong province), Taizhou (in Jiangsu province) and Heishan (in Liaoning province) began to test compulsory pension programs that pool premium contribution into local government-administrated funds. By the end of 1986, this practice was extended to a further 300 cities (Zheng 2008, p.58). Meanwhile, co-payment was formally introduced in 1986 in order to reduce the expenditure burden. Healthcare reform also followed the same logic. The formal publicized attempt to cut costs and expenditure was two pilot schemes in the cities of Zhengjiang and Jiujiang since 1994, which introduced for the first time individual premium contribution, as well as pooling the premium in the local governments. This model was extended to 57 cities in 1995.

<sup>10</sup> China in 1986 created insurance for people seeking employment (daiye) and mainly targeted laid-off workers, the fund was accumulated by enterprises. This measure was followed by the reform of

established a comprehensive system of social insurance<sup>11</sup> (Zheng, 2008).

### **Phase III: Expansion of Social Insurance, 1998-now**

Since 1998, social insurance in China has entered an era of expansion with the guarantee by the central government to provide all workers with basic provisions.

This expansion process is accompanied by institutional arrangement of decentralization mentioned in Chapter One. Decentralization has transformed the original structure of unified revenue and expenditure, to one which redistributes both the revenue and expenditure between the central and local governments. In the sphere of social insurance, the central government has retreated from the fiscal burden of the *danwei*-based system and transferred the fiscal responsibility to local governments under the principle of jurisdiction (*shudi guanli*). National social insurance regulation in 1998 ordered the social insurance agents of all enterprises within a given jurisdiction of municipal government to remit fees to that government rather than to the central government ministries, as had been the practice. In this regard, the central government allows each city or county issue

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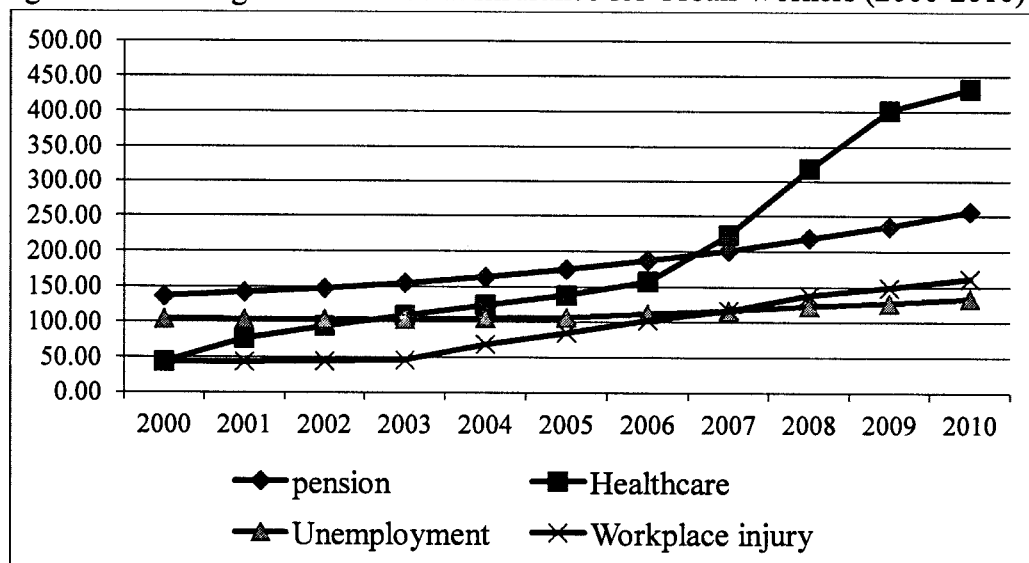
injury insurance, which initially took place in 1951. The Ministry of Labor adjusted the contribution rates for different industries and increased compensation in order to share the risks among the enterprises with a high risk and those with a low risk.

11 This effort is recorded in Article 70 of Labor Law 1994: The State shall promote the development of labor insurance, establish a social insurance system, and set up social insurance funds so that laborers can receive help and compensation when they become old, suffer diseases or work-related injuries, lose their jobs, and give birth (Article 70).



their own detailed programs based on the national social insurance framework (Zheng, 2009). Currently, social insurance for urban workers is being established, particularly when the central government tried to unify the basic policy framework, contribution rate and benefits level, and thus allows limited room for the provincial and local governments. For the social insurance for migrant workers, it is still in the phase of policy initiation, and thus the central government allows prevailing local experimentation to the provincial and local governments. In this regard, new problems have emerged in Chinese social insurance, which are jointly caused by the socialist legacy of the old policy and decentralization arrangement.

Figure 2.2 Coverage of Basic Social Insurance for Urban Workers (2000-2010)



Source: The Bulletin of Social Security (2000-2009 )

[http://w1.mohrss.gov.cn/gb/zwxx/2010-05/21/content\\_382330.htm](http://w1.mohrss.gov.cn/gb/zwxx/2010-05/21/content_382330.htm) .

Among them, the 2010 statistics is obtained from

[http://big5.xinhuanet.com/gate/big5/www.cs.com.cn/bxtd/09/201101/t20110126\\_2760971.html](http://big5.xinhuanet.com/gate/big5/www.cs.com.cn/bxtd/09/201101/t20110126_2760971.html)



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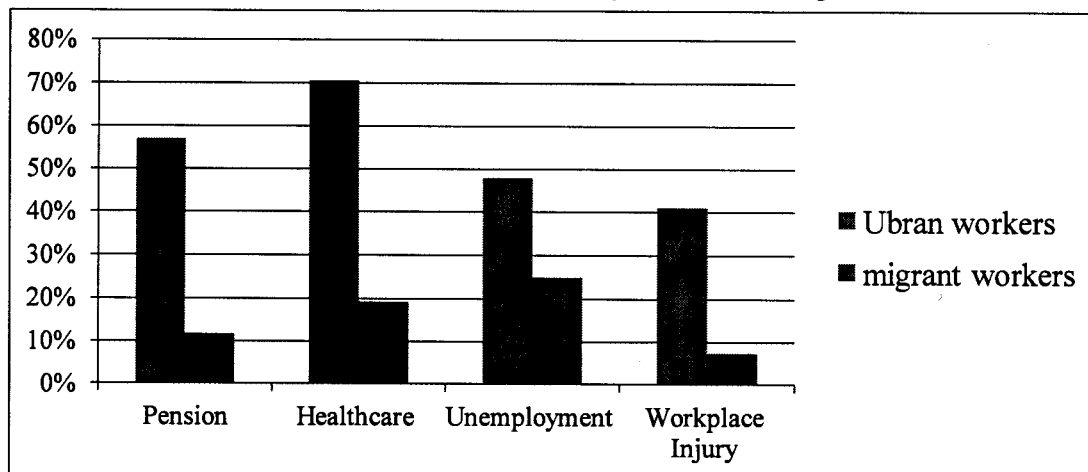
Figure 2.2 displays the growth trend of four social insurance schemes. Although the number of people covered by health insurance grew sharply since 2006 in part due to increased government funding, the numbers covered by urban old-age insurance and unemployment insurance have risen slowly, with an average growth of eight percent and two percent respectively. In other words, in this newly industrialized state with a huge number of workers, a large percentage are still left uninsured, despite the fact that enterprises are urged repeatedly to insure their employees. Moreover, the eligibility of insured workers in the articles is still defined as *zhigong*-a socialist legacy-thus institutionally excluding other types of workers from social insurance (Gu, 2006) <sup>12</sup>.

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<sup>12</sup> Institutionally, social insurance is designed for “Zhigong” (urban workers)”, which refers to workers who possess personnel quota in a planned economy. This concept is adjusted to indicate waged workers in the 1990s, but still excludes workers in rural enterprises, private businesses, farmers and unemployment people (Gu, 2008). But in the policy implementation, the number of insured is far more than urban *workers*. The social insurance schemes are open to private enterprises (*siying qiye*), the self-employed, small private businesses (*geti gongshanghu*) and laid-off workers (*xiagang*), as well as the emerging migrant workers (Shen, 2007)



Figure 2.3 Coverage of Social Insurance among Urban and Migrant Workers



Source: Chen (2007).

In addition, the programs are still urban-focused. As discussed above, local governments are still indulged in protectionalism, and thus a considerable number of rural workers belong to the grey area in this policy implementation. Figure 2.3 shows the proportion of migrant workers covered by the social insurance schemes is almost one-fifth of urban workers. Migrant workers are highly mobilized, but both the stifling inter-provincial transferability and minimal 15 years' payment requirements have reduced their participation incentives. Second, rural workers are usually in an informal relationship with the enterprises employing them, and these unstable employment statuses hinder the effective administration and supervision by the local governments. Third, as the main source of income for the migrant workers, private enterprises strive to minimize their labor cost and so are unwilling to pay social insurance (Zhang, 2011).

Moreover, despite limited coverage, a considerable amount of insurance funds are not sufficiently used (Gu, 2010; Chen, 2011). Theoretically, unemployment and healthcare insurance is a pay-as-you-go system, thus the surplus rate should be maintained at a low level so that the risks could be effectively shared among the workers. However, both insurance funds are largely retained without efficient usage<sup>13</sup>. On the contrary, the pension fund is running a huge deficit<sup>14</sup>.

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<sup>13</sup> Usually, the surplus rate of healthcare insurance is recommended to be lower than 15 per cent. However, the national average of surplus rate of healthcare insurance exceeds 30 per cent. For well-off provinces such as Zhejiang, Jiangsu and Guangdong, the number has reached 33 percent, while Shanghai maintains the lowest surplus rate, at 10.03 per cent. With regard to social insurance in China, on one hand, ample fund surplus has retained, on the other side, the problems of poor accessibility and insufficient affordability have become prominent in recent years. That is to say, the local healthcare insurance fund is operated inefficiently (Gu, 2010). Unemployment insurance fund resembles healthcare insurance. Accumulated funds soared to 151.45 billion in 2009, compared with 22.62 billion in 2001. The ample surplus of unemployment insurance means that it has not played an active role in alleviating unemployment risks. The reasons are as follows: on the one hand, unemployment insurance mainly covers the employees of SOEs and public institutions who have lowest risks of unemployment. On the other hand, other population groups with the highest risk of unemployment, include employees from informal sectors and small business owners, are institutionally excluded from the system. Consequently, the mismatch of “insured without risk” and “risk-exposed without insurance” leaves the unemployment fund with limited use (Shen, 2007).

<sup>14</sup> In contrast, running a deficit is a concern for pension funds. Huge pension debt due to existing retirees not expected to make contribution but eligible for insurance poses a challenge for government’s fiscal capacities. As a result, local governments have hollowed out the individual account to pay for pension since 1990. This hidden debt, to fill the debt gap of working people, has reached 200 to 700 billion the size of 85% of the GDP (Frazier, 2006).

## 2.4. Decentralized Administrative System of Labor Insurances in China

In order to have a better understanding of the fragmented welfare regimes in China, the decentralized administrative system of social insurance in China needs to be examined in the figure 2.4 below. The political regime in China is multi-layered and centralized. On the one hand, the salient characteristics of the single-party government are that it is by nature hierarchical, pyramidal and centralist. On the other hand, the multi-level governance structure makes it difficult for the policy objectives of the central government to be fully realized in local authorities.



Figure 2.4 Intergovernmental Administration System of Social insurance in China

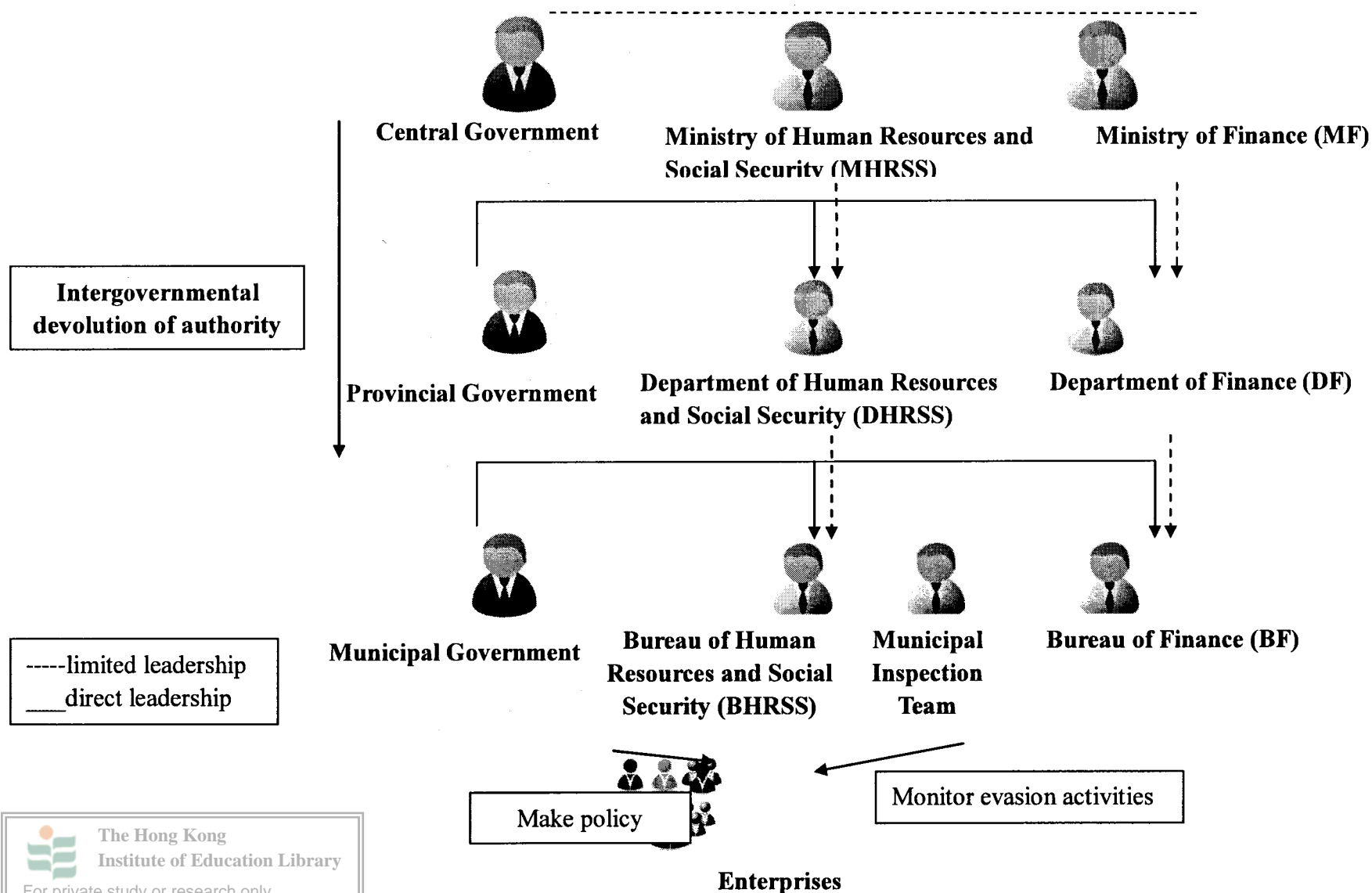


Figure 2.4 displays a flowchart which shows how social insurance policies are made and carried out in intergovernmental China. In a decentralized policymaking process, authority is transferred from high levels of government to lower levels, the central government permits local discretion and local participation in reframing policies. But a coin has two sides. On the other side, central government is gradually facing obstacles in gaining adequate compliance to monitor the behaviors of local governments. In the sphere of social insurance implementation, though it is a multilevel bureaucratic system, in which posited branches of central ministries, provincial departments, and municipal bureaus, vertical top-down leadership is limited. The central departments have a limited ability in implementing the policies along the administrative branches (*dashed line*). Instead, municipal government provides direct leadership to the administrative sectors at the municipal level, as it holds sway over the allocation of the budget, personnel and resources (*solid line*).

At the central government level, many actors are involved in policy making. The top leaders usually start deliberation on welfare issues and allow further discussions in the Ministry of Human Resource and Social Insurance, Ministry of Finance and other related ministries. The interests among these sectors are

sometimes in conflict but sometimes they coincide (Duckett, 2003b)<sup>15</sup>. These ministries jointly issue policy directions and produce policy frameworks. Related policies are discussed in the central committee (mainly The Central Committee Political Bureau, CCPB), and then enacted as law by the National People's Congress (NPC). However, the eventual policy outcomes, and the effectiveness of welfare delivery, are still largely dependent on the implementation agencies at the local level.

At the local level, there are two bureaucratic actors, the Bureau of Human Resources and Social Security (BHRSS) and Bureau of Finance (BOF). BHRSS have emerged as a powerful player in policy making, providing labor insurances to workers and managing the social insurance fund, whilst its affiliated sector of inspection team is responsible for monitoring the behaviors of enterprises by requiring them to comply with the social insurance regulation and avoid fees-evasion activities. Moreover, local BOFs are concerned about overspending

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<sup>15</sup> The Ministry of Human Resources and Social Security (MOHRSS) and The Ministry of Finance (MF) have long engaged in a “dispute” over the design and implementation of rules related to social insurances. MOHRSS is the key ministry responsible for social insurance since 1998. Its mission is to develop social insurance. Formerly the Ministry of Labor, MOHRSS is inclined to defend the interest of enterprises. They have a strong interest in increasing the pooling fund by getting as many enterprises as possible to participate in social insurances, as they are responsible for management of the fund. The Ministry of Finance is the bureaucratic agency responsible for balancing central government revenues and expenditures, producing the budget, and it is therefore involved in all the policy areas in China. It is often described as conservative, seeking to maximize budgetary commitments and avoiding deficits. Driven by this preference, the MOF is likely to reduce fiscal responsibilities of the state in financing the social insurance fund. Their interest in labor insurances sometimes coincide but in conflict in other times, leading to social insurance policy bargaining (Duckett, 2003b).



and how to guard against it. These two main bureaucratic bureaus are the social insurance agencies at the local level. Their propensity to certain policies and capacities are key factors affecting the implementation of social insurance policies. Furthermore, since the local governments well aware of local needs, interest groups representing local enterprises and workers are understandably influential. Their participation or cooperation is positive or not does affect the enforcement of policy.

In short, this section discusses the administrative system of social insurance in China and has identified the key policy participants. Localized Chinese social insurance regimes involve at least four stakeholders: the central government, local governments, employers and workers. The dynamics of their interactions has shaped the local social insurance policies.

## 2.5. Conclusion

This chapter has introduced the policy background of social insurance development in China. From the discussion of social insurance development in western countries and in China, we find a central debate in the departure of the welfare state lies in the fact that whether social citizenship is considered relevant



to China. China's social insurance is not measured in terms of universal or citizen-based rights, but goes into occupational divisions.

This chapter has reviewed the historical development of social insurance in China.

In short, the picture of social insurance in China is one of change, not only in the role of the party state in the delivery of social insurance, but also in the welfare commitments to urban workers. The transformation lies in, firstly, local governments taking over the responsibility of polling, administering and delivering welfare goods from the central government; secondly, a series of new programs in 1998 showing that the party-state has moved away from traditional targets and expanded the coverage to workers in non-state sectors. However, the legacy of the old system can still be found in the current practice. The government officials and workers in large state enterprises are still more favored, whilst the workers in private and rural enterprises receive less coverage.

Finally, the decentralized administration system of social insurance allows us to further understand the fragmented welfare regimes in China. It has displayed the vertical leadership and horizontal bureaucratic cooperation in administering labor insurances. On one hand, inter-governmental leadership is limited; instead, municipal governments usually directly lead the social insurance agents at the



municipal level. On the other hand, at the municipal level, local BHRSS has emerged as powerful players in policy making in providing social insurance to workers and managing the social insurance fund. Its affiliated sector of inspection team is responsible for monitoring the behaviors of enterprises by requiring them to comply with the social insurance regulation and avoid fees-evasion activities. Moreover, the local BOFs are concerned about overspending and how to guard against it. These two sectors are social insurance agencies at the municipal level.



## CHAPTER 3

### A CRITICAL REVIEW OF THEORICAL APPROACHES IN ACCOUNTING FOR VARIETIES OF WELFARE REGIMES

#### 3.1. Introduction

This dissertation tackles the regional varieties of social insurance implementations in China. It is a current and emerging topic but one without a full explanation. However, research of the varieties of welfare regimes in western countries has a long tradition in the academic world of political economy. This chapter aims to review the literatures regarding the varieties of welfare regimes in both west and in China. To accomplish this, section 3.2 firstly reviews four dominating approaches in accounting for the varieties of welfare regimes in western literatures. Section 3.3 specifically reviews the existing literatures in accounting for the regional varieties of welfare regimes in China. Finally, section 3.4 presents the conclusion and its linkages to the research framework.



### 3.2. Theoretical Approaches Accounting for the Varieties of Welfare Regimes

A variety of welfare regimes in developed countries has emerged in the 1970s and has received considerable academic attention. Four main approaches, including logic of industrialization, partisanship-based theory, institutionalism theory, and employer-centered theory, have dominated the literatures. Each of them focuses on the role of economics, political party, institutional factors and employers respectively. The logic of industrialization originated in Durkheim's functionalism by regarding the major factor as industrialization and related demographic change (Wilensky, 1975). The partisanship-based theory argues that, left-wing political parties that have emerged, mediated by alliances with the middle class, determine the generosity of a welfare state and how universalistic it is (Korpi, 1983; Korpi, 2006). The emerging institutionalism approach sheds light upon the historical legacies of earlier institutional choices, which limits room for future policy formation (Skocpol & Amenta, 1986). The employer-centered approach, which is usually termed as "varieties of capitalism", claims that employers have played an important role in social insurance development (Hall & Soskice, 2001). These theories together reveal a whole set of determinants of the origins and growth of the welfare state in the west. However, the policy of decentralization being adopted since the 1980s has transformed western welfare states and brought about

convergence effects. In other words, it marks a watershed in the transformation of western welfare state from the old style toward a new style; as the varieties of welfare states have converged and welfare services have been uniformly reduced. The following presents the detailed arguments of the four approaches outlined above.

***Logic of industrialization*** Logic of industrialization emerged in the 1970s with the observation of the close linkage between large-scale welfare state and economic prosperity. This school argues that industrialization makes social policy both necessary and possible. Inevitable trends of urbanization, migration, and replacement of the extended family with the core family, have made traditional welfare providers such as family, the church unable to meet the needs of vulnerable individuals with increasing social risks. Thus state intervention becomes necessary. The necessity came about because on the one hand industrialization had created adequate wealth for redistribution, on the other hand, the growth of bureaucratic organizations has allowed the scheme run smoothly. Just as Wilensky stated, “economic growth is the ultimate causes of the general emergence of the welfare state” (Wilensky, 1975).



Soon the logic of industrialization was confronted with the challenge of “U.S exception”, which stated that U.S was the most industrialized country at that time, but it was not among the early adopters of social insurance. Also, theoretically, this theory failed to include political factors in its explanation (Hacker, 2002). This theory dominated the field until the 1970s when the oil crisis occurred with the consequent economic stagnation accompanied by high unemployment and high inflation. The economic downturn lasted for two decades, and government spending seemed unable to heal these problems.

***Partisanship-based Approach*** Partisanship-based theory was introduced in the 1980s, and argues that the alignment of the working class and left-wing political parties are the root causes of the emergence of welfare states. Countries where social democratic parties dominate develop generous and universalistic welfare policies, which emphasize full employment. Countries with dominating Christian democratic parties also develop generous welfare policies but they emphasize income transfers to families rather than universalistic coverage (Allen and Scruggs, 2004).

According to the view of neoclassical economists, labor is an anonymous



commodity, and laborers have the asset value to be “commodified”. However, the “counter movement of social protection” (Polanyi,1941) brings about “decommodification”, which means that “a person can maintain his or her livelihood without reliance on the market” (Esping-Andersen,1990,p.21). Decommodification strengthens the workers and weakens the absolute authority of the employer. It is for exactly this reason that employers have always opposed the welfare state. Welfare state is thus “politics against market” (Esping-Andersen, 1985, p.22).

In this regard, the partisanship-based model of welfare politics suggests that the welfare state is built on the shoulders of an unwilling capitalist class, who constantly looks for opportunities to unburden itself. This theme hasn’t changed at all in the burgeoning literature on globalization. Globalization, by increasing the mobility of capital and labor across national borders, extricates the labor supply from national control and makes the financial sector unable to stay within national boundaries (Cronch & Streeck, 1997). In a similar vein Rodrik (2008) concludes that integration into the world economy reduces the ability of governments to undertake redistributive taxation or implement generous social programs.



***Approach of Institutionalism*** There are different strands of institutionalism theories. One strand focuses on the historical legacies of earlier institutional choices such as the choice of a particular type of welfare programs or a state structure. The other strand focuses more on the role of institutions in setting the rules of political engagement (Estévez-Abe, 2008, p.1-10).

One of the prominent strands is veto points. Veto players are defined as actors (either political parties or individual politicians) whose consent is necessary to pass laws. They argue that a legislative process which contains many veto players make policy shifts difficult. In this regard, when the number of veto players is large, a country is less likely to develop universalistic programs, because it becomes very easy for minority groups to oppose what may benefit the majority (Skocpol & Amenta, 1986).

Some literatures focus on the relationship of welfare state development with political structures. Some claim that PR gives rise to a more cooperative form of parliamentary politics they call “consensual democracy”, which enables the introduction and expansion of welfare programs by facilitating cooperation among polity parties. By contrary, single-member districts (SMD) would induce a more





confrontational politics—“majoritarian democracy” —leading to a smaller welfare state. Others oppose this view by claiming that PR systems are more likely than SMD systems to give rise to left-of-center governments that spend more on social programs. In their argument, coalition governments tend to develop smaller welfare states than majoritarian governments because coalition governments have more veto players within the government than majoritarian governments do (Iversen and Stephen, 2008)<sup>16</sup>.

***Employer-centered approach*** Approach of varieties of capitalism (VOC) has emerged as another institutional approach with emphasis on the role of the employers. It is the insight of complementarities between welfare state regimes and varieties of capitalism explained by the patterns of industry. The *VOC approach* regards enterprises as crucial actors in the history of the welfare state. David Soskice revitalized the debate by distinguishing liberal market economies (LME) and coordinated market economies (CME) with differentiated production strategies, firm relationships, industrial relations and financial relations (Hall and Soskice, 2001; Iversen & Soskice, 2001).

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<sup>16</sup> More detailed discussion could refer to Iversen, T. & Stephens, J. D. (2008). Partisan politics, the welfare state, and three worlds of human capital formation. *Comparative Political Studies*, 41(4-5), 600-37.



VOC literature is based on the premise that countries develop very different types of market economies depending on their institutional endowments, and this mechanism tends to be self-reinforcing. In LME, the equilibrium is usually adjusted by the competition of markets. Firms coordinate their economic activities through the strategy of for-profit mass production, and thus semi-skilled workers are required. Meanwhile, short-term relationships between employers and employees exist in this regime. While in CME, the equilibrium is more often the result of strategic interaction among firms and other actors. In this regime, firms coordinate their economic activities via a strategy of producing high-quality products. Thus, high wage structure, high labor investment and stable financial relationship with banks and enterprises are a necessity (Hall and Soskice, 2001). However, the focus on employers tends to leave politics, electoral politics in particular, underexplored.

***Decentralization and Welfare State*** The preceding approaches endeavor to account for the varieties of welfare states. However, in the last decades, considerable cross-national literatures have shown empirically that decentralization (see Box 3.1 below) has reduced the varieties effect, that the decentralized welfare states have uniformly reduced welfare spending (Castles, 1999; Greer, 2010).

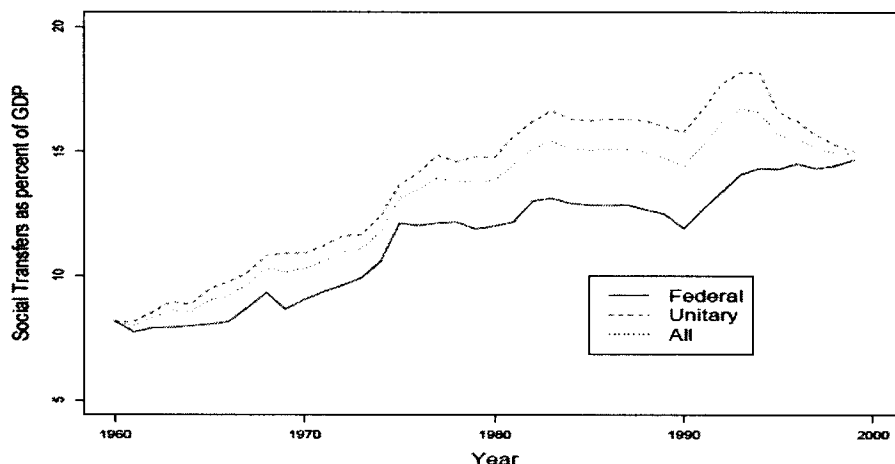


### Box 3.1 What Is Decentralization?

Decentralization is a multi-dimensional concept.

- (1) Institutional decentralization. In the institutional design of federal countries, members of the upper house in the national legislature represent states or provinces. It is closely related to bicameralism.
- (2) Administrative decentralization. It implies a delegation system where the local and county governments are primarily agents of the central government.

Figure 3.1: Trends in Social Transfer in Federal and Unitary States (18 OECD Countries)



Source: Greer, (2010).

Figure 3.1 compares trends in social transfers in both federal and unitary states,



and illustrates that the former have consistently spent less than the latter in the post-World War II period. Two approaches can account for this trend: approach of institutional design or political veto players (or institutional fragmentation), and approach of inter-jurisdictional competition.

From the point of view of the formal approach, decentralization is considered as a veto point or an extra obstacle to greater social expenditure, since multiple levels of government need to agree and coordinate. In this regard, pro-welfare alliances are less likely to form, and the opponents acquire more channels in influencing policy making, in a multi-layered system (Cameron, 1978; Swank 2001, 2002). Studies of major welfare states, such as Canada, the United States and European countries, tend to back the theory that large numbers of veto players hinder the expansion of welfare states (Immergut, 1992; Quadagno, 2005). This trend is also obvious in the retrenchment of the welfare state where it is shown that decentralized states are less able to reduce welfare expenditures (Pierson, 1995; Simeon, 2006; Jordan, 2009).

The latter approach contends that sub-national units are more likely to engage in aggressive economic development activities and a race to the bottom in welfare



provision in an attempt to get ahead of competing neighboring countries under fiscal constrain. In a decentralized system, local states become more dependent on footloose “consumers” to contribute to tax revenue, and thus compete for mobile capital. In this regard, deregulation of labor relations and decoupling of the welfare provision have become important competitive strategies.

### ***Limitations of existing approaches in accounting for varieties of welfare regimes in China***

The above part outlines four broad theoretical approaches in accounting for different welfare regimes of advanced countries. The four approaches could fall into a broader category of modernization, and each of them only stresses one aspect of economic, political, institutional and industrial conditions accounting for changes taken place in welfare regimes. These four approaches have also developed some mature research tools in the camp of quantitative study<sup>17</sup>. However, each theoretical approach has its shortcoming in being fully accountable to the origins

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<sup>17</sup> The operations of variables in the literatures are as follows. GDP, population structure, percentage of non-agriculture workers in the work force are examined under the logic of industrialization. For the partisanship-based approach, the variables of strength of the left-wing party, the elected representatives of the working class and the degree of labor unionization are examined. For the institutionalism approach, the size of government, size of state bureaucracy, and the degree of proportional representation are used as variables. For the employer-centered approach, a considerable number of variables related to skill, firm size, and extent of industrial risk are examined in the analysis.



and expansion of social insurance as analyzed above, but they have made some contributions to the issue of varieties of welfare regimes in localities of China. As discussed in Chapter One, the literatures have made it clear that China is moving towards an increasingly localized welfare regime, with varieties of social insurance developments in different regions. Yet few of the recent Chinese literatures –usually focusing on the Chinese political structure—are capable of explaining it.. In this regard, a discussion of varieties of welfare regimes of western countries helps to discern the possible factors in accounting for varieties of welfare regimes at the local level in China in this dissertation. In general, the aforementioned four factors, economic development, political structure, institutional factors, and industrial profile need to be examined in the Chinese context in this dissertation.

These approaches revised alone do have limitations in the ability to offer a full account of the varieties of welfare regimes in China because these literatures were developed in the west and they have been confined to advanced industrial states. They are more useful to understanding the western experience but ignore the important phenomena that there have been serious attempts by post-industrial states to institute social insurance schemes at the onset of major economic and political



changes in the late twentieth century<sup>18</sup>. China is one of the representatives and it is neither an advanced industrial state nor a democratic one. Nor do these four approaches easily and completely fit into a narrative of varieties of welfare regimes at the local level in China. A central point of departure of China from the approaches of western countries is the balance of political power, with particular reference to the relative strengths of the working class, labor unions and left-wing parties. In this regard, the partisanship-based approach and proportional representations approach that characterize mature democratic states would not be compatible with one-party dictatorship in authoritarian China. For the employer-centered approach, disputes often arise owing to the insufficient attention paid to the political setting (Hacker & Pierson, 2002). Especially in developing countries with authoritarian roots, the preferences and incentives of political actors is decisive for policy choices (Mares & Carnes, 2009). Thus this approach cannot explain the full varieties of welfare regimes in China. After reviewing the applicability of western theories in analyzing the Chinese case, the following discussion focuses on how China experts analyze Chinese welfare development.

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<sup>18</sup> Eastern European welfare systems, though increasingly strained, provided comprehensive protection and services to almost the entire populations. East Asian welfare systems tend to be “productivist” in offering minimal social insurances, but in which a high priority is placed on healthcare and education schemes. In Latin America, the urban middle class and some blue-collar workers enjoyed access to relatively generous systems of public protection, but peasants and informal-sector workers were generally excluded (Haggard & Kaufman, 2008).



### 3.3. Theoretical Approaches Accounting for the Varieties of Welfare Regimes at the Local Level of China

Recalling that one of the research questions of this dissertation is, how to explain local variations in social insurance implementations. Decentralization in China does not uniformly hinder welfare expansion as western experiences have shown. The literatures have made it clear that in China varieties of welfare regimes are emerging in different regions and that some regions are moving toward expansion, but some regions are pulling back on welfare provision. The existing literatures accounting for various policy changes in parts of China are dominated by two approaches, the central-local approach and the approach of local resource.

***Central-local approach (exogenous)*** Given that implementation is political in nature, the strategic relationship between officials in the central government and local implementers constitutes a crucial determinant of local responses. These exogenous factors are highly related to the decentralization context. Decentralization can change the cost-benefit calculus of the implementation game so that the local implementers may become more rational or be motivated to maximize the local interest. Based on local protectionism, local cadres tend to





play the role of representatives of local interest rather than mere agents of the center. Most of the debate focuses on the extent to which the central government can discipline its local agents.

In terms of social insurance, some literatures have argued that the local governments possess limited incentives in expanding social insurance, as the generic local interests produced by the social insurance policy is sufficiently large.

In the dissertation of Peng (2011), he argues that, on the one hand, local governments compete to attract mobile capital as foreign direct investment (FDI) for investment, which is crucial to economic growth. On the other hand, they tend to push the cost of social insurance down so as to maintain competitiveness in labor cost. However, in order to overcome the pressure from the central government, local governments would strategically introduce social insurance by creating an acceptable coverage between the affordability of the local industries and tasks handed down by the central government.

Meanwhile, limited incentives for social insurance development in China are highly associated with the weak bargaining position of local governments. On the one hand, China's regional economic development has benefited tremendously



from the opening up of investment. Owing to the abundance of labor but shortage of capital, local officials are at a weak position when bargaining with capital and thus they sometimes compromise with the providers of capital (Li & Qi, 2011). This is in sharp contrast with the disadvantaged treatment received by workers. The local cadres show impartiality to employers in dealing with labor disputes because employers are usually involved in rent-seeking activities (Xia, 2010).

It seems that existing researches have created a stereotype in local governments; they are portrayed as tending to focus on economic development at the expense of social stability. However, in order to promote social justice the central government has repeatedly urged local governments to expand social security by increasingly weighting allocated to social stability in the evaluation system. This initiative has worked well. Tang & Liu (2012) find that the behaviors of local governments have transformed from pursuing a unitary objective of economic growth as “promotion championships” to the pursuit of the dual objectives of social equity and economic growth.

In a similar vein, Huang (2004) also argues that local cadres are not perfectly aligned with economic incentives and thus are against social policy development.



Besides economic growth, local cadres are also in charge of social stability. He has studied the rural leaders providing public services. His research results show that, on the one hand, since the household responsibility system weakens the power of local cadres in resource retention, but the growing number of bureaucrats has significantly burdened local finances, rural enterprises are a better source of revenue and power for local cadres. On the other hand, rural cadres have to answer to the provincial authorities while at the same time they are responsible for their constituents. Higher-level local authorities employ specific performance criteria to determine each official's level of remuneration, tenure of office, and opportunities for advancement. Local residents exert pressure on local officials to dish out benefits such as public services. Booming rural industries and the dramatic rise in rural household income offer villagers unparalleled opportunities and resources, making them less dependent upon rural cadres. In this regard, in order to extract revenue from local industries for private consumption, they have a strong incentive to maintain political stability in order to hold a formal position in the community.

It has been argued so far that, drawing on the principal-agent theory, this exogenous approach contends that the nature of the evaluation system helps to



explain functional/dysfunctional aspects of policy implementation at the grass roots. The choices of local cadres are often tied to high-weighted evaluation indicators and fiscal revenue. In this regard, the fiscal distributions between central and local governments, together with the performance indicator, constitute important factors that shape the preferences of the local cadres in social insurance development.

*Approach of Local Resource (Endogenous)* This approach argues that, to understand the various social insurance implementations, different endogenous institutions among the localities make local officials respond to the same central policy in differing manners. Susan Whiting (2001) examines the fiscal extractive capacity in three county-level cities, and argues that the more interest the local cadres acquire from local institutions, the more likely they will deviate from the central government's directive<sup>19</sup>.

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<sup>19</sup> In her analysis, tax evasion was the most serious in Wuxi, Jiangsu Province, owing to the collusion between local cadres and entrepreneurs. This is because the local cadres in Wuxi were inclined to retain interest from the township or collective enterprises since the local government was intensively involved in the running of township enterprises. Yueqing of Zhejiang Province constitutes a stark contrast, the local cadres were much more obedient in tax submission to the central government in exchange for political resources, this is because the industrial base was so undeveloped in Yueqing that the local cadres were unable to obtain revenue. Songjiang city in Shanghai is an in-between case.

Under the same logic, Wu (2008) distinguishes three migrant citizenship regimes and their social insurance coverage. In a segregative-exclusionary regime, the *hukou* system is rather close owing to the institutionalized discrimination against the migrant population. Hence the general participation rate of migrants in social insurance is very low. While in the opposite regime characterized by a low degree of institutionalized differentialism, skilled and higher-educated workers can gain access to the urban regime, and thus stands out with fairly equitable programs to the migrant workers. The urban *hukou* is extremely difficult for ordinary migrants in the hierarchical regime (the metropolitan and provincial cities) to obtain, and thus exclude migrant workers from the urban system by pooling them separately and enrolling them in programs with a lower treatment than that for urban workers.

He attributes the formation of these varied three regimes to indigenous industrial base and opening sequence. Guangdong is reprehensive case of segregative regime. Due to the undeveloped industrial base, it has long developed a reputation for its “flexible policy” and generous concessions to FDIs, and thus possessed a rather weak bargaining power with foreign capital. In turn, the local governments are incapable of supporting the expansion of social insurance with a low capacity.



The Yangtze River Delta is an example of an incorporative regime on the other end of the spectrum. What made this regime divergent from Guangdong’s segregative regime can be attributed to its grounded industrial base, one-step-behind timing of the region’s opening up to foreign investment. For the migrant workers in the metropolitan cities, migrant workers are continually excluded from the urban regime, which is both hierarchical and exclusionary due to the legacy of concentrating state-owned enterprises (Wu 2008).

In Frazier’s book *Socialist Insecurity: Pensions and the Politics of Uneven Development in China* (2010), he showed that China’s highly decentralized pension administration both encourages the “grabbing hand” of the local officials to accumulate large amounts of social insurance revenue and create different forms of redistribution. He argues that regional differences in dominating enterprises would cause different forms of pension redistributions.

Table 3.1 Summary of Regional Pension Administration

Region	Scope and primary source of social insurance revenues	Degree of redistribution
Interior	Narrow; large SOEs	Low
Northeast	Narrow; SOE sell-offs and surviving SOEs	Low; with some subsidies from the central government
Southeast	Broad; foreign-invested and private enterprises	Medium

Shanghai	Broad; all sectors including civil servants, farmers, and migrants	High
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Source: Frazier (2010).

As Table 3.1 indicates, in the interior and northeastern provinces, the revenue base of pension is narrow and the redistribution effect is low. In the southeast region and in Shanghai, pensions are more redistributive in the sense that pension revenues are transferred from a broad base of private and foreign-invested firms to SOE retirees. Moreover, business opposition to welfare policies, or preferences for certain policies over others, according to Frazier, has exerted a powerful influence on the design of China's new welfare state and shaped its development. Large SOEs are inclined to retain their own pension administration. Such firms and their managers prefer pension arrangements that commensurate with the higher status of their firms in the administrative hierarchy. Local SOEs stand out with a totally different attitude from those of large SOEs. The local SOEs have to consider the market pressure from non-state firms and the looming debt burdens. Private firms, including wholly foreign-owned firms, sought to avoid social insurance levies or bargained with local officials to reduce social insurance payments and workforce coverage (Frazier, 2010,p.100-37).

Despite enterprise ownership, as Nyland, Smyth and Zhu (2006) have further

explored, employers' preferences for welfare policy are also divided over the size of firms and the incidence of risk , by utilizing firm specific data collected from Shanghai. Large firms are less likely than small firms to remit social insurance contributions. State-owned enterprises with a high proportion of aging workforce, young female employees of child bearing age and unemployment are more willing to contribute to social insurances in order to redistribute industrial risk. By contrary, foreign owned companies embrace more incentive in fee evasion with a much lower industrial risk.

In accounting for the better treatment of migrant workers in the Yangtze River Delta than in the Pearl River Delta, Liu Yong & Shu (2011) resorted to an account of society and culture. Measures to deal with labor disputes in the Yangtze River Delta is much more *mianzi* (face)-oriented, since this region carries more legacy of the socialist tradition and embedded personal network in state-owned enterprises and township enterprises. Constrained by the local social network, employers tend to provide a better provision to the local residents. Inevitably, these better treatments were extended to the migrant workers. While in the Pearl River Delta region, welfare provision from employers is purely market-oriented, owing to high proportion of migrant workers compared with local workers.





### ***Critical review of existing approaches in accounting for China's varieties of welfare regimes***

Each of these approaches provides important insights into potential causes of the large variety of welfare regimes in the different regions of China, but each of them has shortcomings in fully explaining the varieties. The limitation of the central-local approach is that social insurance implementation involves more stakeholders than the number of levels of government. It fails to further touch upon other policy stakeholders. At the same time, recent literatures under the second approach explore and portray how employers have shaped China's local social insurance policies. China's economic reforms have enhanced the power of business owners, who in turn have developed different relations with the state, leading to the varied policy outcomes. However in the second approach, the strategic relationship between the leaders in the central government and local implementers is inadequately discussed. This dissertation tries to integrate the two approaches.

#### **3.4. Conclusion and Linkages to the Research Framework**

Similar to that of western countries, China's social insurance reform has witnessed



a remarkable bottom-up trajectory. In examining the influence of decentralization to the welfare states, veto players and jurisdictional competition have become the dominated two theoretical approaches, as we discussed above. If the veto points and jurisdictional competition are taking effect, what sort of outcomes can we expect in the local policy implementations in China? One expected outcome would be “a race to the bottom” in labor insurance. Yet, in reality, varied implementations of social insurance in China—from opposition to standardization—are observed, as discussed in Chapter One, how did the intergenerational devolution of social policy happen? Why do the local implementations of social insurance vary?

Existing literatures that address policy implementation in China is mainly examined from the vertical perspectives. Generally, these literatures have clarified the incentive structure of Chinese local bureaucratic to explain for the policy deviation. Since both economic development and revenue generation are foremost in the minds of the local officials, the local governments compete to spur on economic growth and thus possess strong incentives to make devolution from the policy target of the central government. In this regard, the role of the local governments are labeled as local state corporatism (Oi, 1992), industrial firms



(Walder, 1995), local market socialism (Lin, 1995), and the local cadres are portrayed as businessmen (Shue, 1988). Moreover, O'Brien and Li (1999) further adopt "selective implementation" to describe the policy deviations. Since some policy targets (such as GDP growth and fiscal revenue) are measurable, while some other policy targets (such as the labor protection and livelihood) are non-measurable, thus the local governments are inclined to implement policies selectively. Considerable literatures have accumulated to examine policy implementations with focus on central-local relationship from the vertical dimension in China, the present research has chosen a focus on the horizontal dimension in exploring the social insurance implementations are varied among different localities<sup>20</sup>.

As discussed in the previous part, the literatures that address the horizontal perspectives are dominated by two approaches, the central-local relationship and local resources, both of which are introduced in section 3.3. The first camp of literatures focuses on political power, whilst the second camp focuses on the

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<sup>20</sup> The issue of policy implementation in China has accumulated considerable literatures. For example: Oi, J.C. (1995) The role of local state in China's transitional economy. *The China Quarterly*, 199,1132-49; Walder, A. (1995). Local governments as industrial firms: an ongoing analysis of China's transitional economy. *American Journal of Sociology*. 101(2). 263-301; Lin, N.(1995). Local market socialism: rural reform in China. *Theory and Society*.24 301-54; Shue, V. (1988). *The Reach of the State: Sketches of the Chinese Body Politics*. Stanford University Press; Zhang, J.(2000). *Research on Rural Grass-roots Government*. Zhejiang People's Press; O'Brien & Li,L.J.(1999).Selective Policy Implementation in Rural China. *Comparative Politics*. 31(2). 167-86.



industry and the role of the employers. Since each one cannot fully explain the varieties of the welfare regimes in localized China, the integration of these two approaches could be an attempt to utilize the analytical approach to guide this research.

The first approach is linked with local politics in China. The dominance of the CCP over political institutions in China implies that once an agreement is reached within the central leadership, the veto players lack the means to block the reform. Yet, as scholars interested in Chinese politics have long been aware, policy implementation tends to be a process of devolution owing to the number of veto players across territorial bureaucracies. It is long described as “the higher authorities make policy and the local authorities have their counter measures”. Even if a law is enacted by the National People’s Congress (NPC), the policy effects are still largely dependent on the implementation agencies at the local level. This local politics approach will be further discussed in section 4.3.

The second approach is associated with the employer-centered approach as discussed in section 3.2. This approach has emphasized the role of employers and development strategy. As China’s reform is a gradual and experiential process,



local businesses have been empowered to take initiatives in exploring the path of local economic development with local governments. In particular social insurance is almost entirely financed by the enterprises, thus their preference is influential in shaping local social insurance policies. Given the important role of employers, the employer-centered approach is adopted in this dissertation. However, this approach has some limitations. As Skocpol and Amenta (1986) argues that, the risk exposure of enterprise is certainly an important factor in the welfare state, but political power is more often the decisive factor. This is particularly true in China's case as it is an authoritarian political regime. In other words, the employer-centered approach has emphasized the role of employers in the establishment of social insurance in western countries but in China's case the role of employers should not be the sole focus because political power is equally significant, or maybe more. Thus the role of employers in developing local social insurance will be reexamined or adjusted in the China's case, and this constitutes the approach of the welfare production regime, which will be introduced in section 4.2.

Furthermore, the interactions between policy stakeholders have shaped the varieties of welfare regimes in China. In order to further examine how local social



insurance policies have evolved, a stakeholders' analysis is adopted as the theoretical approach guiding the analysis of this dissertation. This is elaborated in section 4.5. After reviewing the literatures in accountable for varieties of welfare regimes in west and in China, the following chapter would discuss the theoretical framework of this study.



## CHAPTER 4

### THEORITICAL FRAMEWORK FOR THE STUDY

#### 4.1. Introduction

Based on the critical reviews in Chapter Three, this chapter merges welfare production regime and local politics of China in order to establish a theoretical framework for the present study. A proposed framework would allow us to assess how the local authorities respond to the central government's social insurance policy. Correspondingly, this chapter develops five categories of research hypotheses. Finally, an analytical flowchart guiding this research is presented.

#### 4.2. Welfare Production Regime

***Historical Institutionalism*** Historical institutionalism constitutes the backbone of the theoretical framework in this dissertation, and thus this section discusses historical institutionalism in some detail. Historical institutionalism is one approach under the label of “new institutionalism”(see Box4.1 for elaboration).



New institutionalism is developed in reaction to the old behavioral school which was influential during the 1960s and 1970s, it seeks to elucidate the role that institutions play in the determination of various social and political outcomes (Hall and Taylor, 1996)<sup>21</sup>. Disappointed with grand theory and behavioral theory, new institutionalism shifts its focus to meso-level analysis and middle-range theory by assigning importance to formal and informal institutions. The scholars under this camp have developed a more expansive conception of which institutions matter and to examine of how they matter (Hall and Taylor, 1996). In this regard, historical institutionalism accommodates the objectives of this research well in exploring which institutions matter to the various social insurance implementations and how they matter.

#### Box 4.1 New Institutionalism

Three approaches are captioned by new institutionalism, and they are historical institutionalism, rational choice institutionalism, and sociological institutionalism. Their differences are briefly identified. Whereas the three approaches have reached considerable agreements in that they all perceive institutions as rules that structure behavior, where they differ with each other is how to understand the actions or behaviors is being structured (Hall and Taylor 1996).

<sup>21</sup> The scholars under the old behavioral school argue that the human world is governed by laws of behavior and action. Thus the main job of the social scientists is to discover the basic laws with the aim to improve the world. During the late 1970s and early 1980s there emerged a concomitant move in comparative politics, in which students began to actually compare real world cases.



*(Continued)*

The rational choice school argues that human beings are rational individuals who evaluate the costs and benefits in the choices they face, and try to maximize their interest. The scholars under this approach think institutions are important but quite simply as they frame the individual's strategic behavior. Scholars of sociological institutionalism, in contrast, see human beings as fundamentally social beings. In this view, humans are neither self-interested nor "rational", but are "satisfier" habitually. Instead of maximizing self-interest, scholars of sociological institutionalism argue that human beings generally follow "logic of appropriateness".

Under the view of sociological institutionalism, the important institutions are social norms that influence decisions in everyday life and social interaction. Historical institutionalism stand between the two hypotheses: human beings are not neither completely norm followers nor rational actors, they are both. Putting these theoretical hypotheses behind, historical institutionalism has shift the research focus to real world outcomes by discussing why a certain choice was made and why a certain outcome occurred (Hall and Taylor 1996).

To develop explanatory institutions, scholars working in historical institutionalism no doubt take history seriously. First, political events happen within a historical context, which directly influences final policy decisions. This is a huge insight that usually easily misses in quantitative analysis, in which time/place is commonly perceived as variables without causal and contextual effects. The second reason is that actors or agents can learn from experience. The historical institutionalist understands that behaviors, attitudes and choices are conditioned by particular social, political and economic contexts. In conclusion, under the perspective of historical institutionalism, history is an evolving process rather than



a chain of independent events (Pierson, 2000; Steinmo, 2008). In terms of methodology, this approach means not only examining the past, but also looking at processes over time (Pierson & Skocpol, 2002).

This institutional process is path dependent. Path dependency suggests that the preceding steps in a particular direction induce further movements in the same direction, owing to the increasing returns. That is to say, the relative benefits of the current activity compared with other possibilities increase over time, or put in a different way, the costs of exits are very high (Levi, 1997). This carries important implications, it means that earlier events matter much more than later ones, and thus different sequences may produce different outcomes (Pierson, 2000). Based on historical institutionalism, a considerable amount of literature trace the institutional evolution of welfare provision, and it is a welfare production regime.

***Welfare Production Regimes*** Based on historical institutionalism, recent works contend that the welfare state can be understood as a complementary element to the production system. The notions of ‘complementarities’ and “systematic coordination” define the core of this theory. More specifically, close linkages exist



among development strategies, workers' skills, domestic politics, and social protection. These linkages have been organized into distinct "welfare production regimes" in different countries, and each is associated with its own political-economic dynamics, and reinforced by the international division of labor. The scholars working in this tradition make efforts to understand the linkage between models of capitalism and welfare state (e.g. Scharpf & Schmidt, 2000; Ebbinghaus & Manow, 2001; Mares, 2003; Iversen, 2005).

Welfare production regime considers social insurance as "*politics of markets*". As discussed in Chapter Two, welfare capitalism is primarily remedying the failure of markets and thus a kind of labor de-commoditization. In this regard, social insurance is "*politics against markets*", which implies that social protection hinders the operation of markets (Esping-Andersen, 1999). However, the evidence of "welfare production regime" has shown that employers would provide workers with different forms of social insurances rather than uniformly oppose to the expansion of social policies in considering labor cost. Therefore, it is "*politics of markets*". This approach argues that employers have played a proactive role in the formation of the welfare state, and thus tries to "bring the employers back". To further answer the question of under what conditions employers support social



insurance and under what conditions will employers oppose social insurances, two key variables are summarized based on the existing literatures, and thus a relationship between production regime and welfare regime is established.

**Firstly, skill formation is the core of welfare production regime.** The links between skills and social protection could predict what types of alliance are likely to emerge in support of a particular type of social protection (Table 4.1).

Table 4.1 Skill Profile and Welfare Provision

Firm-specific skill	Industry-specific skill	General skill
<div>✓ High employment security</div> <div>✓ Earning-related benefits</div> <div>✓ High tax-reduction to the enterprise welfare</div> <div>✓ Working-time related</div>	<div>✓ High replacement ratio of benefits during unemployment</div> <div>✓ Labour training programs</div> <div>✓ Earning-related benefits</div>	<div>✓ Little protection built into either the employment or the unemployment system</div>

Source: Estevez-Abe, 1999, p.40

The core of skill formation lies in that, social policies avoid the reluctance of workers to invest time to learn skills (Mare 2003). As Table 4.1 indicates that, skills vary in terms of types of training, and thus could be broadly divided for

firm-specific skills, industry-specific skills and general skills. Firm-specific skills

are valued by the current employer, and its acquisition is through on-job-training, but there is a lack of portability from one employer to another. Therefore, it is safe for employers to provide training for these specific skills. Industry-specific skills are acquired through apprenticeship and vocational schools. Among the three, general skills are the most portable, and they are more useful for a large number of employers (Estevez-Abe, Iversen & Soskice, 2001).

As Table 4.1 indicates, welfare provision enters the story here because they affect the decisions of workers and employers about the skills to invest in. Here welfare provision simply denotes employment and unemployment protection. Because firm-specific skills are the most vulnerable when a position is terminated, workers will hesitate to invest in this kind of skill. Therefore, strong employment protection is provided by employers, in order to safeguard the firm-specific skill investment. For industry-specific skills, employment protection per se matters less since the workers are transferable among one industry. Instead, what becomes important for workers to invest in industry-specific skills is the protection of “skilled wages”, regardless of employment status. Thus unemployment protection achieves this goal by securing earning-related benefits as well as keeps the skilled wages. If general skills are what firms need for pursuing their product market



strategies successfully, low employment protection and low unemployment protection can thus give these firms a competitive edge (Estevez-Abe, Iversen & Soskice, 2001).

**Secondly, firm size and exposure risks also matter.** What factors influence the cost-benefit calculations made by firms? Mares (2003) contributes to the welfare production regime by predicting firm size and incidence of risks and using them as two variables. She distinguishes the preference of employers into two types: risk redistribution and control. Firm size, the incidence of risk, and the skill composition of a firm interact in determining the sensitivities of firms towards the design of social policy and in explaining the variation in the social policy preferences of different firms (Table 4.2).

Table 4.2 Social Policy Outcomes Preferred by Different Firms

	Size and skill intensity	
	High (SC>0)	Low (SC<0)
Incidence of risk		
High (SR>0)	Contributory	Universalistic
Low (SR<0)	Private	None

SR: sensitivity to risk  
 SC: sensitivity to control  
 Source: Mares (2003).

As Table 4.2 indicates, for firms affected by a high incidence of risk, they are more inclined to choose a redistribution program. By contrary, for firms characterized by a low incidence of a risk, they are more against a redistribution program, because they would have to compensate for the cost of high-risk enterprises. Compared with median and small enterprises, big firms are more capable of training core skills, and hence are more able to fend against economic fluctuation. As a result, for large firms or firms employing skilled workers, they benefit from an increase in the level of control. While for small firms, they support a redistribution program. In other words, big firms prefer employment security, while for small firms, low employment security can gain these firms a competitive edge, otherwise costs would increase limiting production flexibility.

As Table 4.2 suggests, if sensitivity to control (SC) is positive and sensitivity to risk (SR) is negative, a firm's utilities would peak on the upper boundary of the social policy space, in the vicinity of a 'private-type' social policy. If both are positive, the utility of firms will be at a maximum in the vicinity of a contributory insurance solution. Thirdly, firms will prefer a universalistic social policy if SR is positive, but SC is negative. Finally, firms will reject all social policies if both take on negative values.



#### 4.3. Bring the Politics in: Local Government and Social insurance in China

Production regime is insufficient to fully explain the formations of welfare provision as discussed in Chapter Three. In a mature democratic welfare state, the power of employers is structural in nature, but governments have to win elections to stay in power, and it cannot be presumed that the electoral incentives of politicians are perfectly aligned with their economic incentives. In Swenson's (1997) analysis of the New Deal, politicians are faithful representatives of employers' long-term interests, yet they also face an urgent need to accommodate popular demands for political action. Swenson acknowledges that businesses often oppose such actions, but these political actions somehow ends up benefitting business, since electoral politics have its own dynamics. Thus, social insurance is powerfully affected by popular demand for redistribution and the dynamics of electoral politics in particular.

Different from the western democratic countries, China's social insurance is powerfully affected by decentralized politics, the local governments in China are accountable to higher-level governments rather than to the local electorate. Under the system of upward accountability, upper-level cadres employ a basket of





performance criteria to evaluate and determine local cadres' remuneration, tenure and opportunities for advancement. The indicators usually include a number of economic targets such as annual growth, fiscal revenue and foreign capital, as well as social harmony, which is composed of consumer price index (CPI), unemployment rate, coverage of social insurance, poverty and inequity. The "target responsibility system" (*mubiao zeren zhi*) is another important mechanism. If the cadres cannot achieve the basic targets determined by senior cadres, promotion is not allowed no matter how well they perform (Zhu & Wu, 2011). Given the assumption that local cadres are rationalist, local cadres would choose to pursue more achievable targets, either those on economic development or social stability. Generally, the local cadres in the economically-advanced localities usually go for economic growth whilst those in the poor regions are expected to spare no efforts in promoting social stability, as economic status cannot be improved in a short five-year tenure (Tang & Liu, 2011).

Since the 16th National Congress of the Chinese Communist Party (16th NCCCCP), the central government in China has promoted the concept of a "harmonious society" (*hexie*) instead of "well-off society" (*xiaokang*) (Cai, 2011). A balanced economic growth and social development has been a top priority of the Hu-Wen



Administration. Therefore, in order to reach performance targets, local governments are ascribed with a strong incentive to provide welfare goods in pursuing social harmony, in order to hold on to their positions and to get promoted. Especially for the well-off regions, they compete by pursuing social-administration innovation, and promote social insurance development in the same manner as spurring economic development.

There has been considerable pressure on the local governments to generate revenue. The fiscal reform in 1994 has drastically reduced local revenues by turning a sizable proportion of their revenue over to the central government. Though the share of local revenues in the national total has declined, the fiscal responsibilities of local governments have not just remained the same, they have actually increased. Local governments are now responsible for delivering most public goods to people. Under this context, local governments need more sources of revenue.

This narration has two lines. The first is the local government is using “labor insurance” as a tool of wealth generation without resorting to taxes. They promote saving-oriented programs and pension is one of the most typical examples. Under



such programs welfare funds come under local government control (Frazier, 2010).

The vast reserves of long-term capital coming under the governments' control, in turn, have provided them with a far greater financial capacity than tax revenue could otherwise deliver.

The second line is, with such a fiscal incentive, bureaucrats in local governments are competing for investment for stimulating economic growth to boost revenue. Therefore, they adopt strategies to boost investment in public infrastructure to spur economic growth, and try to minimize spending in social programs; this is the so called "GDPism" in local government in China. That is to say, public-expenditure competes with and crowds out social expenditures (Peng, 2011). According to Wong (1998), such a development has clear implications for the outcomes of socialization of social welfare: retreat of the state has widened regional inequality, and social development is increasingly being left to the verities of local choice and constraints. As yet, there is a tendency for local authorities to align with firms to resist policies they dislike.

#### 4.4. Research Hypotheses



Bearing the research problem of various implementations in mind, this research aims to identify the institutions that in what ways do they matter or why they matter. According to the theory of welfare production regime and local politics in China, the institutions capturing the local production regime, and strategic interaction between the central and local governments, would develop into the hypotheses of this dissertation. In terms of the local production regime, despite the fact that skill formation and firm size constitute two variables defining local economic development regimes, in China enterprise ownership constitutes another important instrumental variable. Two facets of decentralization including fiscal and administrative are also examined. In short, this research assumes that local welfare production regimes and the impact of decentralization have indeed affected the policy preferences of employers and local governments and thus their interactions, forming varieties of welfare regimes in different regions. In terms of assumptions, two categories of variables with five mechanisms will be examined to explain for the regional variations in social insurance implementation.

### ***Production regime***

From the perspective of economic development, skill profile, firm size and enterprise ownership would be concluded from the existing literatures to fully



define the local production conditions. The hypotheses are as follows:

Skill profile is a core variable in the literatures of welfare production regimes.

Firstly, according to the literatures, enterprises with specific skills are more inclined to expand social insurance schemes, in order to guarantee a return on skill investment and retain skilled workers. On the contrary, enterprises with general skills are reluctant to invest in social insurance which would place them in a disadvantaged position when competing with firms in other localities in terms of cost.

Secondly, with regard to affordability, industries with specific skills are more able to value-add to their products and thus are more profitable, so the employers are more capable of coping with social insurance premiums. Nevertheless the marginal profit of enterprises with general skills is comparatively low and thus there is a lack of incentives in expanding social insurance. Hence hypothesis 1 is developed as follows,

**Hypothesis 1.1:** The local social insurance coverage would be comparatively high when the workers in an industry embrace a specific skills profile.



**Hypothesis 1.2:** The local social insurance coverage would be comparatively low when the workers in an industry embrace a general skills profile.

The second variable is firm size, which is associated with the risk of fee evasion in the Chinese context. The risk of fee evasion is higher for big firms than small firms, or put in another way, the regulation cost is lower in small firms than in big firms. Since big firms are usually erected as a local model with more information transparency (information disclosure), evasion risk is comparatively high. The low regulation/implementation cost for the administrative agency but high relocation cost for the big enterprises has made the evasion activities of big enterprises more cost-effective. In turn big firms will be inclined to collaborate with local governments. In contrast, due to the dispersion of small firms, the implementation/regulation cost is comparatively high for big firms. Thus local governments are less likely to indulge in the “evasion activities” of small firms. Therefore, we formulate hypothesis 2 as follows,

**Hypothesis 2.1:** The local social insurance coverage would be comparatively high when the local industry is dominated by big firms.

**Hypothesis 2.2:** The local social insurance coverage would be comparatively low

when the local industry is dominated by small firms.

Under the context of China's transitional economy, one of the main criteria to distinguish regional economic development is the property status of the dominating enterprises, including that of state-owned, private, and foreign-invested enterprises, which measures their bargaining power with the local government. Usually, foreign-invested enterprises are disadvantaged in the local political-business network, so the target for social insurance expansion is more reachable in these foreign-invested enterprises. In contrast, domestic private entrepreneurs possess more bargaining power when negotiating with the local government as they are more politically active in the policy formulation process. The indigenous social capital and strong business unionism facilitate their negotiations. Since the emerging coastal cities in China usually lack a strong tradition of state-owned enterprise, thus the dominance of state-owned enterprises will not be discussed here. Thus, hypothesis 3 is presented as follows,

**Hypothesis 3.1:** The local social insurance coverage would be comparatively high when the local industry is dominated by foreign invested enterprises (FIEs).

**Hypothesis 3.2:** The local social insurance coverage would be comparatively low when the local industry is dominated by domestic enterprises.



## ***Decentralization***

From the perspective of decentralization, this chapter primarily examines fiscal and administrative decentralization. Under fiscal decentralization, local governments usually embrace negative incentives in inter-jurisdictional competition, and thus engage in a race to the bottom to deregulate labor provisions. However, evaluation systems from the central government may constrain this growth-priority behavior. The evaluation indicators related to people's livelihood will provide positive incentives in social-insurance expansion. Hence, we formulate hypotheses 4 and 5 (H4 & H5) as follows,

**Hypothesis 4.1:** The local social insurance coverage would be comparatively low if the extent of fiscal decentralization is high.

**Hypothesis 4.2:** The local social insurance coverage would be comparatively high if the extent of fiscal decentralization is low.

**Hypothesis 5.1:** The local social insurance coverage would be comparatively high if the evaluation indicators are more closely associated with social stability.

**Hypothesis 5.2:** The local social insurance coverage would be comparatively low if the evaluation indicators are more closely associated with economic





development.

#### 4.5. Theoretical Framework

Based on the discussion above, a stakeholders' analysis is adopted as a theoretical framework for this research (Figure 4.1 below). Expansion of social insurance by the central government does not discriminate any of the localities, however whether the policy is implemented correctly or distortedly depend on the certain circumstances in which the positive incentives are given or not. In this regard, this research first examines the local institutions. At the same time, the strategic interactions between the stakeholders are also embedded in these local institutions, and their incentives and interactions are examined.



Figure 4.1 Theoretical Framework



As Figure 4.1 suggests, this research has identified four stakeholders, local businesses, the local government, workers and the central government. Since social insurance is exclusively funded by employers and administrated by the local government, these two stakeholders exert a direct influence on the local social insurance policies. Compared with local businesses and the local government, the central government and workers tend to have only indirect influence on local social insurance implementations.

The strategies of local employers in influencing social insurance implementation are determined by their preference and financial capacity, both of which are associated with the industrial skill type. However whether their policy preferences can be implemented would depend on their bargaining power with the local government. Thus, the three dimensions of local employers, including incentives, financial capacity and bargaining power, are scrutinized (Figure 4.1).

In terms of the local governments, their policy goal, financial capacity, and administrative capacity are vital to local social insurance implementation. Under the local institutions, the local government has developed its own policy understanding. However, to what extent the policy is implemented depends on the

financial capacity and administrative capacity of the local government. Thus, policy goal, financial capacity, and administrative capacity of the local government are examined.

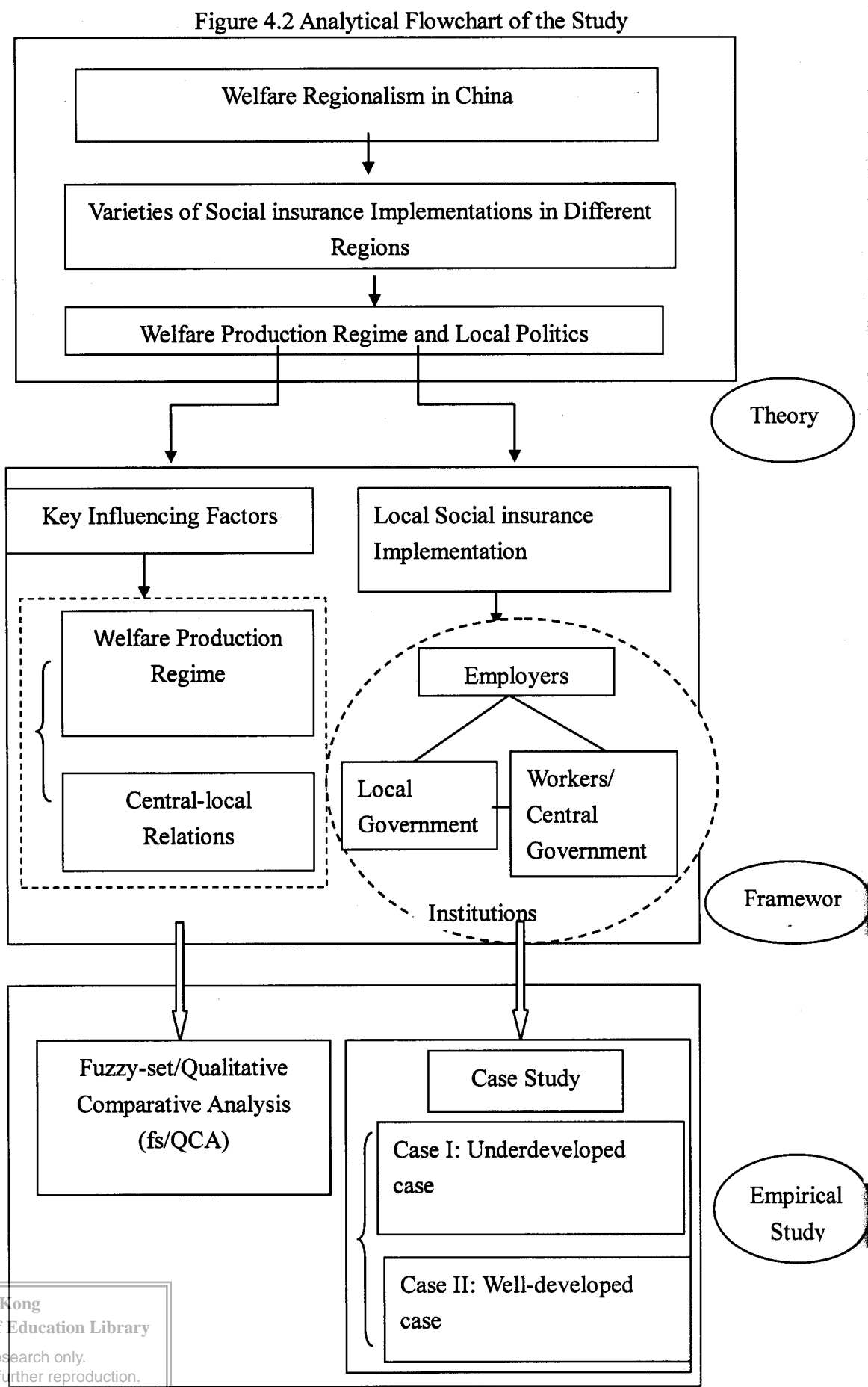
Finally, an ongoing debate over the implementation process concerns the role played by the workers. Workers are direct stakeholders, they are both the bearers and beneficiaries; however, in the configuration of labor relations in China, they are at a relatively disadvantaged position compared with the employers. In this regard, local workers' trust in social insurance and local agents is an important variable influencing their behaviors of remitting social insurance fees.

Another invisible stakeholder is the state in general and the central government in particular. As we have defined in the introduction, though the central government allows some discretions in the implementation of its policies, its position is far from passive. Thus the role of the central government is examined to supplement the facts in this research.

#### 4.6. An Analytical Flowchart



Figure 4.2 summarizes the analytical flowchart guiding the whole dissertation.



Looking at the first layer of theory, this research aims to examine welfare regionalism in China, with particular reference to the varieties of social insurance implementations in the coastal areas of China. Based on a critical review of the theoretical approaches, this research integrates the approach of the welfare production regime and approach of local politics to establish a theoretical framework guiding the study. Specifically, the former approach contends that social insurance is a complementary element to the local production regime; whilst local politics also play a proactive role in shaping local social insurance policies (section 4.2 & 4.3). Based on these assumptions, five pairs of hypotheses have been developed in examining the institutional factors that bred the varieties of social insurance implementations in China, including skill formation, firm size, ownership of the dominating enterprises, fiscal decentralization, and administrative decentralization (section 4.4).

Examining the second layer of our framework, in addressing the varieties of social insurance implementations at the local level of China, the study aims to discern “what institutions matter” and “why they matter”. In this regard, this research develops two lines for analysis. On the one hand, the key factors influencing the formation of local social insurance policies will be investigated. Hence the five



hypotheses discussed above will be examined. On the other hand, in order to further examine how varieties of local social insurance have evolved, a stakeholders' interaction analysis is adopted. Four policy stakeholders are identified, including local governments, local businesses, workers and the central government. Embedded in certain local institutions, the dynamics of interactions among the four stakeholders have shaped the implementations of local social insurance (section 4.5).

For the third layer of empirical study, in order to fulfill the two objectives discussed above, fuzzy-set/qualitative comparative analysis (fs/QCA) and case study are adopted in this dissertation. Fs/QCA is employed to analyze the affected institutions, and the case study will also be employed for further examining local social insurance policy formation. Chapter Five will deal with the methodology issues.

#### 4.7. Conclusion

This chapter proposes a theoretical framework for guiding the whole dissertation, by integrating the approaches of welfare production regime and local politics.



Based on historical institutionalism, a central theme addressed by the approach of welfare production regime is to find a complementary relationship between social insurance and local economic development. Thus, employers' preference for social insurance is examined. On the other hand, two facts of decentralization in China are also examined. Administratively, the behaviors of the local cadres are highly associated with the evaluation indicators set by higher levels of government. Fiscally, local governments have either used social insurance funds as a source of revenue, or deregulate labor insurances in competing for investment. In this regard, five pairs of hypotheses are developed in examining the institutional factors that have bred the varieties of local social insurance implementations in China. These factors include skill formation, firm size, ownership of the dominating enterprises, fiscal decentralization, and administrative decentralization.

Based on the above discussion, this chapter has developed the theoretical framework of stakeholder interactions. Embedded in the peculiar local institutions, the dynamics of interactions between the policy stakeholders have shaped the formation and implementation of local labor insurances. Finally, an analytical flowchart guiding the whole research is also presented, regarding what institutions





matter and how they work. Thus, examination of institutions and case study are jointly adopted as the research method for this study. The details regarding methodology will be discussed in the next chapter.



## CHAPTER 5

### RESEARCH DESIGN AND METHODOLOGY

#### 5.1. Introduction

This chapter presents the methodology of this dissertation. It firstly justifies exploratory design as the research design, and then shows approaches of data collection in two phases: qualitative and quantitative. Next, analytical tools, including fs/QCA and case study are elaborated. Finally, nine cities in three regions in coastal China are chosen as case cities.

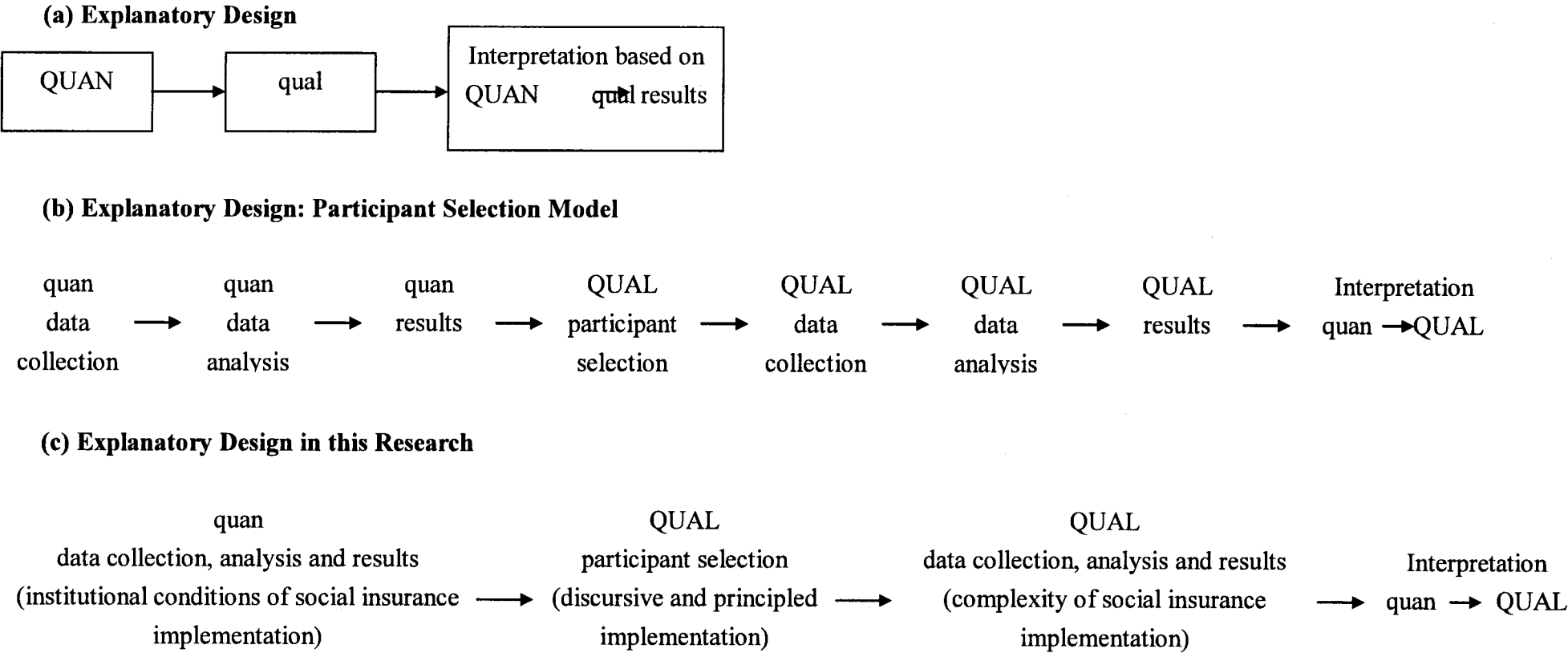
#### 5.2. Research Design

Both quantitative and qualitative methods are mixed in this research in order to provide valid answers to the regional variations in local social insurance. This dissertation adopts exploratory design as the research design. Scholars have devoted considerable effort in classifying four types of mixed methods design, which are the Triangulation Design, the Embedded Design, the Explanatory



Design, and the Exploratory Design (Creswell, 2009, p.69-70). Among them, the explanatory design (Figure 5.1a) is well suited to this research. It is a two-stage design, and the overall purpose of this design is to collect qualitative data which build upon initial quantitative results (Creswell, Plano Clark, 2011). Based on the participant selection model (Figure 5.1b), a researcher needs quantitative information to identify and purposefully select participants for a follow-up, in-depth, and qualitative study. Thus the emphasis of the study is usually on the second qualitative phase. When applied in this dissertation, the institutional conditions are first identified in the quantitative analysis. Based on the first-phase quantitative analysis, we purposefully choose two contrasting cases for comparison in order to further highlight the implementation dynamics (Figure 5.1c).

Figure 5.1 Explanatory Design of the Present Research



### 5.3. Data Collection

Researchers usually collect two kinds of data: primary and secondary data. Primary data is collected directly during interviews from the participants. The secondary data is evidence that usually takes the form of official statistics and various types of documents. Each approach serves divergent purposes. This dissertation involves two phases of data collection and various data collection methods.

#### 5.3.1 First-phase Quantitative Data

In the quantitative data collection part, the researcher mainly collects secondary data. As nine municipal cities from Guangdong, Zhejiang, and Jiangsu provinces are included into analytical clusters in the quantitative part<sup>22</sup>, the researcher has established a secondary dataset including the social-economic background and progress of labor insurances of these nine case cities. The information is collected from the statistical yearbooks (2000-2012) and annual statistical bulletins (2000-2012) of these cities.

There are considerable advantages in using secondary data in social science.

Firstly, they can be used as general background material against which more

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<sup>22</sup> Nine cities are Dongguan, Zhuhai, Huizhou under the developmental Model of Pearl River Delta, Wenzhou, Shaoxing, Taizhou under the developmental Model of Wenzhou, and Suzhou, Wuxi, Changzhou under the developmental Model of South Jiangsu.

specific data obtained from other sources can be viewed. Second, they can be used to support or supplement data obtained from other sources. Thirdly, they can be used on a stand-alone basis for testing hypotheses. The third purpose is highly related to dataset application in the quantitative analysis of this research. Last but not least, this secondary dataset is economical to build and easy to update while avoiding sample attrition (Henn, Weinstein & Foard, 2006, p.108-09). The last advantage is especially important for graduate students. Given both time and financial limitations in data collection, searching for official statistics, especially which are entirely the periodical and longitudinal data, substantially simplifies this process.

Nevertheless, there is still room for improvement when employing official data. Firstly, official data tend to be extensive rather than intensive, as it is aggregated. Secondly, estimation errors cannot be controlled and measured. And thirdly, there is the problem of gaining access to official statistics that are not readily available in published form. Confidentiality, consent and copyright are still big issues in using official data (Henn, Weinstein & Foard, 2006, p.110-12). In order to alleviate these problems, the researcher tries to triangulate and verify the data from various sources, especially monthly statistic digests and government documents, media reports, etc., to try to ensure data consistency.

### ***Quality of Chinese official data***



There has been substantial debate about the quality of Chinese data since the 1980s. With this issue, *China Economic Review* has published a series of articles to discuss the validity of Chinese statistics. There are two camps. The basic consensus of skeptics is, the public data has been whitewashed by the National Bureau of Statistics in China. Under political pressure, the local authorities are obsessed with GDP growth rates and thus there is wide suspicion of falsification surrounding official Chinese statistics, particularly those in the late 1990s (Gilley, 2001). Rawski (2001) has verified Chinese GDP growth by adopting an alternative calculation approach using income and energy consumption, but the result is seven to eight percent higher than the official data.

Nevertheless, some scholars have defended the accuracy of the statistics claiming that criticisms of Chinese official statistics are unfound as they are premised on misunderstandings of the meaning and coverage of a particular data set (Holz, 2003; Chow, 2006). Firstly, official data cannot capture evolving social transition, and thus contain some estimation errors. Secondly, a lack of professional practice in compiling statistics in China limits the statistical coverage, but these estimation errors should be permitted. And third, a lack of evidence of data falsification does not mean that China's statistical system is necessarily honest in its statistical reporting, but recent developments in China's statistical system further suggest that data falsification at high levels is unlikely. For example, the World Bank accepted the official Chinese GDP data for its own publications in 1999, thus



acknowledging that current official data to be accurate by World Bank standards. Finally, disparity exists between urban and rural areas. Data have been collected in cities far longer than in rural areas and thus the sampling and collection methods are more mature and comprehensive. The quality of the data collected from rural areas cannot be guaranteed (Holz, 2003). For this dissertation, the researcher focuses on urban data, and thus vindicating the reliability of official data to some extent. Meanwhile, compared with macroeconomic data, social insurance is less sensitive in the eyes of local authorities, and thus reducing the possibility of statistical falsification.

### 5.3.2 Second-phase Qualitative Data

When entering the second phase of the qualitative part, both secondary and primary data need to be gathered. The former type of data is mainly obtained from government documents and the researcher is required to do documentary analysis, and the latter type of data is primarily gathered through in-depth interviews.

***Documentary Analysis*** Henn, Weinstein & Foard (2006, p.100) defines documents as “things we can read and which relate to some aspect of the social world”. Documents are “socially produced” by organizations or individuals for reasons other than sociological research. This concept of ‘social production’ refers to the view that although documents are often presented as objective statements of





social fact, they actually reflect the values and norms of the society or social group in which they are produced. Thus such secondary data can give the researchers tremendous insight into the organization of societies and cultures at particular points in time.

In order to ensure the quality of these documents, pre-examination or evaluation is required before usage. Here, the researcher adopts four criteria developed by Scott (1990). (1) *Authenticity* we should check whether authorship is genuine by asking whether the document makes sense or contains glaring errors, and whether the researcher's version has come from a reliable source. (2) *Credibility* social researchers should always ask 'who produced the document, why, when, for whom and in what context so as to be assured of its quality'. (3) *Representativeness* Researchers should ask whether the document is typical of a wider collection of potentially relevant documents that exist or may have existed. (4) *Meaning* In order to uncover all of the meanings contained in a document we need to look closely at the social context in which the document was produced.

As a policy study, it is necessary to conduct a documentary analysis. The documents reviewed in this research contain official documents, conference records, academic work and mass media materials. Official documents refer to national and local laws, regulations, white papers, public inquiry reports, as well as public speeches. Conference records constitute an important source in this research as they are records of the decision-making process. They are unobtrusive



archival records, but avoid “material reconstruction” in the interaction between researchers and informants, and thus help to supplement first-hand data. Academic work refers to books, journal articles, and project reports from both research institutions and governments. Mass media materials refer to local newspapers, general websites, as well as government websites. All forms of the documents combine to a triangulation to examine the consistency.

***In-depth Interviews and Sampling*** In-depth interview constitutes the other main approach of data collection. In terms of the interview structure, the researcher adopts semi-structured interviews, which involve implementation of a number of predetermined questions and special topics. These questions are typically arranged in a systematic and consistent order when presented to the interviewee, but they also enable the interviewees to express their own opinions freely (Berg, 2007, p.95). In this research, in-depth interviews are employed to reveal the stakeholders’ motivations and constraints for social provision from different angles, as well as their actions involving the policy agenda.

In order to draw pool samples to be interviewed, snowball sampling is applied in this research. Snowball sampling refers to the process of accumulation as each located subject suggests other subjects. It also depends on the persons interviewed at the stage of purposive sampling to identify other potential respondents who are qualified for inclusion in the sample. This may eventually lead to more persons



being interviewed in the later stages (Bailey, 1982, p.100). Finally, two categories of informants are interviewed face-to-face. The first category includes government officials involved in policy making and implementation, they are from the Municipal Bureaus of Labor and Social Insurance and Municipal Bureaus of Finance, as well as members of the Labor Supervision Team. The second category contains local entrepreneurs, secretaries of chambers of commerce, the human resources (HR) managers who are dealing with labor insurance. The employers will be selected according to the firm type, firm ownership and industry structure. That is to say, the criteria are big firms with a high-skilled industry and small firms with general skill type will be identified, as well as domestic and foreign-invested enterprises. These enterprises should have been operating in the city for more than five years. At the same time, both local and migrant workers in the enterprises are also interviewed. The profiles of informants are attached in the appendix. A number of open-ended questions are presented during the in-depth interviews A. A list of guiding questions for the in-depth interviews is outlined in the appendix B.

From February to August 2011, the author conducted a round of pilot study in Wenzhou, Dongguan and Kunshan and acquired a preliminary research network with the local cadres and scholars; this paved the way for further observations. After finalizing Wenzhou and Kunshan as the case cities for this dissertation, formal data collection in these two cities was conducted from June to August



2012.

#### 5.4. Analytical Tools

After presenting the data collection method, the tools for data analysis in this dissertation are introduced. This research adopts fs/QCA and case studies as the analytical tools in the quantitative and qualitative analysis respectively. The quantitative part endeavors to find what institutional factors determine the local social insurance implementation. Nine municipal cities from Guangdong, Zhejiang, and Jiangsu provinces are included into the analytical cluster in the quantitative part. Based on the results of the quantitative study, two cities will be chosen to further explain how these institutional factors take effect in the regional policy evolution.

##### 5.4.1 Fuzzy-set/Qualitative Comparative Analysis (fs/QCA)

The qualitative comparative analysis (QCA) method has emerged in the comparative research of welfare states. Welfare state research has long attempted to examine both the diversity of the welfare system and the source of the diversity. Nevertheless, it is confronted with two methodological problems, that of *small-N cases*. With “country” as the analytical unit, statistical inference based on the quantitative models with big-N cases is beyond application due to the limited



number of country cases. A further challenge is using the qualitative-oriented approach to clarify the *causal complexity* has been questioned by scholars in the quantitative camp who query how the determinant factors are identified scientifically. This research also faces the same dilemma, with small-N municipal cities as the analytical cluster, as well as complex local socio-economic status.

A well-designed comparative research is able to deal with the problem of small-N and causal complexity. Charles Ragin first put forward QCA as a synthetic strategy for mix variable-based (usually quantitative) and case-based (usually qualitative) methods in his book *The Comparative Methods: Moving beyond Qualitative and Quantitative Strategies* (1987). It allows the investigators to examine more than a few cases, but also embody as much of the strict comparative logic of experimental design as possible. In *Redesigning Social Inquiry* (2008), Ragin developed the QCA method. It distinguishes sufficient cause and necessary cause, and then adopts the method of agreement and method of difference on the basis of Boolean algebra to conduct a rigorous causal inference in the small cases. The QCA method analyzes data for dichotomous outcomes (for example, occurrence of policy adoption) by examining a number of dichotomously measured preconditions (for example, the presence or absence of FDI). Based on the Boolean method, the fuzzy-set approach is capable of managing both the ordinal and continuous variables, and thus fuzzy-set/QCA emerged (Rihoux & Ragin, 2009). Fs/QCA has been widely used in comparative



studies of welfare states in the past two decades (e.g. Kvist, 1999; Pennings, 2005; Vis, 2007). Among them, the most prominent work is *The Comparative Political Economy of the Welfare State* edited by Janoski and Hicks, which was published in 1994. fs/QCA calculations can be done on a PC using software, available packages include fs/QCA, fuzzy package from Stata software, QCA and ASRR from R software. The fs/QCA method is well-suited to this research. It is capable of tracing different paths to regional social insurance implementation (high/low coverage), and thus clarifies the important institutional conditions leading to these regional variations.

Boolean algebra is the main technique of the fs/QCA method, and the basic conventions should be explained here.

- 1 An uppercase letter represents the [1] value for a given binary variable, thus [A] is read as “variable A is present, or high”. A lowercase letter represents the [0] value for a given binary variable, thus [a] is read as “variable a is absent, or low”. The dash symbol [-] represents the “don’t care” value for a given binary variable, meaning it can either be present (1) or absent (0).
- 2 The two basic operators are as follows. Logical “AND” is represented by the [\*] (multiplication) symbol. Logical “OR” is represented by the [+] (addition) symbol. QCA focuses on the multiple conjectural cause, which means a combination of conditions associated with a given outcome.



- 3 An example is accommodated for better understanding.  $A*B \rightarrow Y$  (the presence of A combined with the presence of B lead to the presence of Y); the same outcome Y could also be a result of the presence of C and D, and thus the formula is  $A*B+C*D \rightarrow Y$ . However, in a different context, you could find  $A*B+a*C \rightarrow Y$  (absence of a may lead to Y). Another example related to this research is, if there are two regions with the same outcomes that are exactly identical except that one region is FDI-oriented ( $A*F \rightarrow Y$ ), and the other region is dominated by private capital ( $A*f \rightarrow Y$ ), FIE is superfluous and thus can be removed from the initial expression ( $A \rightarrow Y$ ) (Ragin, 2008, p.29-44).

Using fs/QCA to clarify the factors that are critical to the expansion of regional social insurance is quite straightforward. It entails four basic steps:

Step 1: Build a dichotomous data table.

The question of this dissertation is to answer the question why some regions expand labor insurances, while others do not? In QCA terminology, the outcome variables are continuous (interval-level) variables. A simple four-value set allows cases to be in the gray zone between in and out in the fuzzy set. It uses four numerical values 0, 0.33, 0.67, and 1.0 to indicate “fully out”, “more out than in”, “more in than out” and “fully in”, respectively.

Step 2: Construct a “truth table”.

In this stage, the fact that there are so many contradictions is a problem. All the



possible combinations of theorized preconditions and the corresponding outcomes can be arrayed in a truth table.

Step 3: Resolving contradictory configurations.

In Boolean minimization, the preconditions that are not critical to the outcome are deleted by logically examining the contradictory configurations. By seeking a resolution of these contradictions, it is simply a part of “the dialogue between ideas and evidence”.

Step 4: Get the logical cases.

This allows the researcher to identify “causal” ingredients and mechanisms producing (or not) an outcome, with an eye on both within-case and cross-case (Ragin, 2008, p.124-140). The results and analysis will be given in Chapter Six.

#### 5.4.2 Case Study

Case study in the qualitative manner constitutes the most common approach for policy process studies. Based on the quantitative result, two case regions are chosen to further examine “how” the institutions “work” in the local policy implementation. The case-oriented method occupies a vexed position in the discipline of political science, and it often stimulates new substantive theories when we delve deep into the “hidden politics” in the black box. The case study has multi-level concepts:





Case study is an intensive study of a single unit for the purpose of understanding a larger class of (similar) units. There is also a set of nested definitions, a “population” is comprised of a “sample” (studied cases), as well as unstudied cases. A sample is comprised of several ‘units’ and each unit is observed at discrete points in time. A case is comprised of several relevant dimensions (‘variables’), each of which is built upon an ‘observation’ or observations (Gerring, 2004).

Case studies can deal with either single or multiple cases. Stake (2000) further distinguished three types of case studies: intrinsic case study, instrumental case study and collective case study. In this research, the single cases can be an instrumental case study, which is done to provide a general understanding of a phenomenon using a particular case. The case is studied in depth, its context scrutinized, its ordinary activities detailed, and this facilitates our understanding of the issues (p.435-437). In this research, two particular cases, one with good welfare provision but the other without, are examined in depth respectively. The collective case study is also related to this research when combining the two cases. The collective case study is done to provide a general understanding using a number of instrumental case studies that either occur at the same site or come from multiple sites. When multiple cases are used, a typical format is to provide a detailed description of each case and then present the themes within the case followed by thematic analysis across cases. The rationales of choosing two cases will be shown after the quantitative analysis of Chapter Six.



In order to obtain the “observations”, a suitable research method to further explore the interactions between the stakeholders is quite qualitative in nature. Hence, a field research method is employed in this dissertation to collect the data. According to Babbie (2008), the strength of field research lies in its ability in recognize several nuances of attitude and behavior that might escape researchers using other methods. By going directly to the social phenomenon under study and observing it as completely as possible, researchers can develop a deeper and fuller understanding of it (p.327).

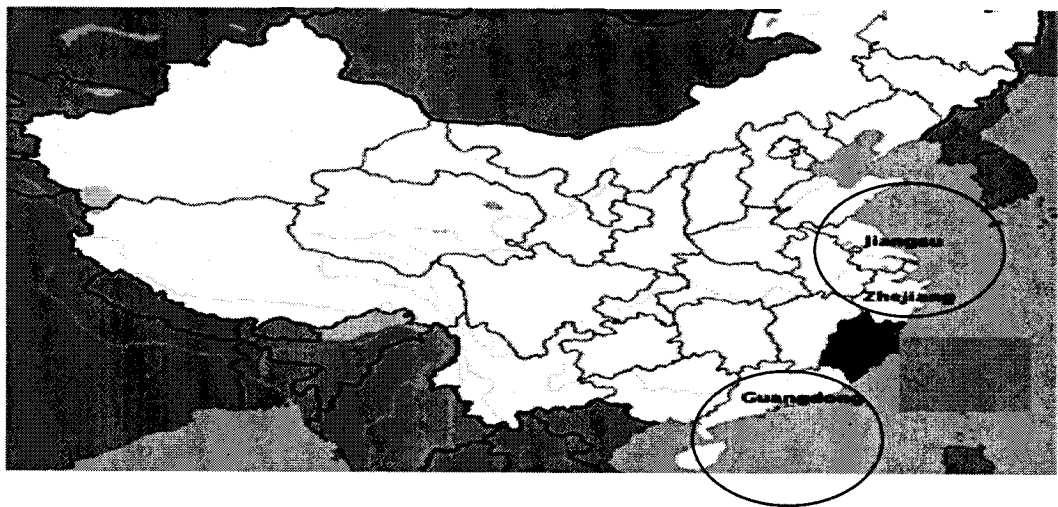
### 5.5. Case Selection

In this dissertation, the coastal areas of China constitute to my research focus. China’s economic configuration has been fundamentally restructured, fueled by the triple processes of marketization, globalization and decentralization. Marketization has reduced state control of the economy and society, globalization has exposed Chinese regions to global competition, and decentralization has empowered local states and agents significantly. Thus, regions have been segmented, depending on the ways they are participating in global production. The coastal area in China is among the first batch to open up in the economic reform, and has therefore benefited tremendously from the globalization process. Generally, three distinguished patterns of economic development have emerged,



with far-reaching consequences to the Chinese economic configuration. Figure 5.2 shows three regions with leading economic development models, they are the Pearl River Delta model in Guangdong Province, South Jiangsu model in Jiangsu Province and Wenzhou model in Zhejiang Province.

Figure 5.2 Map of China with Study Areas Circled



Guangdong Province (Pearl River Delta model) is among the earliest coastal regions to open to foreign direct investment at the beginning of the open-door policy in the late 1970s. Largely due to its adjacency to the tiger economies, its development was one step ahead of the Yangtze River Delta. The Pearl River Delta region absorbed numerous manufactures from neighbor tiger countries. Hong Kong and Taiwan were the main resource, where manufacturing had become “sunset industry”. At the same time, this region has a strong agricultural tradition and weak industrial base in Mao’s era. Under the policy, foreign-invested factories absorbed a large number of low-skilled and poorly-paid migrant workers,



many of whom were employed in jobs with long working hours, among them are large numbers of young women with a high turnover in the assembly line. Consequently, Guangdong became the new world factory. With the loosening of the *hukou* system, a massive number of low-skilled workers from the inland flooded into this region, and thus initiated the export-processing pattern of industrialization. By contrast, the Yangtze River Delta is a late-comer in opening doors to foreign capital. It was not until the late 1990s that foreign trade began to pick up.

The model of South Jiangsu has some important legacies which have been carried into the current regime. Unlike the Pearl River Delta region, this area is characterized by a more solid rural industrial base and strong local production capacity, which paves the ground for a domestic entrepreneurial-governmental network. Under the impact of foreign capital since the 1990s, though a majority of the small-scale state and collective enterprises have ownership restriction, its indigenous economic strength has not been affected. Instead, it helped the region to achieve a fast pace of industrial upgrade. Guangdong province which had been a leader in industrialization, had an excessive number of labor-intensive industries which exhausted its potential, the inflow of foreign capital in this region moved mainly into capital-intensive industries. Many electronic and computer industries are rooted in this region.



Cities with limited resources in the Yangtze River Delta, such as Wenzhou city in Zhejiang province, have adopted another unique genre of development pattern; this has come to be known as the Wenzhou model. This regime is characterized by a high proportion of private enterprises and dense entrepreneurial network (Guan xi). Unlike the two FDI-oriented models above, the Wenzhou model is more dependent on domestic investment, especially from the informal institutions of friends, family members and “underground banks”. At the same time, it exports a diversified variety of light industry commodities produced by small-scale factories and family workshops which are characterized by thin profit, and low skilled labor. Furthermore, to protect themselves against fluctuations in the global market, individual enterprises form themselves into commercial alliance, to strengthen their bargaining power in policy participation. In a nutshell, with a high level of marketization of non-state sectors, the Wenzhou model captures the feature of “big market but small commodities”.

Of the nine cities in the study, Dongguan, Zhuhai, and Huizhou belong to the Pearl River Delta development model, Wenzhou, Shaoxing, and Taizhou are under the Wenzhou development model, and Suzhou, Wuxi, and Changzhou belong to the South Jiangsu development model. The researcher has picked the nine cities because of the availability of comparable data in city yearbooks. However the three cities in each cluster have proven that they share a high similarity in the industrial type and thus are sufficient to represent the development models. A



comparison is given in Chapter Six. The selection of two cases for qualitative analysis is moved to the end of Chapter Six since it comes from the results of the first-phase institutional analysis.

## 5.6. Conclusion

This chapter deals with the methodology issues of this study. This dissertation adopts exploratory design as the research design. It is a two-stage design, and the researchers need quantitative information to identify and purposefully select participants for a follow-up qualitative study. This research design is well suited to this study. The affected institutions are first identified, and based on the analysis result two contrasting cases are selected for comparison.

In terms of data collection, this dissertation involves two phases of data collection. In the first phase, the author mainly collects secondary data in order to establish a dataset of social-economic background information and coverage of labor insurances in nine cities in coastal areas of China. The sources are primarily statistical yearbooks (2000-2012) and annual statistical bulletins (2000-2012) of the nine case cities. In the second phase, documentary analysis and in-depth interviews are important sources of data. The policy stakeholders identified in the preceding chapters have become the interviewees of this research, they include related local cadres, local employers and workers.



After data collection, analytical tools of fs/QCA are adopted. The fs/QCA endeavors to find what institutions have caused the varieties of welfare regimes in China. Based on the fs/QCA result, two case studies are used for further examining the dynamics of policy implementation. By going directly to the research sites, interviewing the policy makers, local cadres, HR managers who deal with labor insurance, secretaries of chambers of commerce, and workers, this research has incorporated considerable materials to develop a fuller understanding of welfare issues in China.



## CHAPTER 6

### ASSESSING THE INSTITUTIONAL CONDITIONS OF FRAGMENTATION FOR SOCIAL INSURANCE IMPLEMENTATIONS: A FUZZY-SET ANALYSIS

#### 6.1. Introduction

This chapter aims to discern what institutions matter in the different implementations of social insurance in the coastal areas of China. More recently, a considerable volume of literature has noticed the emerging decentralized and fragmented welfare regimes in China (Cook, 2011; Li & QI, 2011; Tang & Liu, 2012; Ngok, 2011; Shi, 2009). Despite the fact that large numbers of studies suggest that under the existing central-local system local governments have weak incentives in implementing labor insurance, less attention has been paid to the differences in local institutions which already exist. These institutions may be critical for understanding the fragmented social insurance development in the localities.

In order to discern the institutions, fuzzy-set / qualitative comparative analysis (fs/QCA) is employed in this chapter. This method allows small-N analysis, but also embodies as much of the strict comparative logic as possible to identify the causal complexity. In general, an institutional approach requires an essentially





qualitative method, but the analysis becomes less feasible when the number of cases increases. Instead, some scholars argue that quantitative methods deal with the issue of multiple cases appropriately. However, an institutional approach requires a more configurative perspective as institutions function together, complementing each other, while a quantitative method focuses on the net effect of a factor. To better serve the small-N and institutional approach, the fs/QCA method is exploited in this chapter to conduct a comparative study of nine cities at different points in time and to qualitatively investigate the institutional conditions causing different social insurance developments in the coastal regions of China. This Chapter is organized as follows. Section 6.2 first establishes an analytical framework. In section 6.3, the data, variables and models are presented. Section 6.4 and 6.5 report the findings and conclusions respectively.

## 6.2. Framework

Based on the theoretical framework proposed in Chapter Four, two categories of variables with five institutions are examined. As discussed in sections 4.2 and 4.3, the local production regimes and the impact of decentralization could be the potential institutions causing varieties social insurance implementations at the local level. Local production is examined from the three dimensions of skill profile, firm size and enterprise ownership, and decentralization is scrutinized from the two facets of fiscal and administrative aspects (Figure 6.1). Figure 6.2



summarizes the potential directions of the five variables based on the research hypotheses.

Figure 6.1 Variables of fs/QCA Analysis

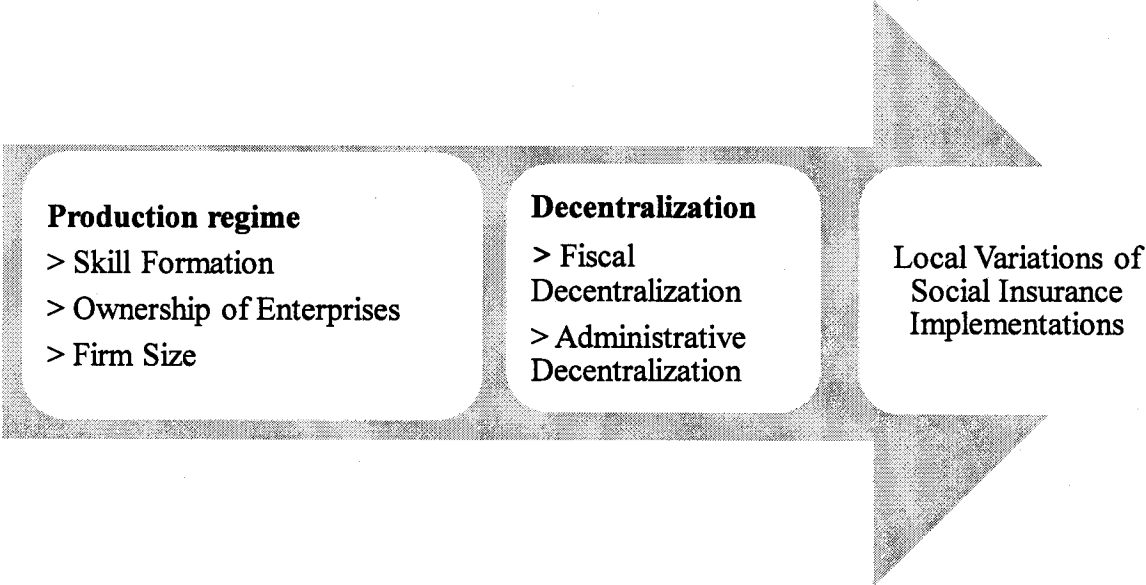
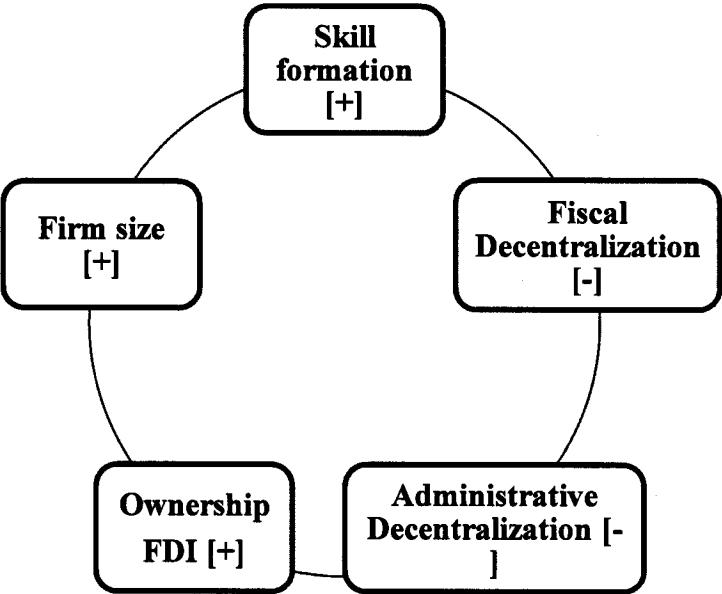


Figure 6.2 Potential Directions of Five Variables



### 6.3. Data, Variables and Models

The method of fs/QCA is ideal for my research since it allows small-N research and identifies the causal complexity well. Firstly, nine cities from the provinces of Zhejiang, Jiangsu and Guangdong form an analytical cluster for this research, which are really small-N cases for statistical research. Secondly, these cities have comparable economic achievements, but they denote three distinctive developmental regimes with complex social and political institutions. In this regard, in addressing the varieties of social insurance development in the coastal cities of China, the method of fs/QCA helps to identify different combinations of institutions that have led to different social insurance developments.

#### *Data*

I established a dataset to trace from 2000 to 2010 the developments of labor insurance, local economic development and the extent of decentralization of nine cities. The nine cities are Dongguan, Zhuhai, Huizhou, Wenzhou, Shaoxing, Taizhou, Suzhou, Wuxi and Changzhou. The unit of analysis is city by year. Nine cities at seven points in time between 2004 and 2010 make up a total of 63 cases. The number of localities is limited due to the limited availability of comparable data from statistical yearbooks, nevertheless the number of cases is sufficient for exploiting fs/QCA (Ragin, 2008). All the data are extracted from published statistical yearbooks. These secondary datasets are economical to collect and easy



to update while avoiding sample attrition.

### *Variables*

**Outcome variables: coverage of social insurance** I use coverage to estimate the development of social insurance since coverage is a priority of the Chinese government at the initial stage of expanding labor insurance. Schemes of pension, healthcare, and workplace injury are examined respectively. The calculation of coverage targets urban workers and migrant workers. The denominator reflects the fact that social insurance in China is intended to cover both working populations.

The dependent variable of social insurance coverage is calculated as follows:

$$\text{Coverage} = \frac{\text{Number of labor insurance participants}}{\text{Urban workers in second and third tier cities}^* + \text{Migrant workers}}$$

\* Retirees are not included under the programs of unemployment and workplace injury. SI indicates social insurance.

**Explanatory variables: local production regime and the impact of decentralization** three attributes characterizing local production regimes are examined. Skill profile is used to measure the affordability and willingness of the local business in undertaking social insurance contributions. It is assumed that enterprises with specific skills are inclined to retain skilled workers by providing employment security. They are also financially able to afford social insurance due to the high added value of their industry. Share of FIE in GDP is used to measure

the ownership of the dominating enterprises, which measure bargaining power with the local government, as the literatures discussed. Firm size of the dominating enterprises is highly related to the implementation cost. Here, it is calculated as the proportion of industrial enterprises above a designated size.

The impact of decentralization is also examined. Administrative decentralization is measured by the percentage of financial expenditure on livelihood in the total financial expenditure, which reflects the extent to which the behavior of the local governments is controlled by the livelihood policy (*minsheng*) (Li & Qi, 2011). Fiscal decentralization is measured by the distribution of local fiscal revenues between local and central governments (Zhang & Gong, 2005). All the variables and their measurements are summarized in Table 6.1 below.

Table 6.1 Variables and Measurements

Dependent Variables	Independent Variables
1 Coverage of pension PENS Number of pension participants/(Urban workers in second and tertiary industries+Retirees+Migrant workers)	1 Evaluation indicator EXPE Financial expenditure in livelihood /total financial expenditure
2 Coverage of healthcare insurance HEALTH Number of pension participants/(Urban workers in second and tertiary industries+Retirees+Migrant workers)	2 Fiscal decentralization DECEN Revenue of higher level government/ revenue of local government
	3 Enterprise ownership FDI Share of FIE in IOV
	4 Industrial structure SKILL Share of traditional industry in IOV
	5 Firm size SMS Proportion of small enterprises



3 Coverage of workplace injury INJUR Number of pension participants/(Urban workers in second and tertiary industries +Migrant workers)	(above designated size)
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Note: IOV: industrial output value

Traditional industries include food and beverage, textiles, garments and other fiber products plus other similar sectors.

### ***Statistical Model***

Instead of estimating the net effect of one institution on the varieties of social insurance developments while holding the effect of other institutions constant, fs/QCA develops a joint causal institution which fully allows the effect of interaction between among institutions.

### ***Institutional conditions:***

EXPELIV (evaluations with more weight on livelihood)

DECEN (high rate of fiscal decentralization)

FDI (industry with more foreign-invested enterprises)

SKILL (industry with specific skills)

SMS (industry with more small enterprises )

### ***Outcomes of social insurance development:***

PEN (positive outcome with comparatively high coverage)



pen (negative outcome with comparatively low coverage)

***Fuzzy-set/QCA model:***

$f(\text{FDI, SKILL, SMS, DENC, EXPLIV}) = \text{PENS}$

$f(\text{FDI, SKILL, SMS, DENC, EXPLIV}) = \text{pens}$

\* The other two models for healthcare and workplace injury schemes are the same as that with pension.

#### **6.4. Findings**

This study endeavors to find what institutions have caused different local social insurance implementations. The findings are presented in two parts, descriptive statistics and the institutional conditions in accounting for different coverage.

***Descriptive Results*** The variations across the three regions and over time are significant, as Table 6.2 and 6.3 suggest.



Table 6.2 Descriptive Analysis of Production Regime

		2010 GDP per capita RMB	Aging degree	Share of FDI (%)	Industrial structure	Percentage of small firms (%)
<b>Model of PRD</b>	<b>Dongguan</b>	66344	2.21	0.81	1.06	0.79
	<b>Zhuhai</b>	69889	4.93	0.71	8.81	0.82
	<b>Huizhou</b>	43396	5.87	0.79	6.97	0.80
	<b>Average</b>	<b>59876</b>	<b>4.34</b>	<b>0.77</b>	<b>5.61</b>	<b>0.80</b>
<b>Model of Wenzhou</b>	<b>Wenzhou</b>	37366	7.62	0.09	0.93	0.90
	<b>Shaoxing</b>	54316	9.94	0.18	0.24	0.85
	<b>Taizhou</b>	59287	9.83	0.13	0.61	0.93
	<b>Average</b>	<b>5.323</b>	<b>9.13</b>	<b>0.14</b>	<b>0.59</b>	<b>0.89</b>
<b>Model of South Jiangsu</b>	<b>Suzhou</b>	122565	8.51	0.78	2.35	0.72
	<b>Wuxi</b>	92166	9.5	0.38	1.56	0.68
	<b>Changzhou</b>	56890	9.78	0.32	1.06	0.92
	<b>Average</b>	<b>90540</b>	<b>9.26</b>	<b>0.49</b>	<b>1.66</b>	<b>0.77</b>
<b>Average</b>				0.47	2.62	0.82



Table 6.3 Descriptive Analysis of Decentralization

		<b>Fiscal decentralization</b>	<b>Expenditure of livelihood (%)</b>
<b>Model of PRD</b>	<b>Dongguan</b>	0.30	0.31
	<b>Zhuhai</b>	0.28	0.28
	<b>Huizhou</b>	0.32	0.31
	<b>Average</b>	<b>0.30</b>	<b>0.30</b>
<b>Model of Wenzhou</b>	<b>Wenzhou</b>	0.35	0.35
	<b>Shaoxing</b>	0.33	0.33
	<b>Taizhou</b>	0.28	0.24
	<b>Average</b>	<b>0.32</b>	<b>0.31</b>
<b>Model of South Jiangsu</b>	<b>Suzhou</b>	0.20	0.20
	<b>Wuxi</b>	0.21	0.22
	<b>Changzhou</b>	0.17	0.17
	<b>Average</b>	<b>0.20</b>	<b>0.20</b>
<b>Average</b>		0.27	0.27



Table 6.2 displays the structural differences between the three economic development patterns. In terms of economic growth and demographic structure, the GDP per capita of the South Jiangsu model is approximately double that of the Wenzhou model and Pearl River Delta model. The aging level (60+) in the Wenzhou model and South Jiangsu model is 10 percent, while the Pearl River Delta region has a younger demographic landscape. The industrial divergences of the three models are significant. With foreign-owned enterprises accounting for 70 percent of the manufacturing capacity, Pearl River Delta is dominated by the industries of electronic equipment, petroleum, and chemical processing. The Wenzhou model is featured by small enterprises, private economy (with FDI less than 20 percent), and traditional industries of low added-value. As a typical case of the new South Jiangsu model, foreign investment, particularly in the high-tech industries, has a strong presence in Suzhou. However, Changzhou and Wuxi still retain the traditional features of the South Jiangsu model with a strong private economy.

Table 6.3 displays the descriptive statistics of the decentralization variable. Among the three regimes, the extent of fiscal decentralization in Wenzhou is the highest at 0.35, suggesting more fiscal revenues have been shifted to upper level



government. The politics behind the “upward revenue allocation” seems to be the increased fiscal revenue is a showcase of the high achievements of Wenzhou’s peculiar private economy and thus a ploy to gain the central government’s tacit agreement, as well as support for Wenzhou’s institutional innovation. On the contrary, the “assertive” South Jiangsu governments tend to retain more fiscal resource to wield power (Zhang, 2006). With regard to the expenditure on livelihood, both the Pearl River Delta and Wenzhou models have shown a trend of increasing livelihood expenditure and putting more weight on social stability.

Figure 6.3 The Average Coverage of Social Insurance Schemes among Three Economic Models during 2004 to 2010

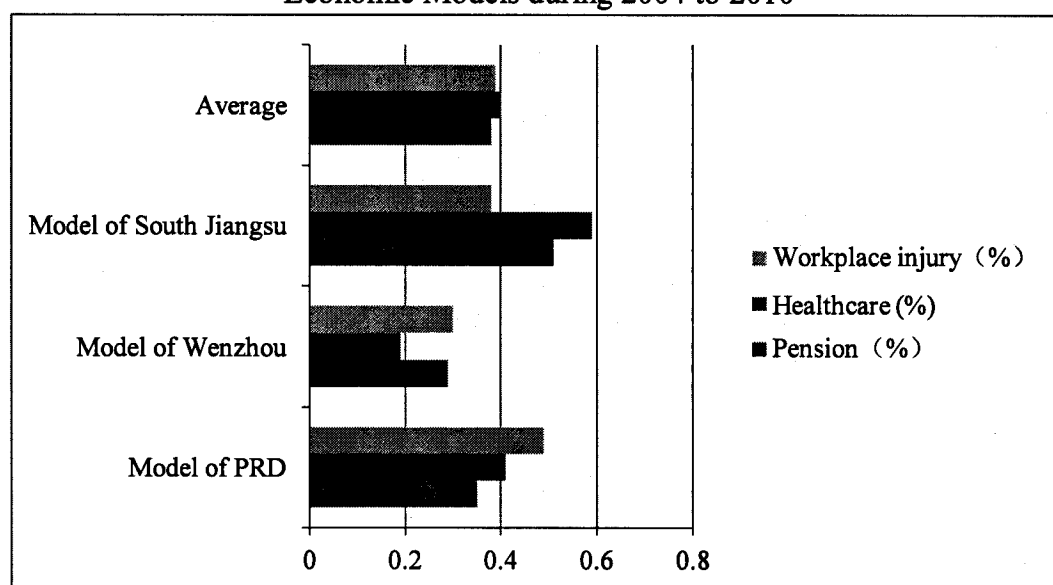


Figure 6.3 above captures different social insurance developments of the three economic models. South Jiangsu stands out with a higher coverage pension and

healthcare schemes. The developments of social insurance in Pearl River Delta are moderate, with coverage fluctuating around 40 percent. In addition, the Wenzhou model sits at the bottom with less than 30 percent of workers participating in social insurance schemes.

### ***Institutional conditions***

In this part we shift our focus to the results of the fs/QCA analysis. The fs/QCA analysis entails three steps: first, **calibration**. The dataset needs to be transformed into three sets: fully out, more out than in, more in than out and fully in. In the case of healthcare insurance coverage, it ranges from 0.2 to 0.7. According to the quartiles, a fuzzy-set score is produced for the set: 0.2 for fully out, 0.6 for fully in and 0.4 is the crossover point. With the same method, all the membership scores are presented in table 6.4. Second, **construct a “truth table”**. In this stage, the fact that so many contradictions have occurred is a problem. The user needs to resolve these contradictions before proceeding to the core of fs/QCA. And third, **Boolean minimization** and bring in the “logical reminder” cases. This allow the researcher to identify “causal” ingredients and mechanisms producing (or not) an outcome, with an eye on both within-case and cross-case. All the steps are run in the software of fs/QCA. In the analysis of necessity, **consistency** is defined as the



linkage between condition and outcome and since the cut-off point is established to be 0.85, this means the causal combination is “almost always” necessary for a particular outcome. **Coverage** refers to “the number of cases following a specific path to the outcome, divided by the total number of instances of the outcome” (Ragin, 2008, p.49), and combinations with a coverage smaller than 0.25 are disregarded. Both indicators are of empirical importance to judge the effectiveness of a causal combination. The institutional combinations leading to high and low coverage are presented in Table 6.5.



Table 6.4 Calibration of Variables

	High coverage			High share of FDI	High extent of skill	Small enterprises dominated	Low fiscal decentralization	More focus on livelihood
	Pension	Healthcare insurance	Workplace injury					
<b>Fully in</b>	0.5	0.6	0.6	0.7	2	0.8	0.3	0.3
<b>Crossover point</b>	0.4	0.4	0.4	0.5	1.5	0.75	0.2	0.2
<b>Fully out</b>	0.3	0.2	0.2	0.3	1	0.7	0.1	0.1

Table 6.5 Outcome of Fuzzy-set/Qualitative Comparative Analysis

Necessary conditions for the positive outcome	Necessary conditions for the negative outcome
PENS=sms*SKILL (consistency 0.93, coverage 0.37)	pens=SMS*fdi (consistency 0.92, coverage 0.63)
HEALTH= SKILL*sms (consistency 0.93, coverage 0.31)	health=DEN*SMS*fdi (consistency 0.94, coverage 0.60)
INJUR=sms*SKILL*FDI (consistency 0.88, coverage 0.26)	injur=expliv*SMS (consistency 0.88, coverage 0.31)



With regard to the production regime, **big firms and high-skills industries are necessary conditions to achieve a comparatively high coverage in the three social insurance schemes.** It is in accordance with the previous literatures. Firstly, the school of welfare production regime asserts that large firms are more capable of training its workers' core skills and thus tend to provide them with employment security. Secondly, social insurance has increasingly become "golden handcuffs" to retain skilled workers and stimulate technical improvements by driving a wage gap between the unskilled and skilled workers. Further, FDI constitutes a necessary condition to develop a comparatively high coverage in workplace injury. The potential explanation is that foreign enterprises have a high concentration of migrant workers and thus are exposed to high risks of workplace injury. Therefore, insurance for workplace injury is usually a policy priority of FDI-dominated regions.

**Decentralization does not take effect in the expansion of labor insurance.** Technically, this is because there are no prominent differences between the regions in the extent of decentralization. However, the insignificance of the decentralization variable reflects the fact that the weight of expansion of regional social insurance is placed more on local autonomy than the authority of higher level governments. This is consistent with the narration of "competitive local government" in China. In order to boost economic development, local governments are improving workers' social protection to gain an advantage in attracting human capital.

The pathways to the "negative" outcomes show different combinations among the

three social insurance schemes. The **coverage of pension and healthcare insurance schemes tend to be at a low level when the region is dominated by small enterprises and the private economy.** This is consistent with the theoretical assumption. For small firms, social insurance increases the financial burden and limits production flexibility, thus employers tend to oppose social insurance. Still, compared with foreign enterprises, native private entrepreneurs have a stronger bargaining capacity which enables them to intervene in the policy implementation through various formal and informal personal network<sup>23</sup>. Consistent with this argument, Smart & Lin (2007) proposes the concept of regional capitalism. Instead of the law, capital owners largely rely on the endogenous social network to run their businesses and deal with labor issues, and thus tend to exploit migrant workers, including lower than average social insurances. Under this production regime, efforts to expand social insurance are hindered by the interests of local businesses and thus institutional exclusiveness of social insurance for migrant workers are more intense, forming a peculiar kind of local protectionism. Consequently, local enterprises and governments both lack the incentive to expand social insurance under this economic regime.

Consistent with the existing literatures, **our analysis confirms the negative relationship between decentralization and local social insurance expansion.** This research further distinguishes different linkages of fiscal and administrative

<sup>23</sup> The academic field has accumulated considerable literatures on political participation of Chinese entrepreneurs, e.g. Heberer Thomas., 2003. *Entrepreneurs as Strategic Group: The Research of Social and Political Function of Chinese Entrepreneurs*; Zhao Lijiang.2006. *The Political Participation of Chinese Entrepreneurs*; Bian Yanjie & Qiu Haixiong.2000. *The Social Capital of Enterprises and Its Efficiency*. Chinese Social Science. Vol.2.



decentralization to social insurance expansion. Fiscal decentralization (imbalance between administration and fiscal authority) and administrative decentralization (performance evaluation with more weight on economic development) would hinder the expansion of healthcare insurance and workplace insurance respectively. With regard to the former linkage between fiscal decentralization and healthcare insurance, healthcare has been perceived as a local resource as its service take place simultaneously with payment, and thus under fiscal decentralization local governments embrace a conservative attitude to fiscal expenditure and are not willing to expand healthcare insurance under fiscal decentralization. As regards workplace injury, political considerations are important when determining the amount allocated for workplace injury schemes, since it is highly related to the basic rights of workers.

## 6.5. Conclusion

In short, we have identified different pathways to social insurance implementation in the localities. Firstly, local industries are important pusher in social insurance expansion. Large firms, which are able to cultivate its core skills, tend to favor social insurance that allows them to target benefits for skilled workers. Secondly, small firms with dominating private enterprises are reluctant to invest in social insurance. Still, dense network between business and local government has hindered social insurance expansion. However, the institutional pathways are not sufficient to answer the question of how the incentives of local enterprises become the policy objective of the local government, as well as fail to capture the role of the local government. More



case studies are needed to advance our understanding of the interactions between the policy stakeholders. Therefore, based on the fs/QCA results, the researcher is able to identify two contradicting cases. The negative case is characterized by small private enterprises, and Wenzhou definitely falls into this category. The positive case is featured by large firms and high-tech industries, and Kunshan fits this description. Therefore, Wenzhou and Kunshan are the case studies in the next two chapters. This chapter has solved the “how institutions” question, but the “why” question remains unanswered. Hence the coming chapters will precisely focus on the incentives of and thus interactions among the policy stakeholders.



## CHAPTER 7

# THE POLITICAL ECONOMY OF 'RELUCTANCE' IN WENZHOU: WEAK INCENTIVE, COLLUSION, AND TACTICS OF DISCURSIVE IMPLEMENTATION

### 7.1. Introduction

The most salient characteristic of the social insurance reform is that a few cities have challenged the central's policy direction in order to protect their endogenous interests. As the facts have shown, Wenzhou is such a case. In the early reform, pension socialization in Wenzhou was ahead of the national schedule. However, since 2000 Wenzhou has stood out for its slow, deviant, and unconventional pattern of implementation.

This is in stark contrast with other pioneering cities. Cities like Dongguan and Kunshan have established a fairly equitable program for both local and migrant workers regardless of their *hukou* status, but Wenzhou is reluctant to insure migrant workers. Until 2010, while the pioneering cities had more than 60 percent



of their workers insured, Wenzhou's coverage was less than 30 percent suggesting that the scope of social insurance was limited. These behaviors provide supporting evidence for the effects of administrative decentralization on expanding the discretion in China's policy implementation. It may not be regarded as an act to challenge the authority of the central government, but indicates that the city was exercising its discretion in determining the pace of social insurance reform. But the questions are, what accounts for Wenzhou's noticeably discursive implementation? Where do these "deviant ideas" of Wenzhou's leadership come from? The answer can be found in the political economy of "reluctance" in Wenzhou.

The goal of this chapter is to examine how stakeholders interact in shaping the social insurance policies in Wenzhou. To accomplish this, the chapter consists of seven sections. The first section explores Wenzhou's economic position in China and thus explains the peculiar Wenzhou model. The second section examines the evolution of the city's social insurance measures from 1998 to 2010. Starting from the third section, we move into the analytical part. Section three explains the analytical framework. Section four discusses the ground institution in which policy implementation is embedded. Section five and section six explore the weak



incentives in carrying out social insurance policies of both the local government and local enterprises. Thus their collusion is formed by “working” the existing political resource and local network to evade the responsibility to provide labor insurance, this is discussed in the last part.

## 7.2. Wenzhou Model

The southern city of Wenzhou, a populous and resource-poor city hemmed in the mountains, can make claims to be a city with a self-evolving style of capitalism. Regardless of the bickering about free markets and the private economy in the initial phase of reform and opening up, Wenzhou’s government, helped by its isolated location and thus free from outside interference to some extent, license private enterprises by putting a cap of “shareholding cooperatives” on them. The ruse lies in the fact that Wenzhou maintained the fiction that most of its economy was attached to state-owned enterprises, but actually it was private owned. Wenzhou’s boom has long achieved fame as led by entrepreneurship, indeed many of the businessmen have inspiring rags-to-riches stories to tell. As a result, Wenzhou has maintained an annual average economic growth of 16 percent since the 1990s. The income per capita is 75 percent higher than the national average



during the same period (The Economist, 1998).

The flourishing private enterprises stimulate informal credit networks, which transfuse the private enterprise to grow without seeking funds from the government-controlled banks. Formal banks usually prefer to lend money to well-connected state-owned enterprises. While only 20 percent of the 2,600,000 small and medium enterprises in Zhejiang province are eligible for bank loans, the rest are dependent on “kerbside lenders” (Alibaba Group & National School of Development, 2011). It has been estimated that shadow lending amounts to 78 billion a year. Some 90 percent of its households are involved in the credit chain in an attempt to obtain a higher yield than bank deposit offer (China Bystander, 2012). Overall, the irreversible privatization, characterized by the private economy and shadow banking network, has turned Wenzhou into a salient concealed stronghold of capitalism, the Wenzhou model is created. Yet for the whole country, Wenzhou’s reputation has made many Chinese uncomfortable.

One problem is low quality goods. Produced by the household workshops in Wenzhou, low-cost goods flooded the markets both locally and nationwide. “Made in Wenzhou” became synonymous with counterfeit brand, substandard materials and shoddy workmanship in a short time. The consequences were vocal



and vigorous, the *Xinhua Daily* of August 1987 reported groups of angry people in Hangzhou piling up and burning 5000 pairs of Wenzhou-made shoes<sup>24</sup>. The incident has motivated the industry and local government to embark on reform. Another intimidating quality of businessmen and women from Wenzhou is the way the Wenzhou speculators conduct business, for example the home-buying syndicates. They team up to buy goods at a low price, creating a temporary shortage thus driving up the price and then reselling at a high price. This type of speculative buying behavior is referred to in Chinese as “frying the market hot” (*chao*).

Wenzhou’s success continued in the beginning of the 2000s, when its GDP enjoyed double-digit growth. But the threats to growth are mounting. A credit crunch at the end of 2010 triggered a rash of bankruptcies by debt ridden bosses failing to meet their interest obligation. This is because exports had slowed down after the 2008 financial tsunami and hit the value of real estate and stock market investment, into which much of the borrowed money had been directed. Finally, one in five of Wenzhou’s 360,000 small and medium-sized enterprises reportedly stopped operating in 2011 due to cash shortages (China Bystander, 2012). This



lending crisis led to numerous defaults and discredited the Wenzhou model, but it also stimulated its resurrection. At the end of March in 2012, the central government set up a “special financial zone” in Wenzhou. It aims to bring the underground bankers out of the shadow by registering the informal lenders. At the same time, private citizens in Wenzhou will be allowed to invest up to \$ 3,000,000 each in non-bank entities abroad (The economist, 2012).

The above discussion aims to introduce the Wenzhou model and contextualize Wenzhou in the configuration of China’s whole economy. Wenzhou has taken such headway in economic privatization that it had outraged the politically conservative factions in the central government. The local government sheltered the private economy and meanwhile sought legitimacy. It puts forward a peculiar bottom-up interaction between local and the central government. On the one hand, given the increasing social vitality in the booming private economy, the local government has taken a back seat and played a supporting role in privatization. However, Wenzhou’s government has taken a proactive role when dealing with the central government.





### 7.3. Evolution of Social insurance Policies in Wenzhou

Owning to the peculiarities of the Wenzhou model in China as discussed above, local social insurance development is out of sync with the national policy. This problem has been noticed by Wenzhou's mayor in the opening remarks in the summer conference of 2012:

*“The existing problem is, Wenzhou’s economic structure is very special, and our operation cannot “dance to the tune” of the national policy. Therefore, we need policy innovation in line with our own economic development.”*

(Local official, Interview#2070201)

This part reviews the evolution of social insurance measures in Wenzhou, which features minimal provision to the workers and institutionalized discrimination against migrant workers.

#### ***From “1” to “1+1+1+1+1”***

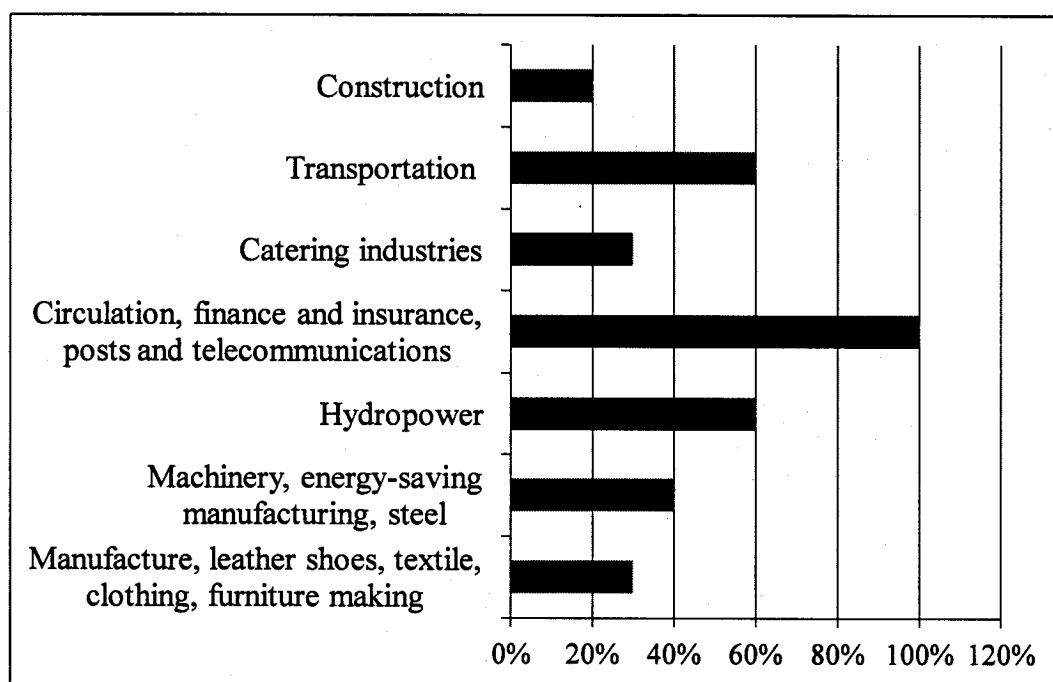
Institutional design of social insurance in Wenzhou deviates significantly from the



national standards<sup>25</sup>. Different from the national standard of bundling five insurance schemes together, the schemes were allowed to be broken up and issued separately in Wenzhou until 2005. Since pension is the most costly, Wenzhou's government made pension compulsory but left healthcare, unemployment, workplace injury and maternity insurances voluntary. As a rule, workers who had joined the other four programs were obligated to participate in the pension scheme first. With regard to pension, Wenzhou's government further set "minimal coverage". By differentiating profitability capacities among different industries, the government imposed different minimal requirements of coverage among local enterprises (Figure 7.1).

Figure 7.1 Minimal Coverage among Different Industries in Wenzhou

<sup>25</sup> The National Regulation of Compulsory Five Social insurance Schemes issued in 1999 was met with a strong opposition and resistance among Wenzhou's businesses. Employers were worried that their already thin profit would be further reduced after paying for labor insurance. They also felt it was unfair that they have to shoulder the historical pension liabilities (Interview#2070401, #070501).

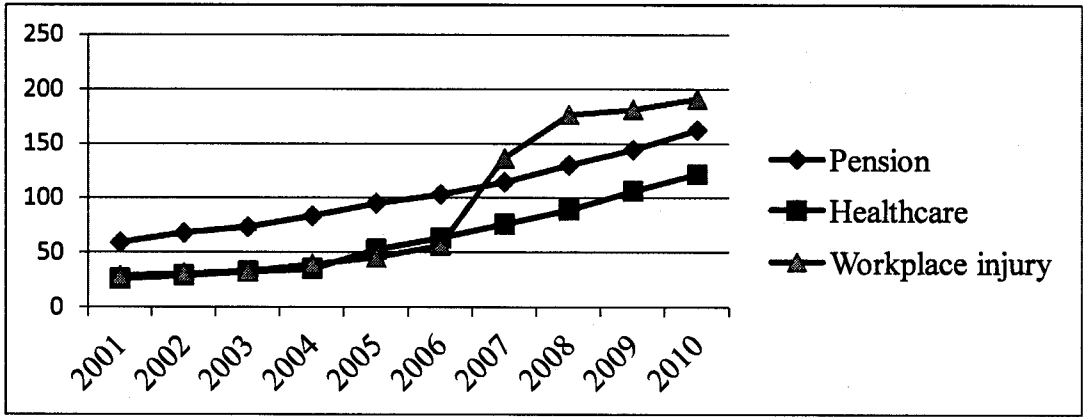


Source: Wenzhou government documents.

As Figure 7.1 above indicates, the requirement ranges from 30 to 100 percent. For instance, at least 30 percent of workers are required to be insured in a light-manufacturing enterprise; whilst in the heavy manufacturing industries, the minimal requirement increases to 40 percent. This measure is of great significance in reducing employers' contributions. However, the minimal principle runs counter to principle of "universal coverage" of the central government. More importantly, it has caused asynchrony in the growth of pension and other social insurance schemes. As figure 7.2 below shows pension participants far outnumbered those of healthcare and workplace injury schemes until 2005 (Figure 7.2). Thus the provincial government of Zhejiang in 2006 urged the local governments to bundle the five insurances schemes.



Figure 7.2 Growth Trend of Three Labor Insurances Schemes in Wenzhou



Source: Wenzhhou Statistical Yearbooks (2000-2011).

Nevertheless, Wenzhou “works” some interim policies to soothe the transition. Though the Wenzhou government packages the five schemes by making them compulsory programs, but it is resorting to delaying tactics, taking half a step back with each one step forward, Wenzhou continues to adopt the principle of minimal coverage for the other four schemes. Despite this workplace injury is mandatory, healthcare, maternity and unemployment insurance schemes are required to cover at least 15 percent of workers. While for small enterprises without clear accounting records in the tax agency, an alternative minimum 19 percent of sales are levied (see Table 7.1).

Table 7.1 Fund Levy for Combined Five Labor Insurances in Wenzhou

Scheme		Minimal Coverage		Minimal percentage of sales amount	
	Sectoral difference		Minimal coverage	Sectoral difference	Minimal percentage of

					<b>sales amount</b>
<b>Pension</b>	Minimal coverage by different industrials	18%; 8%	100% 60% 35%	Manufactory and service industry	6%
				Commerce and other industrials	2.5%
<b>Healthcare</b>	No difference	6%; 2%	15%	No difference	2%
<b>Unemployment</b>		2%; 1%	15%		2%
<b>Maternity</b>		0.6%	15%		2%
<b>Workplace Injury</b>		Accor ding to sectors	100%		7%

Source: Wenzhou government documents.

### *Always Outsiders? Labor Insurances for Migrant Workers*

In Wenzhou, there is a two-tier social insurance program, where “urban workers” are segregated from “migrant workers”. It is a program designed to delay the full coverage of the five insurances to the migrant workers. It was not until 2006 that Wenzhou’s government began to push for universal coverage of workplace injury insurance as part of its livelihood project. It made healthcare insurance for migrant workers an independent and voluntary scheme in 2008. Yet enterprises pay only two percent of the minimal wage towards insurance levies in a policy known as

“double low”. Under the policy migrant workers receive a fraction of the benefits



their urban counterparts enjoy. Pension scheme is still beyond policy planning. All of these show the “reluctance” of the Wenzhou government in providing welfare provision to migrant workers.

Migrant workers are in an inferior position when we further compare their treatments under three schemes in Wenzhou with those of urban workers. The three schemes combined, Healthcare Insurance for Urban Workers (HIU), New Rural Cooperative Medical Insurance (NRC), and independent Healthcare Insurances for Migrant Workers (HMW), cover the entire workforce in Wenzhou. Firstly, while HIU and NRC cover outpatient services, HMW is still limited to inpatient reimbursement. Secondly, HMW is designed as a higher deductible line but the ceiling line is lowered, which limits migrant workers’ access to medical resources.

### ***Low Social insurance Coverage***

Moreover, the insurance coverage of workers in Wenzhou is still very low by national standards. Coverage of pension and healthcare insurances steadily grew, but stayed at a low level of 20 and 15 percent respectively until 2011. Coverage of workplace injury insurance experienced rapid growth in 2007, still only one-fifth



of the workers was insured until 2011. With such a low coverage, a large portion of workers are excluded from the social insurance provision in Wenzhou (Table 7.2 below).

Table 7.2 Estimates of Social insurance coverage in Wenzhou (Unit: %)

	Pension	Healthcare	Workplace Injury
2001	13.22	5.82	6.44
2002	14.17	6.09	6.49
2003	14.93	6.33	6.93
2004	15.73	6.60	7.38
2005	15.91	8.77	7.61
2006	15.62	9.56	8.54
2007	15.71	10.25	15.71
2008	17.34	11.86	23.55
2009	19.17	11.35	24.13
2010	20.73	15.49	24.39

Source: Calculated from Wenzhou Statistical Yearbooks(2001-2011).

Note: The pension and healthcare coverage is computed as follows: insured workers divided by the sum of the total urban working population, retired workers and migrant workers; the workplace injury coverage is calculated as follows: insured workers divided by the sum of the total urban working population and migrant workers.

### *Summary*

From the standpoint of the central government, social insurance implementation in Wenzhou is not satisfactory. There are major anomalies from the central government's regulations. First, it has made only pension compulsory but left the other four insurance schemes optional, and the central government has declared

that the five insurances should be bundled in 1999. Second, strategic deployment of minimal coverage allows the minimal responsibility to the local workers, yet universal coverage is repeatedly claimed in central documents. Third, migrant workers receive an inferior social insurance scheme, and furthermore, the overall insurance coverage of Wenzhou is among the lowest in coastal cities. In sum, social insurance in Wenzhou is moving toward a minimal and exclusive system.

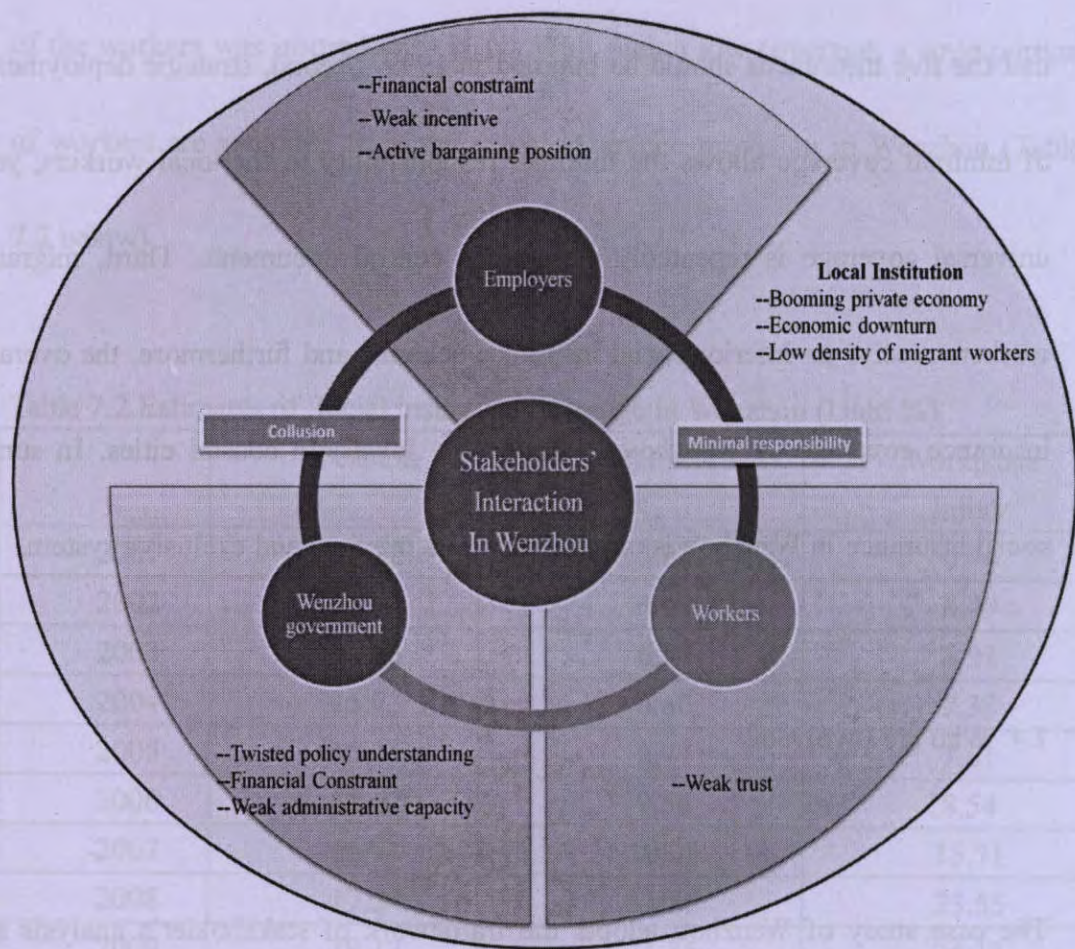
#### 7.4. Who are Involved?

The case study of Wenzhou adopts the framework of stakeholder's analysis as discussed in previous chapters. In Wenzhou's practice, central policy direction of expanding labor insurances is not followed due to a few local circumstances (Figure 7.3 below).

Figure 7.3 Stakeholders' Analysis in Wenzhou







As Figure 7.3 suggests, on the one hand, it is the peculiar circumstances of Wenzhou that has caused the stakeholders to get the incentives wrong. Available evidences have demonstrated that at least three institutions have hindered social insurance development in Wenzhou: a booming private economy, economic downturn and low density of migrant workers. This is explained in section 7.5. On the other hand, it is critical to understand the relative positions of the Wenzhou government, businesses, and workers in the policy implementation. In contrast to the long held argument of developing East Asian nations relying on substantial

intervention of the government for successful industrialization (Wade, 1990), Wenzhou's business has a long tradition of leading economic activities. Thus Wenzhou is a business-led regime. Due to strong and intricate governmental-business network in the economic spheres, the workers are in a disadvantaged position. It forms an unbalanced tripartite.

From the standpoint of local entrepreneurs, they are reluctant to invest in social insurance since they possess weak incentives to do so and are under financial constraint. Business is sending a negative signal to the other stakeholders. In the eyes of the Wenzhou government, distorted interpretation of the policy, financial constraint, as well as limited administrative capacity has hindered the efforts of the Wenzhou government in carrying out social insurance policies. Furthermore, fee-evasion activities are featured prominently in the long-term collusion between local businesses and the local government. Under this situation, workers' distrust of both their employers and the Wenzhou government has grown, and thus they also lack the motivation to participate in social insurance (Figure 7.3). Analysis of stakeholders' interaction is presented in the following sections.



### 7.5. Local Institutions: “Know Your Limits, Play Within it”

Why has social insurance policies developed toward a minimal and exclusive system in Wenzhou? It highlights the local circumstance in which the policy directives of the central government have limited leverage. Available evidences suggest that there are at least four key factors limiting the policy options of the Wenzhou government, and they are a high density of private enterprises and thus self-employed workers, emerging financial constraint, and low proportion of migrant workers.

Firstly, the region is characterized by a booming private economy and high density of private enterprises. Wenzhou’s economy enjoyed double-digit growth during the 1990s, and this economic miracle was sustained by prosperous households engaged in the production of handicrafts with semi-mechanical equipment (Figure 7.4). Wenzhou industry witnessed diminishing state-owned enterprises but a rising non-state sector. Even during the crackdown of the private sector in 1989, the number of private enterprises in Wenzhou was still doubled the number state-owned enterprises<sup>26</sup>. By 2000, private enterprises have dominated the entire

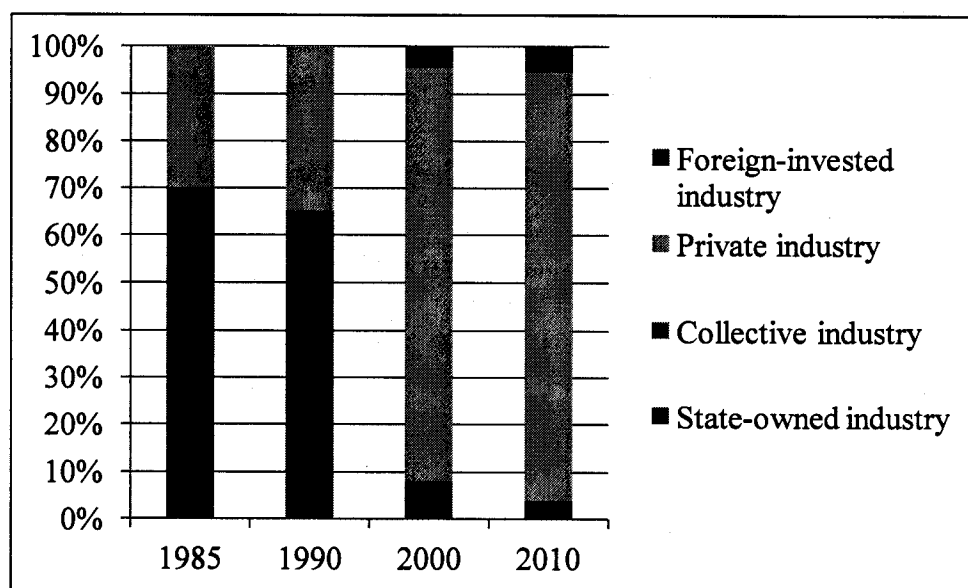
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<sup>26</sup> These figures still underestimate the output of the private sector because many *siying* enterprises were licensed as collectives.



Wenzhou economy, and its output made up 90 percent of the total industrial output.

Figure 7.4 Transformation of Industrial Structure in Wenzhou (1985-2010)



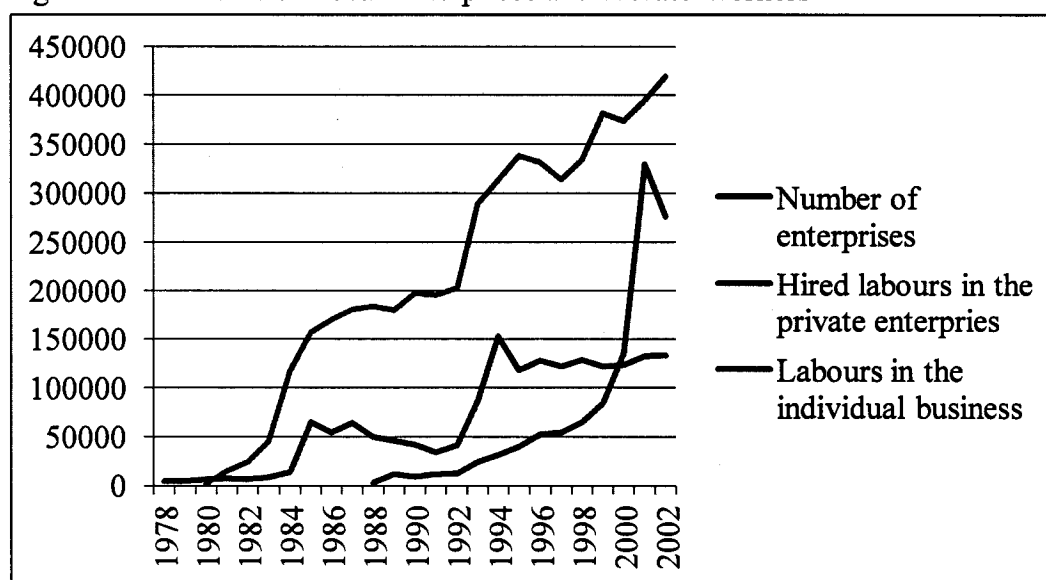
Source: Parris (1993); Bureau of Statistics of Wenzhou (2001a; 2011a).

The booming private economy in Wenzhou has created a number of private entrepreneurs, who are direct beneficiaries of the economic growth. Instead of welfare provision, self-reliance seems more appropriate to their way of doing business. We roughly calculated the number of entrepreneurs by firm number. In 1978 there were 4,085 local enterprises in nascent market, by 1988 this number had leaped to 65,405, an increase of 15 times. The economy went through a trough from 1989 to 1992<sup>27</sup>, but by 1993 it has picked up again and showed a

<sup>27</sup> During the three years of political struggle in Beijing (1989-1992) the private sector in Wenzhou was

steady increase until 2002. The prosperity of the private economy bred a rising number of private workers (Figure 7.5). Since 1988, non-state workers earning a salary and private (*siying*) enterprises<sup>28</sup> were legally sanctioned. In the former category, Wenzhou had 3289 labors in 350 *siying* enterprises, and both numbers had risen nine times in 2002. In another category of self-organized business, which distinguishes itself with the former in their small scale and small number of employees, the total number skyrocketed to 419,000 in 2002 (Figure 7.5 below).

Figure 7.5 Numbers of Local Enterprises and Private Workers



Source: Zhang (2006), p.104-112.

For Wenzhou, the high density of private enterprises has posed a challenge in

constrained. Deng Xiaoping's trip to southern China in early 1992, and the subsequent endorsement of the "socialist market economy", legitimized private enterprises in Wenzhou.

<sup>28</sup> A variety of enterprise types have been allowed under the category of *siying* enterprises, including "partnership households" (*hehuo hu*) and the more controversial "shareholding" (*gufen*) firms.



premium collection. Despite the sensitive nature of private entrepreneurs and hired workers in socialist China<sup>29</sup>, the private economy did play a crucial role in absorbing the surplus labor and helped to alleviate unemployment in the beginning of the 1990s. However, in Wenzhou most of the workers are concentrated in the informal economy, making it difficult to verify their incomes and identify who are the most in need of welfare assistance. At the same time, the local cadres also have difficulty in collecting the information from local enterprises and monitoring the fee-evasion activities. Last but not least, private enterprises are reluctant to cover the social insurance fees since cheap labor constitutes their competitive edge in the global market. Contemporary “privatization” in Wenzhou is simply the continuation of the history of its institutions. The following discussion shows the significant impact of historical institutions on the fragmented social insurance market in Wenzhou.

***Rudiment*** Private businesses and peddler activities were old economic activities in Wenzhou. Wenzhou is located in a mountainous area near the coast, thus there was little arable land relative to its large labor force, which made life difficult for the inhabitants. Due to the harsh environment, traditional handicrafts such as

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<sup>29</sup> It outraged the politically incorrect at that time by insisting that exploitation had ended in the transition to socialism in the 1950s, but privately hired workers was debated as an emerging way to exploit labor.

umbrella making, shoe making, and cotton spinning mushroomed to supplement the meager income from agriculture. Nonetheless, the tiny domestic market hindered the development of local commerce. Later, considerable itinerant traders had spread nationwide.

***Geographic and Political isolation*** Relative seclusion from the outside has reduced Wenzhou's exposure to the diffusion effects of large industrial cities. Wenzhou has a shortage of technology and market. This is in sharp contrast to areas like southern Jiangsu which has received long-term capital and technical support from the metropolis of Shanghai. In modern China, Wenzhou has long suffered from a serious deficiency of investment due to its proximity to Taiwan, which was the main threat to the Communist Party from the 1950s to 1980s. In those three decades Wenzhou received state investment amounting to 655 million *yuan*, with average economic growth during the period was 0.1 percent (Paris, 1993). But this isolation has minimized central interventions, and thus allowed the rise of private economy relatively free from central government intervention later.

***Cultural tradition*** Pursuit of utilitarianism is long recognized by the Wenzhou people. *Yongjia* School (or *Shigong* School) was an influential academic tradition



which started in the Southern Song Dynasty. It criticized the ideas of the feudal government in “placing agriculture above commerce”, and awakened the keen commercial awareness and strong business acumen among the Wenzhou people. This tradition does not put much emphasis on the empty metaphysical discussions or the changing external environment, but encourages wealth accumulation through hard work. With its strong mercantilist tradition Wenzhou people firmly recognize that the market is the bread and butter, and profit is the ultimate goal (Jin & Zhu, 2001).

Thus, due to the shortage of resources and markets, as well as cultural influence, the entrepreneurial instinct has made what Wenzhou is today. For the shortage of resources, Wenzhou has put both ends of the production process in the world market, the supply of raw materials and the demand for finished products. Mounting body of household handicrafts has absorbed thousands of workers and hence solved the problem of “dense population but scarcity of land”. Thriving local trading markets have solved the problem of the almost nonexistent domestic market. The household structure also lowers the technical threshold of the goods and improves the specialization of production. Owing to the small differences in the products, retail sales largely rely on the work of private marketing agents

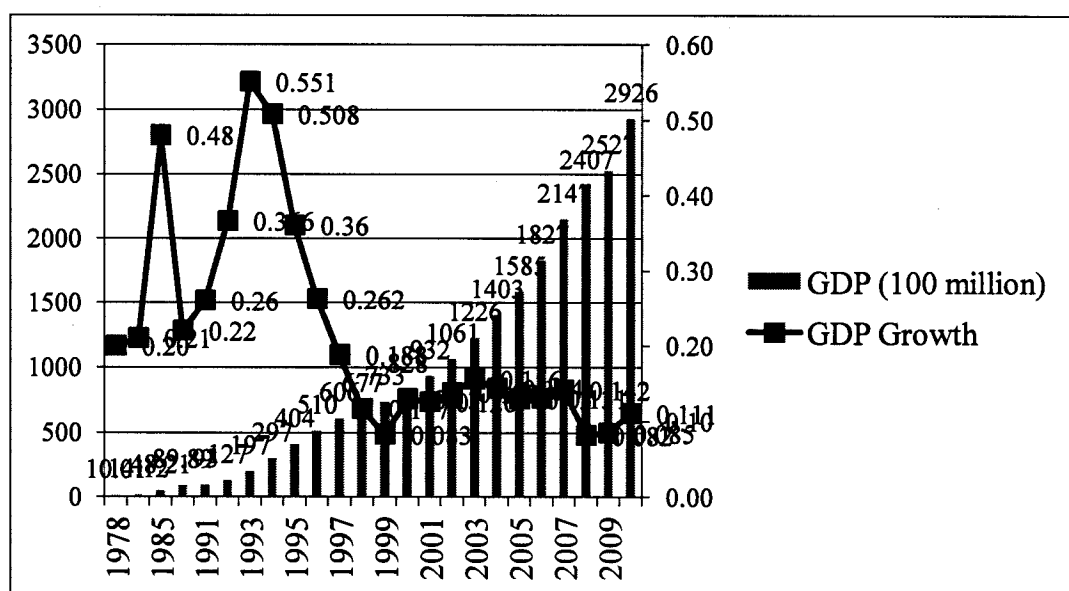




(*gong xiaoyuan*) who bring information as well as materials and goods from around the nation. Thousands of these agents linked the domestic production and international market. They have become private entrepreneurs in the later period.

Secondly, the Wenzhou government has been financially constraint under the economic downturn in the past few years. In line with the economic reform, the most dramatic change in Wenzhou is the soaring Gross Domestic Product (GDP), it has enjoyed an average growth of 35 percent in the past quarter century. However, it declined into the 12 percent from 1997 to 2007. Since 2008, the languishing export market, combined with the depressed investment markets, have reduced Wenzhou's growth to less than 10 per cent per annum (Figure 7.6 below).

Figure 7.6 Economic Growth of Wenzhou, 1978-2010

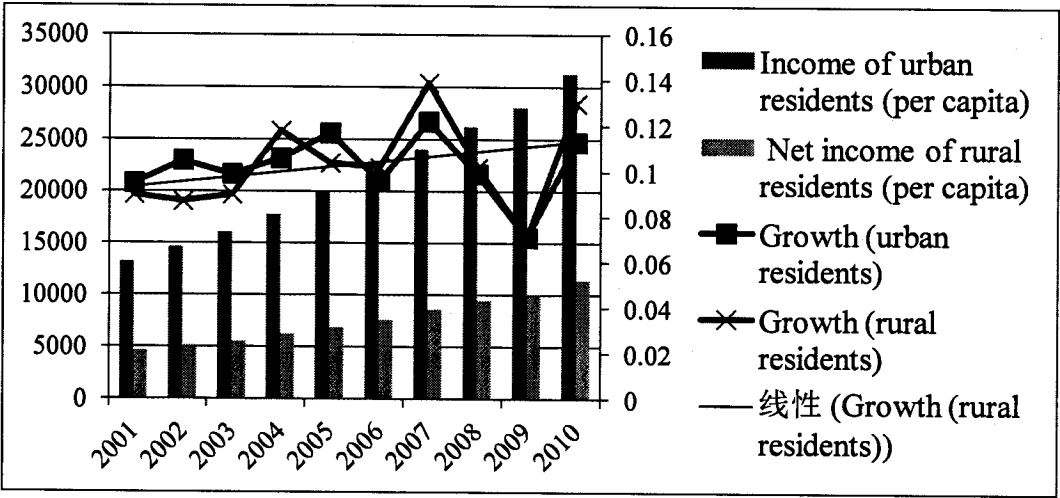


Sources: Liu (1992); Wenzhou Municipal Bureau of Family Planning Commission



(2005); Wenzhou Statistical Yearbooks (2001-2011).

Figure 7.7 Wealth Disparities between Urban and Rural Residents



Source: Wenzhou Statistical Yearbooks (2002-2011).

As a social consequence of the Wenzhou model, there is increasing disparity in household incomes which prompted the Wenzhou government to launch social protection schemes. The high-growth private economy has not been a win-win situation for the entire population and there are many who have been excluded from the economic boom. We examine the social consequence using an indicator of wealth disparity between urban and rural households<sup>30</sup>. As figure 7.7 suggests, during the economic boom, rural incomes enjoyed significant growth. The net income per rural resident reached 447 *yuan* in 1985, more than eight times the figure of 55 *yuan* in 1978. As a result, the absolute number of households under the poverty line reduced. Nevertheless, development in the 1980s was unbalanced

<sup>30</sup> The Gini coefficient evaluates the inequity in the dimension of social consequence, but regrettably, we have no access to this data.

and there were increasing gaps among the households. With the growing disparity of income the Wenzhou government instigated some social policies to improve the government's efficiency and consolidate its legitimacy.

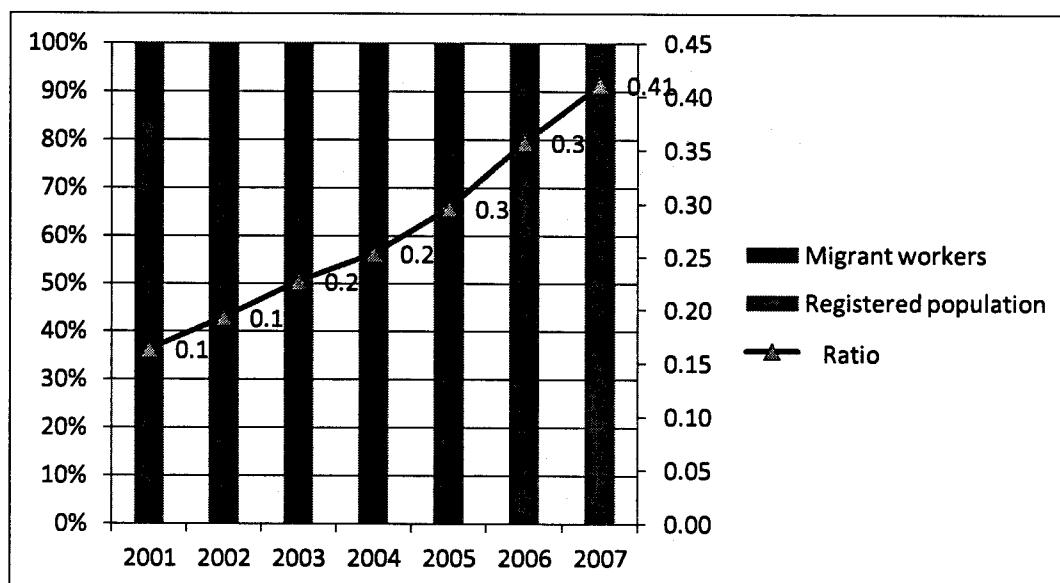
In turn, it is debatable whether a social insurance system should be established in Wenzhou'. On the one hand, partly in order to alleviate social disparity, social security constitutes an important policy tool to absorb the industrial risks of unemployment from the economic slowdown. Wenzhou workers had benefited a lot from the trickle-down effect during the economic boom, and were mainly dependent on better income security. There is no question that at that time the Wenzhou government could place less emphasis on the social security system. However, they were not able to maintain a balance until the economic downturn, at which time income security was gradually eroded. With intensifying globalization, the workers in Wenzhou's private economy are more vulnerable to industrial risk. On the other hand, the local government became financially constraint and is hesitant to push through social insurance since imposing social insurance would further burden the "cash strapped" local enterprises. As a result, since 2005 Wenzhou's effort to provide social insurance to the workers and cope with industrial risks has been recognized. Nevertheless, its sluggish policy

implementation reflected the ever-present influence of the local business sector.



Thirdly, there is a general trend of a low portion of migrant workers. The ratio of migrant workers to the number of registered workers was 0.41 in 2007, while the same ratio was 1.1 in Kunshan and 3.5 in Dongguan (Figure 7.8 below). In turn, welfare provision to migrant workers is difficult to list in a policy agenda; this partly explains the enduring inadequate social insurance for migrant workers. However, a rising dependency ratio has brought some pressure to the Wenzhou government. Wenzhou is among the most rapidly aging cities in China, and today Wenzhou has almost six workers for every retiree. How to have a sustainable pension system constitutes a long-standing policy objective of the Wenzhou government.

Figure 7.8 General Trends of Migrant Workers and Registered Population



Source: Wenzhou Statistical Yearbooks (2002-2008).

The aforementioned factors are the dilemma confronting the Wenzhou government amidst social insurance expansion, the high density of private enterprises and financial constraint. In conclusion, Wenzhou and the central government have disagreed over the issue of the pace of social insurance reform and the former's stance is significantly shaped by the local circumstance. This institutional analysis provides us with a framework, in which stakeholders "play within" and thus forms the observable interactions among the local government, businesses and the workers. The following discussion examines the role of employers and the local government in shaping social insurance in Wenzhou.

#### 7.6. Perspective from Employers: Issues Linkages between Industrial Structure and Weak Incentives

In the fieldwork, un-affordability has become a buzz word from the local entrepreneurs to explain their reluctance to provide insurance cover for the workers. Actually, the boom in the private economy has somehow stifled alternative industrial development in Wenzhou. On the one hand, the competitiveness of made-in-Wenzhou products is much higher than other business rivals owing to its high degree of labor divisions and dense marketing network,



ensuring a high profitability of five percent. On the other hand, the dense governmental-entrepreneurs network encumbers the openness of the local economy, making it difficult for firms from other localities to operate successfully.

Why has social insurance collection become a problem in Wenzhou? In this section, we offer an explanation which includes the factors of cost, skill and risk, to understand the “reluctance” of the local employers to provide social insurance cover. Moreover, this reluctance to provide insurance for workers has become a local practice.

#### 7.6.1 Cost

Wenzhou's range of industrial products comprise of comparatively low value-added and high labour cost products. Labour insurance constitutes a large percentage of the labour cost. Moreover, a steady decline in profitability has diminished manufacturers' ability to provide labor insurance. It is estimated that all the profits will be eaten up if the social insurance rate increases by ten percent (Box 7.1).



**Box 7.1: Affordability of Social insurance in Private Enterprises**

The basic formulas are presented here:

$$\left\{ \begin{array}{l} \text{Value of gross output} + \text{added value tax} = \text{value of semi-finished products} + \\ \text{new added value} = \text{total value of products} \\ \text{New added value} = \text{value of labor} + \text{value of capital} \\ \text{Value of capital} = \text{cost of capital} + \text{revenue} \end{array} \right.$$

The analysis below assumes that labor value is equal to the total wage bill.

Given a private enterprise insure all the labors under five schemes, the labor cost will steadily increases by 30% while the total labor cost will take up 24.4% of the total product value ( $67\% \times 1.3 \times 28\%$ ). The profitability rate of Wenzhou's private enterprises is around 7 per cent. We could get the maximum SI affordability of 37.31 % ( $7\% / (28\% \times 67\%)$ ), which is almost the state fund levy rate of 30%. That is to say, the existing state regulation leaves no room for development of private enterprises.

In fact, wage bill is 64.5% in the total labor cost. Thus, the proportion of SI payment in the newly added value reaches 80 per cent ( $67\% \times 64.5\% \times 1.3 + 67\% \times 35.5\%$ ), meanwhile, the profitability rate in the total value will reduce to 4.03%. Especially under the situation that the larger proportion of labor cost is above 67%, the profitability rate after fully levying will decrease below 4.03 %.

The central government and Wenzhou government were aware of this development pattern. The wages are so low by international standards and the export products prices so low that "Made-in-China" has been demonized as the equivalent of dumping. Since 2008, the central government introduced a new Labor Contract Law to try to regulate the labor market and upgrade the export industries. These new measures suddenly raised the labors costs and reduced the



profits of Wenzhou private enterprises. A survey conducted by the Economic and Trade Commission under *Ruian* Prefecture (county-level city of Wenzhou) expressed concerns about the enforcement of the New Labor Law. It shows that 18.6% and 21.9% of the enterprises would choose to reduce employees' wages and cut back on the number of workers respectively in order to absorb the cost of implementing the policy. In Wenzhou the Small and Medium Enterprises Promotion Association (SMEPA), representing predominately small firms, also oppose the implementation of the New Labor Law, fearing an increase in labor cost will erode its members' profitability. According to the calculation of Dewen Zhou, president of the association, the labor cost of each worker would increase by 5000 *yuan* each year. The same survey monitors and records the cost increase with the Labor Law among 31 enterprises in nine key industries in 2008. We have seen a dramatic rise in the labor cost, in which 18 enterprises experienced a 15 percent increase in wages, eight enterprises have their wage costs increased by 20 percent and the figure for 5 enterprises reaching 30 per cent. This statistical recapitulation is clear and telling. Given the New Labor Law is reasonable, the rocketing cost has unveiled the secret of survival of these small enterprises, that labor is their final item in their cost structure where they can squeeze surplus value from. The case of KD shoes factory demonstrates the effect of rising labor





cost (Box 7.2).

Box 7.2 Cost Calculation in KD Shoe-making Enterprise

Let us narrow down our analysis to Wenzhou’s shoe-making industry, which consists of about 4000 factories employing 400,000 workers, and responsible for one quarter of the total shoe production in China.

In my fieldwork, the boss of KD shoe-making factory has shown me a report of 2008, comparing the labor cost before and after the New Labor Law, which requires the statement of benefits in the labor contract of the workers in the production sector:

1) Personal wage increases by 20%

2) Compulsory SI programs according to the local regulation

KD has about 400 general workers in the whole factory.

Wage increase: 800 yuan to 960 yuan

Insurance	bills:	160,000/month
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Labor cost increase	2,688,000
Increases over 2007:	22.9 %

In sum, the employers face financial constraint in offering labor insurance. In turn, the private entrepreneurs in Wenzhou are largely opposed to the social insurance programs owing the already strapped financial condition, and thus many of the workers are left uninsured.

7.6.2 Skill

Skill is also instrumental in influencing employers’ preferences in their choice of

social insurance. Employers may have an interest in social insurance since it could help mitigate the risk of the enterprise, retain the skills of the employees, and reduce the turnover. Wenzhou industry has heavily relied on workers with general skills. According to the welfare production regime, neither employment nor unemployment security are preferred by the firms, the limited employment security gives them a competitive edge in the global market. It is likely that employers would be against social insurance because labor is abundant (Mares, 2003). Under this situation, employment security is completely inadequate in this regime.

The skill intensity is measured based on the relative size of labor and total output value: where capital and technology (skill) is scarce, labor will replace them as production factor. That is to say, the smaller the output per unit of labor, the more labor units are necessary as production input, thus the skill level is closer to general skills and it is a more labor-intensive structure. The comparison in Table 7.3 below suggests that the skill intensity lags behind that of Changzhou, with Wenzhou's skill intensity factor of 47.49 in the heavy industry almost equal to that for the textile industry of Changzhou. Nevertheless, Changzhou is among the mediocre prefectures in South Jiangsu, where there is a large concentration of



capital-intensive enterprises.

Table 7.3 Skill Structures of Pillar Industries in Wenzhou (2010)

Industrial sector	Gross industrial output value	Number of enterprises	Annual Employment (persons)	Skill intensity
<b>Wenzhou</b>				
Leather, Fur, Down and Related Products	5551202	931	234333	<b>23.69</b>
Textile, garment, Shoes and Hats	8610900	1274	309518	<b>27.82</b>
Electric Equipment and Machinery	8296790	1254	174019	<b>47.68</b>
General Equipment	4076599	1055	100744	<b>40.46</b>
Plastic Products	3198489	653	78158	<b>40.92</b>
<b>Changzhou</b>				
Textile, garment, Shoes and Hats	7495545	1031	172386	<b>43.48</b>
Electric Equipment and Machinery	9211783	676	115762	<b>79.57</b>
General Equipment	5653159	959	104317	<b>54.19</b>
Plastic Products	1288269	288	23083	<b>55.81</b>

Source: Wenzhou Statistical Yearbook 2011, p.171; Changzhou Statistical Yearbook, 2011, p.234.



Wenzhou enterprises lack incentive to invest in social insurance. On the one hand, local enterprises have been characterized as coolie factories, but the fact is simple handicraft skills are easily transferred within the whole industry and it is not necessary to train the new workers before they go on duty. On the other hand, correspondingly the labor turnover is comparatively high in Wenzhou. There is bilateral flexibility. For the workers, it is more flexible for them to switch jobs; and for the employers, given an abundant labor force with general skills, they benefit from the flexibility in adjusting their production according to orders. It is estimated that the turnover rate of the workers in Wenzhou's shoe-making industry is roughly 30 percent on average<sup>31</sup>. Hence, the employers are reluctant to provide social insurance for the seasonal workers.

Given this limited incentives, social insurance has been distorted as a reward system in local practice:

*“We only reward experienced workers who have stayed in our factory for more than five years, they receive social insurance. For most of the workers, it is a waste to provide them with social insurance as they change jobs very*

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<sup>31</sup>Xinhua net: [http://www.zj.xinhuanet.com/newscenter/2007-11/06/content\\_11594635.html](http://www.zj.xinhuanet.com/newscenter/2007-11/06/content_11594635.html).

*quickly*” (Interview #2070502).

The local enterprises took advantage of certain relevant “homegrown policies” (*tu zhengce*) in the operation. Under the minimal requirement, first, the total payment of labor insurances is easily under calculated as Wenzhou entrepreneurs regularly evade tax and report false sales figures (Interview#2070501-2070503). Second, in the operation, many enterprises increase the pay of their managers, and evade from the responsibility of insuring the workers in the production lines (Interview#2070502). This is vividly demonstrated in a firm’s archived financial report from my fieldwork notes (Table 7.4).

As a result, a spatial stratum in factory has been created. Table 7.4 show resources obviously tilting to the supporting sector with 91 percent of employees in the sector covered by pension and workplace injury insurance. This is in sharp contrast to the production sector, which accounts for 70 percent of the employees in the company. That means 78 and 63 percent of the workers are not covered by pension and workplace injury insurance respectively. In sum, it shows the unequal treatment to the operators and other staff in the direct and indirect sectors.



Table 7.4 Archived Social insurance Report at the Firm Level

Sector	Number of workers	Pension	Workplace injury	Healthcare
Supporting sector	384	346	346	25
Proportion (%)		91	91	6
Production sector	941	213	213	6
Proportion (%)		22	22	0.6
Total insured	1325	559	691	31

Source: Interview notes.

7.6.3 Bargaining Position

Wenzhou enterprises have weak incentives in turning over social insurance contributions, but how have these enterprises put the issues they are concerned about on the local government’s agenda’? We have found that the Wenzhou government actually has a policy of minimal intervention when dealing with local enterprises. Private entrepreneurs in Wenzhou have a long tradition of “intervening” in the policy making process. Wenzhou is has developed a reputation for “small government and strong business”. Wenzhou’s business sector has a reputation for its strong solidarity. A number of chambers of commerce have

emerged in the 1990s to combat counterfeit brands and substandard materials. They play an important role internally in coordinating the market and solving the problems of their own industry, as well as externally defending their interest against foreign anti-dumping actions (Yu, Huang & Fang, 2004, p.76). By 2002 there were 104 business associations at the city level, and another 321 associations at the county level with 42624 members covering most of Wenzhou's manufacturing enterprises (Chen, Wang & Ma, 2004, p.38).

On the one hand, actually every crucial decision about social insurance reform involves discussions which are open to the local chambers. The local government usually invites the presidents of the chambers to be present in the preliminary discussion in the planning. This area is still a black box in the research, but we are able to get some clues from interviews:

*“In terms of social insurance policy making, it is not to say we need to consult or discuss with the enterprises, but we need to maintain a channel of communication with them. This interaction is realized through conference. ”*  
*(Interview#2070201).*



*"I have participated in these kinds of conference for many times, especially around the labor law implementation. The local cadres would teach us some tricks on how to avoid social insurance more 'legally'." (Interview#2070401).*

On the other hand, Wenzhou entrepreneurs actively seek political representation. The executives of these private enterprises often outrank the local officials who are supposed to supervise them in remitting their social insurance fees to the local agents. This poses significant difficulties to the local collection agents. In sum, Wenzhou business owners have taken an active position in bargaining with the local government in social insurance, and thus they are able to implement their agenda in the policy making.

#### 7.6.4 Workers

Implementation of social insurance is complicated by the fact that migrant workers are reluctant to have their already paltry wages deducted to contribute to local social insurance funds because they are likely to be working on a seasonal or short-term basis and they would switch jobs or return home after working in a firm short term. This is especially true for pension, which is the largest deduction from a worker's wage but faces institutional barriers in transferring among the



localities. The workers, who were interviewed, whether local or nonlocal, complained that they are offered workplace injury insurance but would need to make their own arrangements to purchase other schemes because the employers would not provide the coverage (Interview #2070601-05). When experienced workers claim for the coverage, their employers usually provide them with the choice to purchase social insurance or offer some money as reimbursement. Other informants claimed that the employers make their own standard to determine the coverage and the employers promised to pay them back if they stayed in with the company for at least five years. A common trick of employers is reporting their relatives or friends under the worker's names for the minimal requirement (Interview #2070502). Despite these blatant abuses of the regulations, workers still do not dare report illegal activities to the inspection agents for fear of losing their jobs. Meanwhile, inadequate trusts in the local cadres have made workers hesitant to approach the government arbitrators, citing that "*they are always on the side of the local entrepreneurs*" (Interview #2070601).

### ***Summary***

Wenzhou's "reluctance" to expand social insurance is embedded in its production regime. Local industries primarily produce light-industrial goods, such as shoes



and garments. Firstly, owing to the low added value in the production chain employers are generally reluctant to afford social insurance. Secondly, Wenzhou industries train workers with general skills. In turn neither employment nor unemployment security is preferred by entrepreneurs as this would damage their competitive edge in the global market. As a result, social insurance became a kind of reward instead of entitlement among the local enterprises. Thirdly, in a pro-business regime, Wenzhou entrepreneurs actively bargains with the local government. Fourthly, both the local entrepreneurs and local workers distrust the social insurance agents of Wenzhou which made them even more reluctant to remit social insurance fees. These four factors have made Wenzhou enterprises unique in China.

Yet, the boom in the private economy, in another way, has limited the possibility of the city taking a different path of development. Wenzhou lacks the incentive to upgrading the skill and undergo industrial transformation. Its competitiveness is well ahead of other cities and owing to its high degree of labor division and active marketing network, which ensured high profits. Furthermore, the closely-knit government-entrepreneur network encumbers the openness of the local economy, making it difficult for outsiders to operate successfully. The responsibility towards



the workers is minimized. Moreover, local enterprises exploit sets of “homegrown policies” to their full advantage in the operation.

## 7.7. Perspective from the Local Government: Linkages between Local Protectionalism and Deviance

The Wenzhou government stretches minimal intervention in labor insurance. This part explores the incentive of the government in social insurance implementation. Why has the Wenzhou government deferred, blocked and even reversed social insurance policy directives from the central government? Three dimensions are examined, which are twisted policy understanding, limited financial capacity and limited administrative capacity.

### 7.7.1 Twisted Policy Understanding

Successful implementation often depends on a proper understanding of the policies by the local agents. With regarding to labor insurance, it is highly related to the issues of employment, economic growth and human capital. Since the local governments play a crucial role in implementing social insurance, how they



interpret social insurance would guide its implementation. In short, policy distortion is prominent among the local officials in Wenzhou.

First, instead of treating as “social rights”, local officials in Wenzhou perceive social insurance as “urban welfare” and thus tend to be local protectionist in policy design. During the interview, the local officials stated:

*“Social insurance itself is a national ‘welfare’ rather than human rights, not everyone can enjoy it. The social insurance in the city is reserved for urban residents. So the decision to insure migrant workers or not is determined by individual enterprises” (Interview #2070203).*

The chief designer of Wenzhou’s social insurance policy and former head of the Social Insurance Bureau further suggests that longstanding urban-rural division determines the different welfare arrangement between urban and migrant workers. In their understandings, urban authorities solve the problems of urban workers. Hence, an exclusive regime has emerged in Wenzhou, which continuously excludes migrant workers from the urban welfare protection system, as they stated:



*“Our longstanding mission is solving the security problems of urban workers. While for the migrant workers, they don’t need social insurance because they would eventually return to their villages, the farm is their security lifeline” (Interview #2070203).*

*“We are inclined to solve the more urgent needs of migrant workers, such as workplace or serious accidents. As for other schemes, they have the cooperative medical insurance and rural pension in their hometown” (Interview #2070201).*

*“Workplace injury insurance is the only universal program without any differentiation between local and nonlocal workers in Wenzhou. This is because it is a pay-as-you-go system, and it doesn’t consume so much local resource” (Interview #2070202).*

This policy logic has been faithfully transformed into an award mechanism in the local practice. The local entrepreneurs gradually set their own standards to distinguish those who should be insured and those who shouldn't. In a woven-bag plant, the business owner showed us the insurance record: among 1325 migrant



workers, 691 persons are covered by workplace injury insurance, and 31 people are under the healthcare insurance scheme (Interview #2070401). The local employers explained the local practice:

*“We will award the worker with social insurance if he has worked for a long time”* (Interview #2070503).

*“80 percent of our staff is migrant workers. Under the minimal coverage policy, we need to determine who are qualified and who are not. Thus we have some standards: migrant workers only enjoy workplace injury protection; workers below the age of 35 are excluded from schemes; workers who have stayed for more than 5 years are qualified for labor insurances. Sometimes uninsured workers would make a claim, but we have to control the number of workers insured* (Interview #2070502).

Second, existing social insurance schemes cannot meet the demands of private enterprises. Compulsory social insurance in China coincided with SOE reform, and thus it hardly fits the “flexible” needs of private enterprises. Therefore, the Wenzhou government has cautiously carried out the central government’s



initiative in social insurance reform, as they are worried that social insurance legalization would push the enterprises into bankruptcy. It is reflected in their answers:

*“Social insurance functions as a co-sharing system of industrial risks, but the question is, are pension and unemployment the only risks our private enterprises are confronted with? Definitely NOT. They are debts of the SOEs, and liabilities imposed by the central government”* (Interview #2070201).

The efforts to tailor the schemes for the peculiar private sector of Wenzhou are recognized by the local government. Thus, for a long time, the Wenzhou government has unbundled the five insurance schemes, leaving healthcare, unemployment, workplace injury and maternity schemes voluntarily. Different enterprises can choose to the schemes according to their own need. At the same time, the Wenzhou government has set different payment bases in the different schemes. Unemployment and maternity insurance are typically designed for SOEs, which desire higher benefits, and these two schemes have the highest payment base (1558 *Yuan* in 2005). Workplace injury, on the other hand, are more fitting for private enterprises, the payment base is reduced by the Wenzhou government



to 935 Yuan in 2005. The aim is to attract more participants.

Thirdly, according to the logic of the local cadres of Wenzhou, enforcement of social insurance may hinder Wenzhou's economic development. The local government lacks the incentive to enforce social insurance since doing so might erode the profits of the private enterprises, which will hurt the government's revenue and local employment, as they said:

*"To be frank, the survival of thousands of enterprises in Wenzhou depends on the evasion of tax and labor insurance, otherwise Wenzhou enterprises would go bankrupt.....For us, GDP and full employment is key to the survival of our government and Wenzhou's economy. If we insist on implementing labor insurance, it would only serve to squeeze their profitability dry, engineer a slow-down in exports, cause a worrying spate of bankruptcies in small enterprises, and push back economic development"* (Interview #2070203).

Thus, the Wenzhou government has set a minimal coverage in social insurance contributions, which is an intermediate way to ensure the fiscal sustainability of social insurance funds and attain the coverage objectives set by the higher level





governments. The languished economic growth further makes labor insurances progress of Wenzhou bogging:

*“Wenzhou’s economy is unique, that the profit rate of private enterprises is 3 percent but responsible for 90 per cent of local employment, so we need to remake coverage requirements for different industries. We all know, once we follow the central government’s policy, we are fearful that Wenzhou’s economy would crash”* (Interview #2070201).

As a result, in the implementation of labor insurance, Wenzhou entrepreneurs use a common trick to evade their social insurance contributions by falsely reporting the wage bill or the number of registered workers. But more importantly local officials have lent them passive support by “turning a blind eye” (Interview #2070204).

Fourth, the social insurance policy in Wenzhou is driven by fund imbalance (Interviews #2070101, #2070201, and #2070203). The Wenzhou government does not embrace ambitious targets in social insurance reform, only to make ends meet.

Thus they are fiscally prudent about the expansion of social insurance, as they



stated:

*"We are inclined to maintain the status quo as long as insurance funds operate independently without the need for subsidy from the local government"*  
(Interview #2070201).

*"We are monitoring the balance of payment, and we would consider covering more people if the balance is broken."* (Interview #2070202)

By far the most contentious issue and the most intense conflicts over Wenzhou social insurance have been payment between private enterprises and local government in terms of pension. Owing to the considerable private enterprises in Wenzhou, the small pension accumulation from the non-private sectors is unsustainable. On the other hand, pension is perceived as a historical legacy of state-owned enterprises and thus is cold-shouldered by private enterprises. Hence, the problem of pension evasion and accompanying fund unsustainability are severe in Wenzhou. As a result, the local government has to rely to local fiscal strength to solve the problem. This is why Wenzhou was among the first batch of localities issuing multiple pension payment regardless of the ownership of



enterprises<sup>32</sup>. The problem of pension has persisted since the implementation of social insurance in Wenzhou as follows:

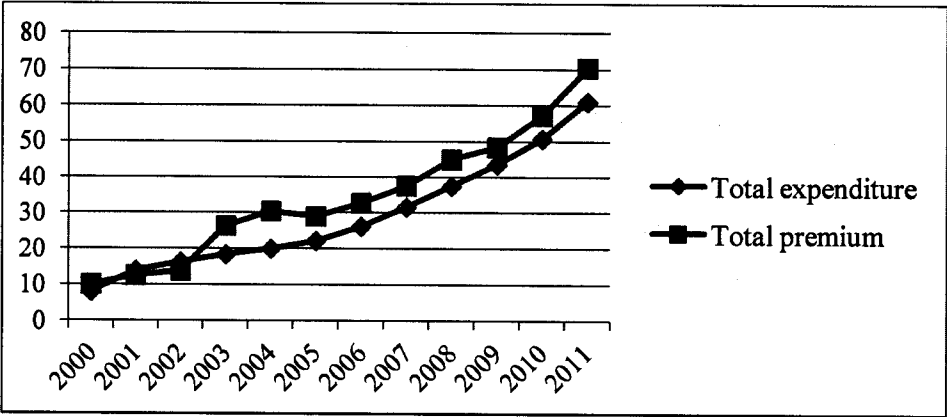
*“We have a well-developed market economy in Wenzhou, in contrast, state-owned enterprises experienced more a severe and significant decline of profit at that time. At the same time, the dependency ratio had been hit, as more and more working people resigned and take the plunge and entered the private sector (xiahai) but the retired people gradually increased. We cannot make ends meet so we put all the local workers in the pension programs and enforced the private enterprises to contribution (Interview #2070203)”.*

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<sup>32</sup> Alongside the emergence of the market economy, the Wenzhou government made a head start in pension reform early in 1991. It was among the first batch of localities issuing premium pooling (yitihua) from various enterprises regardless of their ownership. Prior to that, pension was enjoyed by “privileged” state-owned enterprise workers with formal positions. Wenzhou’s local experiment became a role model for the subsequent national reform. Soon social insurance had been legalized as entitlements for workers from various enterprises, and co-financial design was promoted in the whole country. The year of 1997 is a watershed, in that year state-owned enterprises went bankrupt and caused mass unemployment under the tide of SOE reform. It also developed some salient policies at that time. In order to deal with the more severe problem of pension deficit, the Wenzhou government diversify sources of the pension fund, including: (1) 17 percent of total wage bill, paid by the enterprises; (2) 2 percent of personal wages, paid by individuals; (3) 0.5 percent of sales for industrial enterprises, 0.1 to 0.3 percent of the sales of commercial enterprises; and (4) 0.5 percent of the annual fiscal revenue, derived from the local government (Co-payment mechanism in Wenzhou 1994). Among the four measures, the former two were similar to those of other local cities, but the latter two are additional measures of the Wenzhou government.

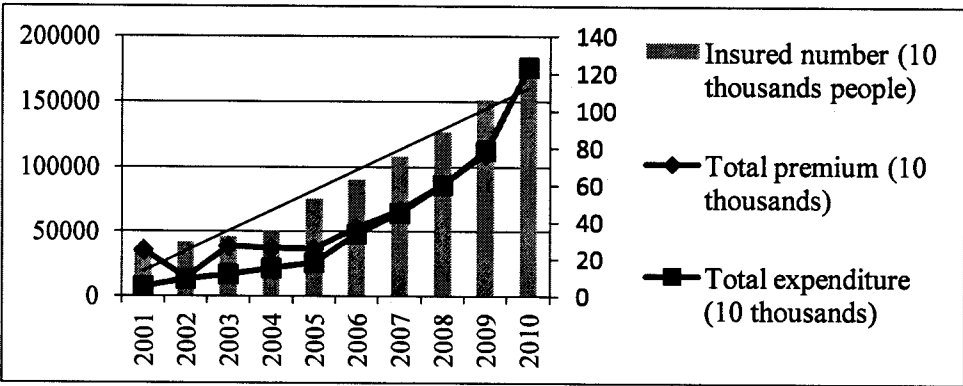
As a consequence, pension premiums have been adjusted several times to reach equilibrium of fund surplus. The total revenue and expenditure have been returned to the surplus after 2005 (Figure 7.9 below). Healthcare insurance for urban workers has the same problem (Figure 7.10 below).

Figure 7.9 Total Premiums and Expenditure of Pension (2000-2011)



Source: Wenzhou Statistical Yearbooks (2001-2011).

Figure7.10 Total Premium and Expenditure of Healthcare Insurance (2000-2010)



Source: Wenzhou Statistical Yearbooks (2001-2011).

Also Wenzhou has long suffered from insufficient health resource. As the third largest economy in Zhejiang province, the number of doctors and beds per

thousand reached 2.8 and 2.4 respectively in 2010. This is in sharp contrast to the same indicators in Ningbo which are 3.9 and 2.8. On the other hand, cost control needs to be strengthened. In 2010, Wenzhou residents paid an average of 1242.6 *yuan* for health services, which is 28.7 % higher than the provincial average<sup>33</sup>. A deficit in healthcare insurance occurred in 2007. One year later, the Wenzhou government kicked off a Five Insurances Fund levy to legalize the participation of labor insurances with a minimal 15 percent to cover more urban workers, combined with a major reform of cost control.

In conclusion, the fact that the local government officials in Wenzhou have a distorted understanding of the central government's policy can help to explain the nature of exclusive and flexibility of the entire social insurance system in Wenzhou, as well as delayed policy implementation. The exclusion of many migrant workers from insurance schemes indicates institutional discrimination of these workers in public goods; and the flexibility shows their efforts to tailor the schemes to the peculiar private economy of Wenzhou.

#### 7.7.2 Financial Constraint

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<sup>33</sup> See <http://finance.wzsee.com/2012/0209/118004.html>.

The Wenzhou government has lower financial revenue when compared with export-led cities, and this has limited its policy leverage. Table 7.5 below compares the relative financial capacity of Wenzhou and Dongguan. As Table 7.5 suggests that, Dongguan has significantly outperformed Wenzhou. Until 2010, Wenzhou had a rather low government revenue, with financial revenue per capita of 6082 *yuan*, which was less than half of that of Dongguan. Also the financial expenditure per capita is lagged far behind that of Dongguan. After adjusting for the migrant population, the financial expenditure of Wenzhou was still 1000 *yuan* less than that of Dongguan. These findings corroborate the disadvantaged position of the “weak” Wenzhou government in policy making.



Table 7.5 Comparisons of Financial Revenue and Expenditures in Wenzhou and Dongguan

	Financial Revenue		Financial Expenditure		
<b>Wenzhou</b>	Total revenue (10,000 thousands)	Adjusted by total population (yuan)	Total expenditure (10 thousands)	Adjusted by Hukou population (yuan)	Adjusted by total population (yuan)
2001	961088	1300.86	545609	738.50	634.88
2002	1262601	1708.25	657618	889.73	745.95
2003	1517719	2044.67	742642	1000.49	815.20
2004	1824359	2444.90	833064	1116.42	890.55
2005	2049213	2731.26	933908	1244.75	960.44
2006	2410894	3186.99	1436927	1899.49	1399.05
2007	2932606	3835.63	1769850	2314.83	1640.21
2008	3397842	4401.41	2096670	2715.93	1924.42
2009	3607243	4629.95	2515604	3228.82	2292.93
2010	4114302	5229.16	3110478	3953.33	2807.44
2011	4856156	6082.66	3704471	4640.10	3295.14



<b>Dongguan</b>	Total revenue (10 thousands)	Adjusted by total population (yuan)	Total expenditure (10 thousands)	Adjusted by Hukou population (yuan)	Adjusted by total population (yuan)
2000	1035561	2542.31	336102	2202.36	825.13
2001	1259961	2059.74	478646	3110.31	782.47
2002	1678848	2846.28	649606	4159.08	1101.33
2003	2064052	3443.47	765190	4813.73	1276.57
2004	2591086	3992.92	941554	5813.14	1450.96
2005	3319079	4421.72	1170427	7065.66	1559.26
2006	4065412	5384.15	1478955	8787.09	1958.70
2007	5395362	7400.44	1930968	11275.07	2648.57
2008	6010642	8263.64	2182626	12482.13	3000.75
2009	6278114	10314.14	2326216	13015.25	3821.68
2010	7851003	13234.11	2898306	15944.91	4885.55

Source: Wenzhou Statistical Yearbook (2011); Dongguan Statistical Yearbook (2011).





### 7.7.3 Limited Administration Capacity

With limited financial resources, social insurance expansion is placed in a relatively low position in the policy agenda, and in turn social insurance agents in Wenzhou constitutes a weak sector. The Municipal Bureau of Social Insurance (SIB) has emerged as the most important department undertaking policy making and inspection. Yet, the ability of the Wenzhou administration agency is restricted, this is mainly due to its fiscal dependency on the local financial department. During an interview, one official said:

*“We are a poor department in the bureaucratic system, as both the social insurance base and the surplus are very weak in Wenzhou. We don’t really have many resources. What we do is propose, but most of the time our proposals are rejected by the local financial department” (Interview #20700201).*

Another official who concur with this conclusion also mentioned that *“the power of Wenzhou’s Bureau of Social insurance is on the wane; some entrepreneurs directly challenge us claiming that we have introduced some obstructive policies”* (Interview #2070301). Until 2009, the financial sector has accumulated liabilities

of 257,975 thousand yuan to Wenzhou social insurance schemes. The shortfalls of



social insurance fund demonstrate that other issues have outweighed social insurance and thus the social insurance resource is used to replenish other fiscal priorities. To solve the problem and ensure the fiscal subsidy, the Wenzhou government has issued risk fund of social insurance since 2010. It legalized the financial budget and other sources of social insurance subsidy. Apart from the original reserve fund and fiscal budget, it further included a certain amount of land transfer fees<sup>34</sup>.

Another vital group is the Municipal Inspection Team of Wenzhou, which are in charge of inspection of violations, including evasion of social insurance fees, false reporting of wage bills and employees. But given the small scale and relative mobility of the private enterprises, the inspection team faces difficulties in inspection. The firm-level data provided by the local inspection team are evidence of their relatively limited capacity (Table 7.6).

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<sup>34</sup> See [http://www.110.com/fagui/law\\_363392.html](http://www.110.com/fagui/law_363392.html).



Table 7.6: Statistic of Social insurance Development among the Enterprises

Enterprise	Total number of the labor	Pension		Healthcare		Workplace Injury	
		Number	Coverage (%)	Number	Coverage (%)	Number	Coverage (%)
Aihao	891	221	24.8	203	22.8	203	22.8
Haozhonghao	946	257	27.2	-		941	99.5
Zhuangji	1186	503	42.4	294	24.8	-	
Sanxing	1564	1153	74.6	805	51.5	-	
Chengguang	1325	559	42.2	31	2.34	691	52.2
<b>Big firms</b>			<b>42.24</b>		<b>25.36</b>		<b>58.17</b>
Ruilian	211	23	10.9	-		72	34.1
Tianyan	156	13	7.9	10	6.4	92	59.0
Sengte	274	31	11.3	-		-	
Liming	356	32	9.0	24	6.7	-	
Zhijie	320	27	8.4	-		192	53.3
<b>Smaller firms</b>			<b>9.5</b>		<b>6.55</b>		<b>48.8</b>
Papo	280	238	85.1	72	25.7	202	-
Luxous	218	201	92.2	70	32.1	-	-

Source: The municipal Inspection Team of Wenzhou.



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According to Table 7.6, we can probably find that the big firms have a higher coverage than the small firms. An official responding to the question of the most difficult challenge in expanding social insurance pointed to the high mobility of small private firms. Hence, they rarely conduct field investigation; instead, they audit the firms by reviewing annual document reports submitted by the firms (Interview #2070204). Lacking in enforcement measures, the officials only require the enterprises to supply data to fill the gaps, actually, the method is not very effective (Interview #2070301). In most situations, they would not inspect a specific firm unless they have received a complaint (Interview #2070302). In conclusion, the inspection cadres are passive in the social insurance expansion.

Some argue that political intervention has made inspection activities more difficult. A territorial inspection team official told us that they have received calls from entrepreneurs threatening to embarrass their officers in the municipal CPPCC. These threats often turned up when there is an official investigation of a firm and punishments are being dished out (Interview #2070301). He and other officers denied that entrepreneurs collude with them over social insurance payment issues. Nevertheless, virtually every informant who is an entrepreneur said that such bargaining is commonplace. The entrepreneurs usually offer a “red pocket” in



certain festivals to shield themselves from being penalized (Interviews #2070401, #2070503).

Information related to its account is that most of the inspection team members of Wenzhou are not government officials but outsourced labor. In this regard, despite the fact that they do not have a salary, this group of cadres is not qualified to share other performance bonus (Interview #2070302). As a result, the extra income becomes a supplement to their income. The local government also realized their lack of incentive and in 2010 began to allocate a 40 percent of the financial subsidy to the grass-root cadres. In 2011 the government further launched a new regulation to include all the twelve territorial inspection teams into a system of quasi-civil servants, in which the inspection team members will receive the salary, bonus and other welfare of career civil servants (Wenzhou Bureau of Personnel, WZ013-0403-2011-0159). One following the other, owing to the distorted interpretation of the policy, limited financial capacity and administrative capacity, the expansion pace of labor insurances in Wenzhou is dodging.

### ***Summary***

From the perspective of the Wenzhou government, its limited capacity has



hindered the social insurance development in Wenzhou. Firstly, local officials possess a limited understanding of social insurance. They perceive social insurance as “urban welfare” and thus tend to be local protectionist in policy design. Still, confronted by the sluggish economic growth, local officials are reluctant to implement social insurance since doing so may scuttle the economic recovery. As a result, expansion of social insurance in Wenzhou has become a method of balancing the budget. Secondly, minimal intervention of social insurance is also linked to the limited financial capacity of the Wenzhou government.

The Wenzhou government has a legacy of noncompliance to central government policy owing to the government-business network, as stated in the opening part of the chapter. Wenzhou has developed a reputation for its “flexible policy” and generous concessions to local businesses. As many local cadres are involved in business, their interests are closely associated with the local private sector. Through such an arrangement, the local officials could generate revenues through illegal fee levying. On the other hand, a characteristic that differentiates local industrialization from a foreign-invested model is that entrepreneurs in Wenzhou actively participate in the political process. That is to say, local business



associations possess strong bargaining power. According to our finding, 523 entrepreneurs hold positions in the local Chinese People's Political Consultative Conference, and 441 in the local People's Congress (Yu, Huang & Fang, 2004, p.211). Therefore, to some extent social insurance implementation, including the contribution rate and coverage, is up for bargain between the local government and local enterprises.

#### 7.8. Congenial Bedfellow? Tactics for Delayed Implementation

Apart from the general trend of low coverage of labor insurance, inter-firm variation is significant which could be understood as the result of each company's "dealings" with local officials. Under the table negotiations, tacit agreements are common in the social insurance implementation in Wenzhou, since the close business-government network in Wenzhou has created such "opportunities". The discussion below shows how different enterprises "work" their resources in their own manners. The interaction or collusion between local governments and business in China is an opaque process. But an examination of the coping strategies of different enterprises may allow us to peek at the process. The following four cases represent the main categories of enterprises in Wenzhou, they



are: (1) a large publically-traded company, which is privately owned; (2) a large domestic firm, which is restructured from a local collective enterprise; (3) a smaller local enterprise; and (4) a small foreign-owned enterprise.

***Large publically-traded enterprise: political capital***

In the company's inspection report, a large textile firm G employing approximately two thousand employees is noticeable owing to its poor adherence to the official insurance regulations as only one-fourth of the employees are insured. This firm has been long granted as a star enterprise, and successfully went public in the Shanghai Stock Exchange in 2011. According to the company's prospectus, G has avoided social insurance fees by exempting "dispatched workers" from labor insurances<sup>35</sup>. The human resource director of this firm confirms that 60% of workers have been transferred out and became outsourced workers, whose labor insurances are much lower than that of formal workers (Interview #2070402). All these were happening under the supervision of the local officials, but no inspection have been conducted, not even a warning. This is thought to the political network of the entrepreneur of this firm, and the fact that he is an "evergreen" member of the municipal NCPCC. As noted in the discussion

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<sup>35</sup> See <http://finance.sina.com.cn/chanjing/gsnews/20120617/223712334443.html>.





above, Wenzhou private entrepreneurs are active in the political activities. Thus in Wenzhou, enforcement has become increasingly difficult because the executives of some large firms often outranked the local cadres who are supposed to enforce the remittance their social insurance fees to the local social insurance agents.

*“In Wenzhou, Guanxi is above the law. He will make my career difficult if I take actions against G Company...we simply do not dare offend such a star entrepreneur of Wenzhou”* (Interview #2070301).

Though there is no direct evidence of cost reduction, the profit growth of G firm exceeded 50 percent in 2011, almost 10 percent higher than in 2009. It is observed that, the firms in this category usually possess strong political capital to bargain with the local administration agents based on their political positions.

### ***Large local enterprise: domestic network***

By contrast, its neighbor company S is a showcase in remitting social insurance contributions. S is a large machinery firm with 1500 employees, of which 1272 are covered by social insurance schemes. No institutional discrimination has been found in the treatment of the workers.



An explanation for its good performance is its previous ownership, that the firm used to be an urban collective, and thus has established a comparably equitable employment system. The manager interviewed said they treat social insurance schemes as necessary to retain the workers and thus lower labor turnover. Their turnover rate stood at 1.5 percent (Interview #2070404). The manager gave another explanation for the implementation, citing the absolute dominance of local workers, who accounted for nearly 80 percent of the total staff number. Usually, the local residents working in this enterprise are more concerned about their legal welfare rights, and they also have more channels to report illegal behavior to the local agents and thus are in a better position to protect their welfare interests. Meanwhile, the local workers can more easily organize themselves in protests. This domestic solidarity has empowered the local workers and strengthened their bargaining position with entrepreneurs in welfare issues (Interview #2070404).

Additionally, Wenzhou is a typical acquaintance society, which means interpersonal relationship plays an important role in local policy implementation. When employers and the majority of their employees are linked in the same *guanxi* network, the employers are under pressure to provide humanized



management and standard welfare packages to the local workers. This kind administration would be expanded to include the migrant workers. As the manager understands, the local network is also important in factory management, and sometimes become a mechanism which prevents illegal behavior:

*“Our recruitment channel is mainly through personal recommendation, and many employees are friends and relatives of old workers, it would be a disgrace if we do something bad”* (Interview #2070404).

This argument echoes the research findings of Smart & Lin, they put forward the notion of “regional capitalism” to conceptualize this situation in China. Instead of the law, entrepreneurs rely largely on the endogenous social network to run their business, and thus their management attaches importance to human relationships and is more humanized (Smart & Lin, 2007).

### ***Small local private enterprise: individual collusion***

Compared with large enterprises, small private enterprises make their own arrangement with the local administration agents regarding the collection of social insurance contributions and coverage bargaining. The total wage bill and



workforce number they report are usually understated, in order to reduce the payment. This is an open secret of the whole industry. Meanwhile, to avoid inspection and punishment, they lobby officials for favorable treatments. Many entrepreneurs interviewed are ever involved in rent-seeking activities, after calculation of the compensation for workers and bribe cost, as the employers stated:

*“The workers complaining to the administration agents easily lose their patience once the cadre has delayed the investigation for half a year. If we compensate for his losses, there is no benefit to us if he took the money and left. Given 1000 per month per worker, this would amount to a thousand yuan for ten workers. Instead, it is more worthwhile to give these accumulated ‘compensations’ to the local cadres in exchange for their favor. ”* (Interview #2070501)

They also noted that *“it has been a custom in traditional Chinese festivals, especially the Spring Festivals, to buy the cadres gifts in order to maintain a good relationship. However, they are tired of this “collaboration”, “actually we are not satisfied with this arrangement, you need to spend a lot of time and money dealing*



*with the local government; on the other hand, it is not an equitable or healthy environment for the growth of private enterprises* (Interview #2070503). In the past decade, an exodus of private enterprises has given us a glimpse of the downside of Wenzhou's economy.

### ***Foreign invested enterprises: inferior status***

Foreign-owned firms are much more attractive to local agents because they offer a potentially lucrative revenue base for labor insurance, as well they are excluded from the local entrepreneur network. Within the two foreign machinery firms, P firm has 238 insured workers out of a total of 280, and L firm has 201 insured workers among its staff of 218; both companies basically practice universal coverage. Their obedience largely sources from the limited solidarity, since FIEs in Wenzhou's industry are a minority accounting for only 0.5 percent of the total number of private enterprises. A manager at a zipper factory said that they felt inferior operating in Wenzhou,

*"The government is not so friendly to foreign businesses. In a fire service inspection, we are required to improve our equipment in three days; otherwise they will punish us...When I told them the local-owned factory next door is*



*more dangerous and dirty, he said he saw nothing. ” (Interview #2070403).*

The officer of a local social insurance agent gave another account of the different status, the Wenzhou government largely relies on tax of glutted private enterprises, and thus lacks incentives to offer favor to foreign enterprises (Interview #2070302). However, it is noted that not all the foreign-owned enterprises are fully covered in labor insurance; however their average coverage is higher than that of similar-sized local private enterprises.

### ***Summary***

In conclusion, in a pro-business regime, expansion of the coverage of social insurance is difficult since it is against the business interest. “Flexibility” is the principle followed in implementing social insurance. Wenzhou is among the first batch of cities embracing marketization in China, but it is definitely not the best example. Having a strong political capital is one of the most important conditions for a private enterprise to survive and succeed in Wenzhou. In the 1980s private entrepreneurs were generally fearful that their business would be denounced as illegal once the policy of reforming and opening up policy turned around. Stocks are offered to the local cadres in exchange for the administration’s protection and to share policy risks. For the local cadres, they accept the responsibility by



sheltering the private enterprises treating them as branches of state-owned enterprises. Wenzhou has developed a dubious reputation for blurring the boundary between market and personal network (*guanxi*). That is to say, in their daily business dealings, different enterprises devise different policies to bargain with the local administration bureaus. Finally, collusion between businesses and the local government is by “deploying” the existing political network and local network to make social insurance more “negotiable”.

## 7.9. Conclusion

The implementation experience of Wenzhou shows that, firstly, the battle between employers who evaded social insurance levies and the local social insurance agents who are in charge of collection is featured prominently in Chinese private enterprises. Secondly, due to the interference of local enterprises, Wenzhou was hesitant in policy implementation. As a result, the Wenzhou government has exercised large discretions in deciding the implementation pace and devised new policies to cater to the local needs.

The case of Wenzhou confirms the hypotheses proposed in Chapter Four. It has demonstrated that both the local production regime and decentralization have



caused disturbing development of social insurance in Wenzhou. The case of Wenzhou is significant for its low-end production, domination of small enterprises, and private enterprises. In Wenzhou's case, the manufacturing industry is sustained by workers with general skills, and thus a high turnover has reduced the incentives for local employers in offering labor insurance. A considerable number of small firms have made inspection activities increasingly difficult for the administration agents. More importantly, long-term collusion between local businesses and the local government by "manipulating" the political resources and local network has made social insurance more "negotiable" in Wenzhou. Nevertheless, the booming private economy has determined Wenzhou on a path of pro-business welfare regime.

With regard to the impact of decentralization, we could discern in this case, under the context of increasing fiscal decentralization, the Wenzhou government tend to be more protective of local workers and institutionally exclude migrant workers in social insurance coverage. In this regard, without symmetry of fiscal resource and expenditure responsibilities in the local governments, expansion of social insurance is difficult to realize in the localities of China. In other words, solely increasing the weight on livelihood issues without fiscal subsidy will fail to





provide positive incentives to the local governments.

The examination of the Wenzhou case has also reinforced the theoretical framework of this dissertation. In the stakeholders' analysis, it is clear that the intuitions have provided us with a framework in which the policy stakeholders "play" it and observable interactions are formed between the local government, local businesses and the workers. The interactions has further demonstrated the new welfare regime in China where the local government and local businesses exert a decisive influence in shaping local social insurance policies, while the workers are in an inferior position in the policy formulation and implementation process to articulate their interests, that their demands are largely ignored.



## CHAPTER 8

### THE POLITICAL ECONOMY OF ‘PRICIPLED AGENT’ IN KUNSHAN: LOCAL AUTARKY, CELEBRITY EFFECT AND EQUAL CITIZENSHIP

#### 8.1. Introduction

Kunshan city, also located in the Yangtze River Delta region and 30 miles west of Shanghai, provides a typical case to observe a showcase in social insurance implementation in China. Kunshan is one of the six county-level cities under the jurisdiction of Suzhou prefecture. In terms of labor insurance, Kunshan has provided equal treatments to the local workers regardless of *hukou* status, as well as has covered a large percentage of the workers.

This achievement has made significant difference from minimal provision and institutional exclusiveness of migrant workers in case of Wenzhou. In terms of industrial type, unlike Wenzhou with a vibrant private investment environment, Kunshan’s prosperity is extremely reliant on foreign capital (mainly from Taiwan).

The city has been deeply involved in the global production chain since the 1990s.



Moreover, it is featured by a strong local state capability in fiscal extraction, as well as efficient governance, which also make it significantly different from the vigorous boundary between business and government in Wenzhou. In short, Kunshan has constituted as an optimal case when comparing with Wenzhou. Why has Kuanshan become a showcase in social insurance development? This question is investigated in Chapter Eight.

The goal of this chapter is to examine the interactions among the stakeholders in forming a showcase of local social insurance implementation in Kunshan. According to one influential perspective this difference is to do with the role of capital. The government provides local enterprises with special favors but is much tougher on foreign-invested enterprises, and thus Kunshan has stood out as a showcase in social insurance implementation since the city is a typical FDI-dominated city. However, despite the role of foreign direct investment, what else has contributed to the “pioneering position” of Kunshan in social insurance implementation? The answer lies in the interaction between the central government, the local government and local enterprises<sup>36</sup>.

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<sup>36</sup> In order to better answer the question, Dongguan-with a similar foreign-dominated structure- is adopted for comparison in Chapter Eight.

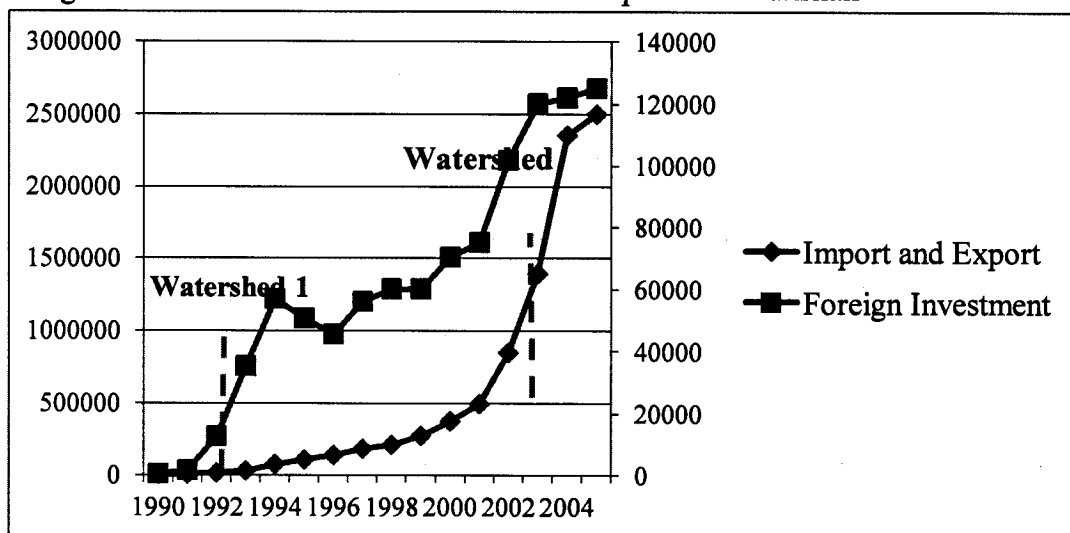
This chapter consists of eight parts. The first part introduces the Kunshan model and provides an overview of some key factors that have facilitated the formation of Kunshan's economic success. The second part presents data of social insurance development that qualify Kunshan as a pioneer. In the third section, the analytical framework is explained. The fourth part discusses the ground institutions in which Kunshan's policy implementation is embedded. Section five investigates the preference of the local employers from four perspectives of cost, skill, corporate social responsibility and bargaining position. Section six mainly examines the incentive of the Kunshan government, in terms of interaction with the central government, local innovation, financial capacity and administrative capacity. The whole story demonstrates the indispensability of local authorities and central political support in the diffusion of labor insurance. The story does not end here. The seventh section describes how the Kunshan government has manipulated the labor outsourcing policy. And the final section offers concluding observations regarding the Kunshan case.

## 8.2. Kunshan Model

Despite its comparatively low administrative status, Kunshan is one of the most economically developed and globalized cities in China. In terms of GDP per

capita, Kunshan's figure of 127,000 *yuan* in 2010 was much higher than Shanghai's 75,000 *yuan* and Beijing's 72,000 *yuan*. For its extraordinary performance (GDP exceeded 21 billion in 2010), Kunshan has occupied first place in the "top hundred counties in China" for a long period of time. The rise of Kunshan since 1978 is an incremental process, which could be divided into three phases: from an agricultural to an industrial economy in the 1980s; from inward-oriented to an FDI-based one in the 1990s; and from a labor-intensive economy to a high-tech one after 2000. The detail could refer to figure 8.1.

Figure 8.1 Three Phases of Economic Development in Kunshan



Source: Chien and Zhao (2008)

Kunshan is a role model of Southern Jiangsu Model. Historically, rural Southern Jiangsu was renowned for its exuberant handicraft and farmers' family workshops.

During the 1980s, public funds and collectively-owned lands were used by the

local cadres to establish enterprises to generate revenue for the local governments.

Township and village cadres played the role of the entrepreneur in promoting local economic development since they were both officials and *de facto* owners of these township and village enterprises (TVEs). It was perceived as the traditional Southern Jiangsu model (Hong, 2007).

As figure 8.1 suggests that, an important breakthrough during the rise of Kunshan is its FDI-oriented strategies adopted by the Kunshan government in the late 1980s.

In 1985 the Kunshan government established an industrial area “on its own budget” without notifying any upper level government since free market was prohibited at that time. In 1992, the city was further approved by the State Council to set up a state-level economic and technology district, the year Shanghai and Yangtze River Delta opened for FDI. Facilitated by the above-mentioned hardware capacities, together with the land-lease policy and selling point of “the nearest county to Shanghai”<sup>37</sup>, Kunshan has seized the opening opportunity to have many joint ventures and foreign enterprises dwelled (Chien & Zhao, 2008).

As Figure 8.1 suggests that, the second breakthrough is industrial upgrade in the

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<sup>37</sup> At that time, Shanghai started to diversify. Because of its proximity to Shanghai, the industrial zone in Kunshan was successful in attracting domestic enterprises which were seeking an investment location near Shanghai and thus made a major contribution to Kunshan’s economy.

beginning of the 2000s. The Kunshan government made another bold institutional move in persuading the central government to allow Kunshan to adopt the idea of an export processing zone (EPZ). The EPZ encompasses a special enclosed area with a one-stop service, and the enterprises located in the zone were able to enjoy more tax rebates, freely transfer goods to other companies within an EPZ or between other EPZs. This well-established logic system caters to the need of the high-tech industry and thus helped Kunshan upgrade its industries (Figure 8.1). In 2006, about 2.5 billion laptop computers as well as 7.6 million digital cameras were produced in Kunshan. The city now hosts thousands of FDIs. The ratio of trade over GDP in Kunshan was nearly 200 percent and that of FDI over GDP was 15 percent. In China as a whole, trade as a percentage of GDP is only about 70 percent and foreign capital as a percentage of GDP is 4 percent (Chien & Zhao, 2008). These data has demonstrated that how closely integrated Kunshan is with the global economy.

### **Government-led development**

With such an outstanding economic performance, the Kunshan government has played an important role in guiding the local economy and regulating the market.

Unlike business-led Wenzhou model, the historical prosperity of TVEs highlights



the entrepreneurial role of the Kunshan government. With the direct involvement of local officials, business operations found it relatively easy to communicate and negotiate with the government in case there are problems. This entrepreneur role of the local cadres has been generalized by a considerable number of scholars as an important institutional factor in facilitating local economic growth in China, particularly compared with China's socialist past when local officials were banned from involving in local business activities (Huang,1990;Walder,1995;Duckett, 1998; Oi,1998).

With the southern tour of Deng Xiaoping in 1992, China has opened the policy window for massive privatization and foreign investment. Reflected in the South Jiangsu model, the local cadres has shifted their role from entrepreneurial to developmental, in which the local government has retreated from direct ownership but has taken a back stage role in the administrative activities. Correspondingly, Kunshan has transformed its local business environment, from one accommodating TVEs in the 1980s to one favoring FDI after the 1990s. Thus, we could observe that Kunshan has formed a government-led regime, not only in the economic development but also in the local social policies.





### 8.3. Social insurance Policies in Kunshan

Kunshan is perceived as a principled agent or even pioneer in the national configuration of social insurance implementation. “Principled agent” or “pioneer” refer to this region, firstly, it stood at the forefront by implementing integrated social insurance (pooling local workers and migrant workers together) long before the idea was adopted by the central government. Yet social insurance for migrant workers is still in the experimentation phase without any policy direction until now. Second, the Kunshan system is among those that offer a decent treatment to migrant workers, much better than the benefits in Shanghai and Guangdong. Thirdly, praised by the central government and used as a showcase, Kunshan boast universal coverage in urban social insurance. It has outperformed most other regions in social insurance coverage. The following would further elaborate the three points.

Firstly, Kunshan stands out in offering a fair and equitable labor protection program, which does not discriminate against insured labor in the institutional design. In the early 2000s, the Kunshan government established a unified social insurance scheme by requiring all workers to participate in a social insurance



scheme regardless of their *hukou* status. Given that it is mandatory for every contract worker to be protected by social insurance, migrant workers are also eligible and they receive the same treatment as the local workers. This “national treatment” is the most important institutional innovation by the Kunshan government and has caught the public eye. Under the current system, all insurance schemes are bundled together and employers are not allowed to break the insurance programs into separate parts to insure. However, since 2005, the flexible employees, primarily workers in the service sector, are allowed to unbundle the insurance schemes and voluntarily opt out of one or more schemes (Table 8.1).

Table 8.1 Social insurance Schemes in Kunshan and Dongguan ( 2010)

	Kunshan		Dongguan	
Contribution rate	Employer	Worker	Employer	Worker
Pension	20%	8%	10%	8%
Healthcare	10%	2%	2%	0%
Unemployment	4%	1%	0.5%	0.5%
Workplace injury			0.5-1.5%	0%
Schemes for migrant workers	Uniform		Uniform	
Schemes for flexible employees	Voluntary		--	

Source: Kunshan Service: <http://www.kssbzx.net.cn/>; Dongguan Social Insurance: <http://dg.bendibao.com/dgsi/2011928/si63928.asp>.

Secondly, table 8.1 clearly shows the commitment of the Kunshan government in

supporting workers' welfare benefits. On the one hand, Kunshan strictly follows the legislated contribution rate of 20 percent and 10 percent for pension and healthcare respectively. The employers' contribution for all the schemes is set at 29.5 percent of the insured wage, this is significantly higher than the contribution rate of Dongguan. On the other hand, with two percent of the base wage, combined with the eight percent from the employers, the workers are able to enjoy outpatient benefits and hospitalization ranged from 88 percent to 95 percent of the expenditure. Each worker pays two percent of the base wage, combined with 8% from the employers, and the workers are promised outpatient benefits and compensation for hospitalization expenses<sup>38</sup>. In contrast, in Dongguan, which is at the same level economic development as Kunshan, the enterprise contribution rate to pension is half of that of Kunshan, which suggests a significant reduction of financial burden on the employers. Nevertheless, with only a two percent healthcare contribution by the local enterprises, migrant workers in Dongguan receive minimal health care services.

Thirdly, institutionalized discrimination in this region is the least severe. Basically, there is no multilayered social insurance scheme discerning migrants, and

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<sup>38</sup> The insured worker is eligible to an outpatient benefit of up to 1,920 yuan every year. In case of hospital treatment, the insured can be compensated for 88-95% of the expenses if they fall below 200 thousand yuan.

furthermore, the overall insurance coverage has outnumbered other regions in China (Table 8.2 below).

Table 8.2 Estimates of Coverage of Social insurance Schemes in Kunshan

	Pension	Healthcare	Unemployment	Workplace Injury
2000	0.25	0.23	-	-
2001	0.27	0.30	-	-
2002	0.30	0.30	-	-
2003	0.37	0.44	-	-
2004	0.38	0.48	0.32	0.31
2005	0.59	0.53	0.34	0.37
2006	0.62	0.53	0.39	0.40
2007	0.49	0.50	0.38	0.41
2008	0.54	0.53	0.39	0.45
2009	0.56	0.54	0.39	0.44
2010	0.62	0.62	0.39	0.47

Note: The estimate of pension & healthcare coverage is computed as follows: insured workers divided by the sum of total urban working population, retired workers and migrant workers; the estimate of workplace injury coverage is calculated as follows: insured workers divided by the sum of total urban working population and migrant workers.

Source: Calculated from Suzhou Statistical Yearbook (2001-2011).

As Table 8.2 indicates that, in terms of pension and healthcare insurance, more than 60 percent of the labors are insured; whilst almost 40 percent of labors have participated in both the unemployment and workplace injury schemes. The pension coverage had been growing quickly since 2003 and reached 60 percent in 2005. However, in 2007 the number of insured workers declined by 13 percent,

because the migrant workers were allowed to withdraw the pension scheme. From 2008 to 2010, the coverage steadily increased but the gain was small. In terms of healthcare insurance, the coverage steadily grew from 45 percent in 2003 to 62 percent in 2010. Until 2010 the healthcare insurance scheme had been running well and the gap with pension scheme was diminishing. Unemployment insurance has sustained a stable tendency around 40 per cent. The coverage of unemployment insurance has remained steady at 40 percent. Workplace injury insurance coverage shows an upward trajectory from 2004 to 2010, and a coverage of 47 percent was achieved in 2010 (Table 8.2).

However, there is a flaw in the social insurance implementation in Kunshan. Instead of the average wage, the Kunshan government usually takes the minimal wage as the base pay and thus and thus means a significant reduction of the burden of the local enterprises. In other words, though it is one of the most economically developed regions in Jiangsu Province, Kunshan constitutes as “concave ground” of social insurance contributions in the eyes of provincial government. The local officials justify the adoption of minimal wage because the unreasonable growth of average wage would place heavy burden in insurance premiums on local enterprises. As the local official noted:



*“Kunshan has for a long time maintained the minimal base pay as the minimal wage. It would be a heavy burdened on the enterprises if we calculate the base pay using average wage, since it increased to 3882 yuan, almost triple the minimal wage of 1370 yuan in 2012. The increase in the average wage is unreasonable, because it puts the high-waged SOEs into calculation and thus average wage is overestimated (Local official, Interview #2071004).”*

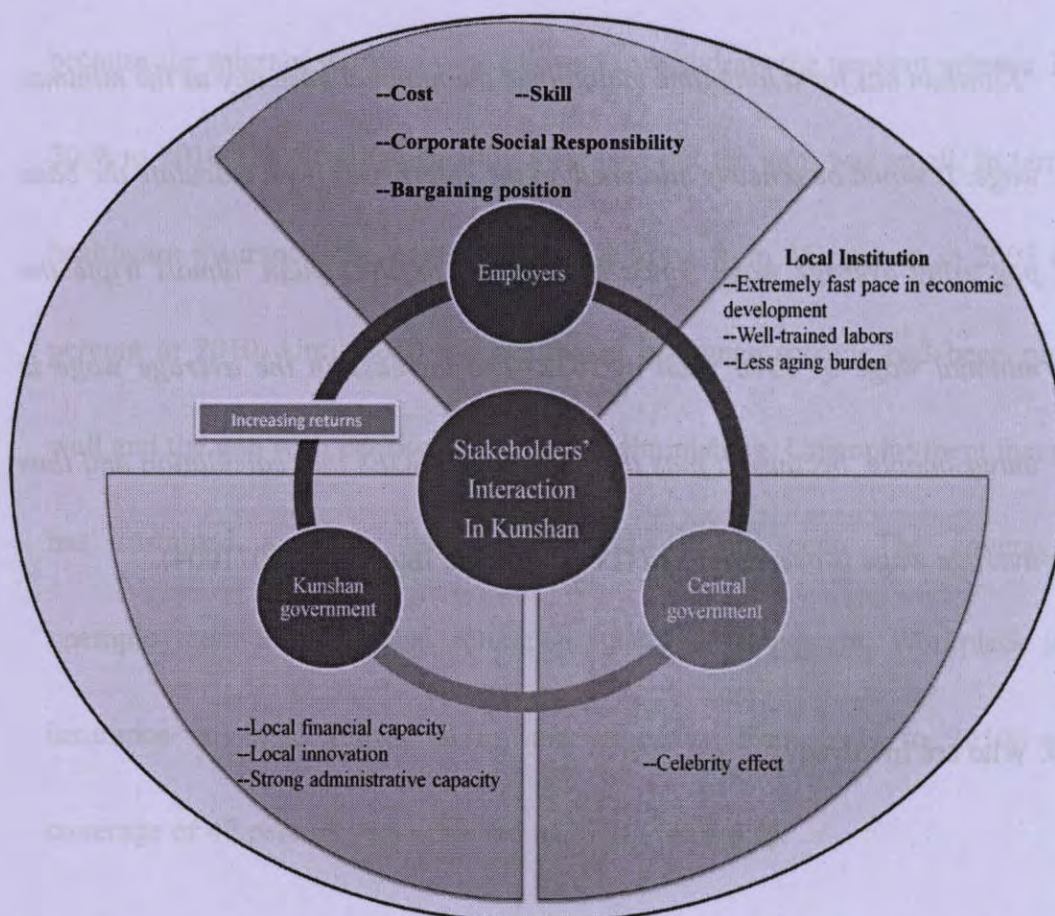
#### 8.4. Who are Involved?

In light of the analytical framework of stakeholders’ interaction (see Figure 8.2 below), the following examines the Kunshan experience. The stakeholders identified in the policy process in Kunshan’s case are the local government, the central government and the employers. Their interactions set the tone for the overall reform of social insurance in Kunshan.

Figure 8.2 Analytical Framework







Generally, the central government's aim is to extend basic social insurance to all workers. In Kunshan's case, it is in some circumstances the positive incentives get the returns increased and in turn puts Kunshan on a positive path to social insurance development. The ground institutions and the demographic landscape in Kunshan have facilitated social insurance expansion. Then, it beds another important question, why has Kunshan put so much resource into social insurance development? The answer is the pressure from the central and local government. Around 2003, the central government started to promote the Kunshan experience as a national model for a well-off (*Xiaokang*) society and urged the local

government to enhance social insurance coverage. Encouraged by the celebrity effect, the Kunshan government was incentivized to develop labor insurance. This task could not be achieved financially without solid local fiscal capacity, local innovation, strong leadership and administrative capacity.

Furthermore, from the perspective of employers, a successful industrial upgrade would make the expansion of social insurance financially possible. Firstly, the labor cost would therefore constitute a lower portion of the total cost, and would thus increase the ability of these enterprises to afford social insurance premiums. On the other hand, in Kunshan there is a great demand for well trained workers. Both of these have stimulated employers' interest in social insurance. Moreover, the relatively weak position of the local enterprises in the negotiation are conducive to expanding social insurance. All the factors intertwine and contribute to the outstanding social insurance development in Kunshan.

#### 8.5. The Salience of Social insurance in Kunshan: Local Institutions

The gathered evidence suggests that there are at least three key factors which contributed to the fast pace social insurance development, they are, financial

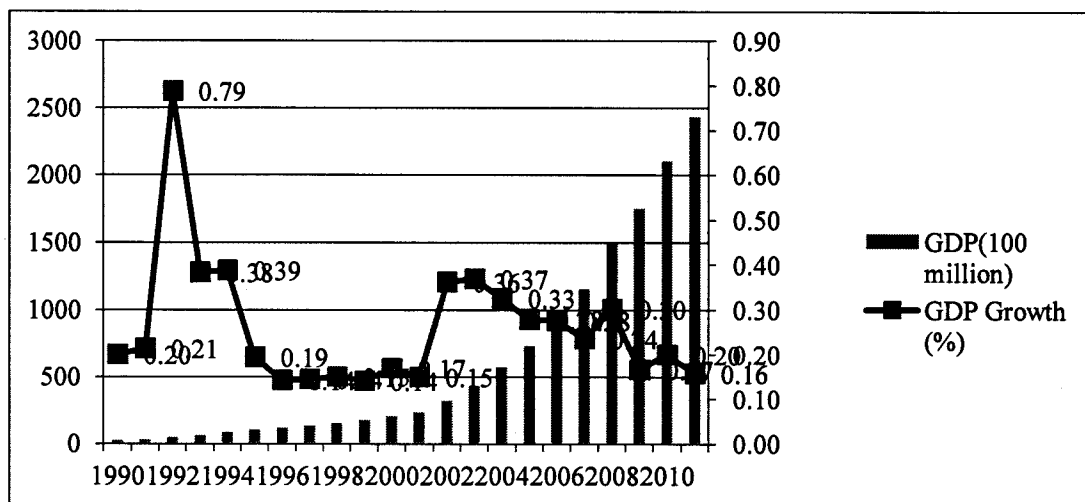




strength, demand for well-trained labors and a comparatively low density of migrant workers.

First, Kunshan has enjoyed an extremely fast pace of economic development which took place in two phases, the 1990s and 2000s respectively, and thus is financially capable of supporting social insurance schemes (Figure 8.3).

Figure 8.3 Economic Growth of Kunshan (1990-2010)



Source: Kunshan Statistical Yearbooks (various year).

As figure 8.3 suggests, during the 1980s to 1990s, the TVEs had helped Kunshan achieve a historical high economic growth. In economic development in Kunshan, its GDP growth rocketed to 50 percent in the early 1990s. But soon it fell down with 15 percent during the year 1995 to 2000. However, facilitated by the industrial upgrade, it has rebounded to 30 percent and has maintained at a stable

status since 2002. Thus, owing to the economic boom, the strong financial strength has made fast expansion of social insurance in Kunshan possible. Nevertheless, what have made Kunshan's development path divergent from other regions can be attributed to its initial endowments and opening sequence. The following would discuss the formation of Kunshan model (Table 8.3 and 8.4).

Table 8.3 Historical Comparison of Suzhou and Dongguan in Industrial Structure  
(Unit: %)

	GDP Composition					
	Suzhou			Dongguan		
Year	Agriculture	Industry	Service	Agriculture	Industry	Service
1965	45.9	34.7	19.5	—	—	—
1970	41.6	41	17.4	—	—	—
1978	28.1	55.7	16.2	44.5	43.9	11.6
1985	19.7	61.7	18.7	31.9	48.5	19.5
1992	11.3	64.2	24.6	19.1	50.5	30.4
1994	9.5	61.4	29.1	12.9	53.1	33.9

Table 8.4 Pair Comparison of Suzhou and Dongguan in the Enterprises (Unit: %)

	GVIO Composition					
	Suzhou			Dongguan		
Year	State-owned and urban collective	Rural collective	Others	State-owned and urban collective	Rural collective	FIE and joint-venture
1970	94.6	5.4	0.0	-	-	-
1978	79.2	20.8	0.0	68.1	32.1	0.0
1985	49.6	48.1	2.4	44.7	51.0	4.4

1992	21.6	71.4	7.0	23.2	44.4	32.4
1994	11.3	76.7	12.0	20.1	42.7	37

Source: Wu (2008).

Similar to the Pearl River Delta, the Yangtze River Delta was steeped in agriculture tradition. Yet, the two regions were distinguished by strong/weak industrial base. As table 8.3 suggests, historically, Southern Jiangsu was hailed as a region of rural industrialization. During the Cultural Revolution (1967-1976), commune industrials were developed. By 1978, on the eve of open reform, the share of agriculture had dropped to 28.1 percent, and the industry soared to 55.7 percent. When this region began to attract foreign capital in 1992, the industrial sector already accounted for 64.2 percent of the GDP, while agriculture had dwindled to 11.3 percent. In contrast, when Dongguan opened its doors to foreign investment in 1985, the agriculture sector still comprised of 31.9 percent of GDP while industry accounted for 48.5 percent.

Table 8.4 further compares the composition of enterprises. During the 1970s, urban state and collective sector had dominated the industry of Kunshan. But by the mid 1980s, the rural industry produced half of the gross value of industrial output (GVIO), and the rural sector became a predominant force. While for

Dongguan, though the state and collective sectors had been dominant in the 1978,

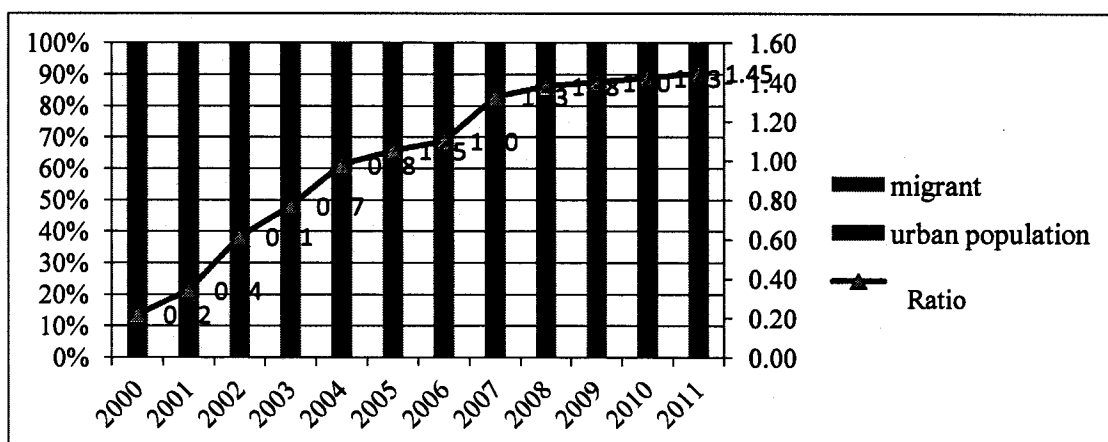


FIEs and joint ventures enterprises outnumbered them quickly in the late 1990s. It should be noted that a substantial portion of the rural collective units were actually set up by the export-processing capital which was not counted in the category of FIEs or joint-ventures to utilize fictive ownership arrangement.

In sum, as a globalized production base Kunshan has benefited a lot from the solid industrial base of the collective industrial development era. Meanwhile, it had a “backward advantage” as it was a late comer in the opening up of the country. It was never burdened by the excessively labor-intensive “sunset industries”, such as footwear, garment, and handbag, which became entrenched in Guangdong and sapped its potentials. The types of industry entering the Yangtze River Delta region are more capital-intensive. The high-tech industries preferred the Eastern Coast of China than the South.

Secondly, there is evidence that of the presence of well-trained workers and comparatively low density of migrant workers contribute to social insurance development in Kunshan (Figure 8.4).

Figure 8.4 Urban and Migrant Populations in Kunshan (2000-2011)

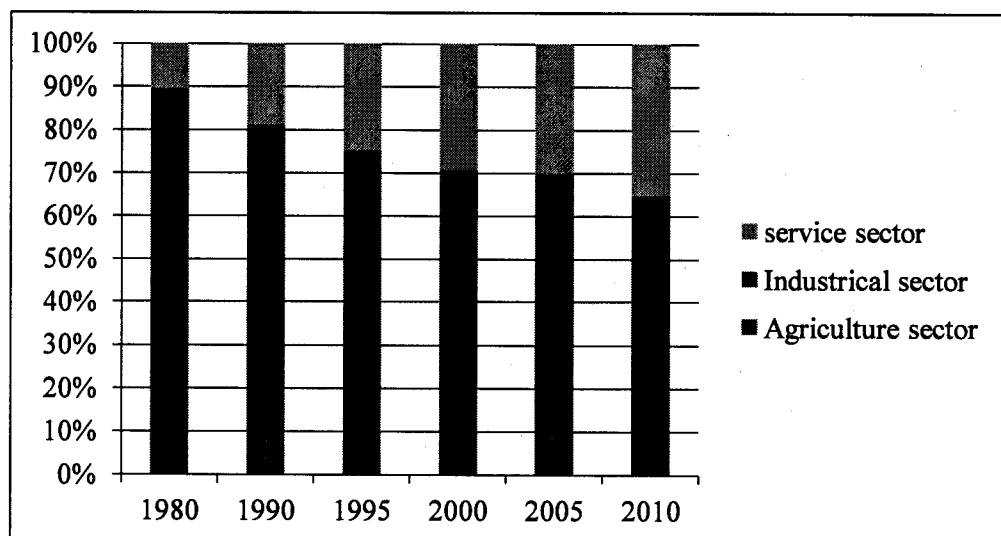


Source: Kunshan Statistical Yearbooks (2001-2012).

As figure 8.4 shows, Kunshan's development strategy changed the demographic landscape significantly. Since many electronic and computer industries require heavy investments in fixed assets and equipment, together with the skilled labor operating them, this region has become the second largest migrant-receiving region in China, only next to Guangdong. However, due to the type of foreign capital it attracts, the region does not have a migrant population density as high as that of Guangdong. In Kunshan, the ratio of migrant workers to local population was about 1.1 in 2006, while the same ratio was 3.5 in Dongguan. This figure of Kunshan slightly increased to 1.45 in 2011. In short, large numbers of well-trained or skilled workers and comparatively low density of migrant workers has made how to retain the skilled workers and provide welfare to the migrants in this region was and still is a big challenge to both the local government and local enterprises.

A related problem is dual labor market. With the workers in the industrial sector gradually becoming saturated in the late 2000s , the service sector experienced a rapid growth and created more than 35 percent of positions in the labor market. The dual labor market poses difficulty for local social insurance implementation. The industrial sector and service sector each has a different financial affordability index with different labor-cost constraints, how to ensure equal entitlement for individual workers is a problem for the local social insurance agency (Figure 8.5).

Figure 8.5 Trends of Three Sectors in Industrialization

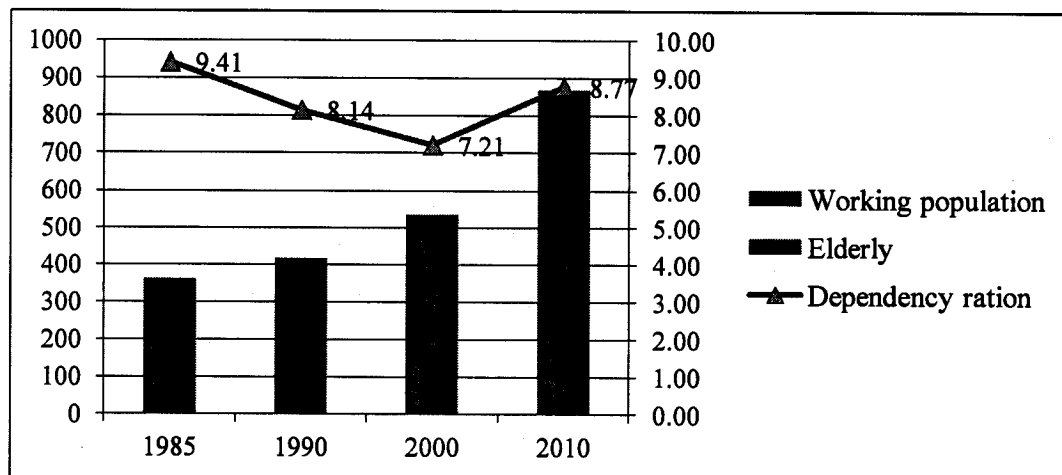


Source: Kunshan Statistical Yearbooks (2001-2012).

Aging problem of Kunshan is slightly alleviated. Aging in Kunshan was observable during the years 1985 to 2000. In 1985 Kunshan had 9.41 workers for every elderly resident, but the dependency ratio declined steadily to 7.12 in 2000.

However, there is a rally sign that it increased to 8.77 in 2010 (Figure 8.6 below).

Figure 8.6 Aging Trend in Kunshan



Source: Kunshan Statistical Yearbooks (2001-2012).

In conclusion, thanks to the solid industrial base and delayed opening of its economy, the industrial sector of Kunshan is blessed with good financial strength, well-trained workers and little aging burden (less historical debt of state-owned enterprises). Also social insurance development in Kunshan is also embedded in these three local institutions.

## 8.6. Perspective from Employers: Linkage between Industrial Structures and Enterprise Responsibility

This part aims to investigate the policy preference of the employers in Kunshan from the perspectives of cost, skill and bargaining position. It beds a question that

why do the local employers offer social insurance for the workers rather than minimize labor costs, since revenue is the top priority for all enterprises. Kunshan industrial enterprises' response is in stark contrast with that of Wenzhou enterprises.

#### 8.6.1 Industrial Upgrade and Labour Insurance Expansion: Significance of Year

2003

Kunshan witnessed the rise of the information technology (IT) industry in 2003 and it was a year of great significance. Before 2003, Kunshan was among the cohort of outward-looking cities with simple outward-based processing. However, from 2003 considerable foreign investments with electronics, IT, and mechanical engineering in general and the notebook industry in particular, have taken root in Kunshan. This resulted in at least two changes (Table 8.5).

Table 8.5 Industrial Structure of Above-sized Enterprises

	Percentage of Total GIOV (%)	Total Number of Enterprises	Foreign-directed Investment		
			Percentage of GIOV (above-sized)(%)	Number of FIEs	Number of IT Enterprises
1999	9.58	28	-	-	-
2000	9.12	28	-	-	-
2001	46.84	62	53.29	42	9
2002	46.82	59	52.42	41	9





<b>2003</b>	<b>67.24</b>	<b>161</b>	<b>77.13</b>	<b>147</b>	<b>46</b>
2004	61.87	171	68.60	157	-
2005	66.71	252	71.24	231	-
2006	69.45	283	75.30	252	-
2007	71.20	305	78.83	271	-

Source: Kunshan Statistical Yearbooks (2001-2012).

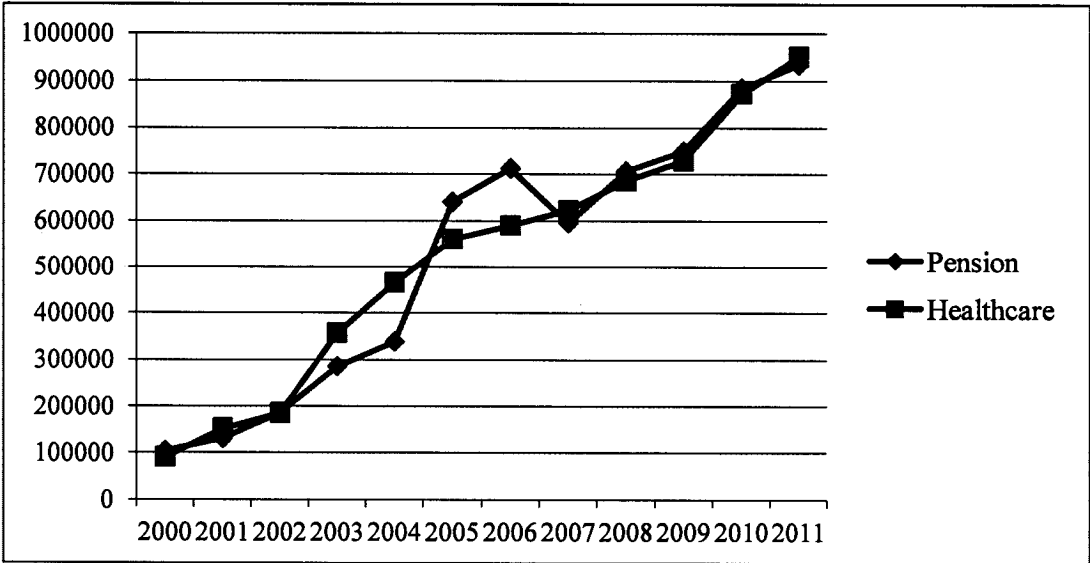
Firstly, the rise of large enterprises has been observed as table 8.5 indicates. Up until 2007, large enterprises had created more than 70 percent of the total industrial output value. Secondly, the industry has developed toward high end from low end. Up until 2001, there were only 42 foreign investment projects in Kunshan, of those, nine were IT enterprises. By 2003, the number has escalated to 147 with 46 related to IT. Massive industrial transfer from Taiwan has made great contributions to Kunshan's economy. Over 1,000 Taiwanese companies, of which 30 are publicly listed on the Taiwan Stock Exchange, have contributed US\$9 billion or the equivalent of 50 percent of the total Kunshan exports. In sum, Kunshan has become a major IT production base with Taiwanese investment in China. Within one decade the local industrial sector of Kunshan has transformed itself into one characterized by big firms, high-end IT industry and foreign investment (Table 8.5).

Development of social insurance coverage also resembles this trend and has been outstanding since 2003. In 2005, the growth was most impressive, it grew to cover 641,000 and 541,000 workers in pension and healthcare schemes respectively, as



the migrant population steadily burgeoned. At one stage the growth rate of social insurance decreased slightly but it rebounded quickly in 2009 (Figure 8.7 below). The question is, how is the industrial upgrade associated with social-insurance expansion? It is pure coincidence? Generally, cost, skill and bargaining power are important parameters influencing the preferences of employers in social insurance implementation, and the following will answer the above-mentioned question from the three dimensions.

Figure 8.7 Growth Trends of Pension and Healthcare Participants



Source: Kunshan Statistical Yearbooks (2001-2012).

### 8.6.2 Cost

Kunshan's industrial sector has a comparatively low portion of labor cost. As discussed in Chapter Four, employers' preferences for social insurance depend

critically on labor cost. In Kunshan, due to the solid industrial base developed during the TVEs era, and the fact that it has the good fortune to have been slow in opening its economy to foreign investment, the region has been very quick in upgrading its industry. Enterprises in Kunshan are primarily suppliers for the large multinational corporations, and these export-processing enterprises usually are capital and labor intensive. Labor cost accounts for a comparably lower proportion of an enterprise's expenses owing to the type of capital, and this increases the capacity of these enterprises to accommodate relatively higher social insurance premiums. This argument has been further confirmed from interviews with local officials and enterprise managers:

*"We usually have labor cost with approximately 39.5 percent of the total wage."* (M Enterprise, Interview #2071103)

*"The average profit margin in Kunshan is about seven percent, if we include all the enterprises in our calculation. The pillar electronics enterprises have a higher margin this has allowed us to outperform other regions."* (Local official, Interview #2071001)



*“Our company produces liquid crystal display (LCD), and our main customers are Samsung Electronics and LG Electronics. On average, labor cost comprises one percent of the total cost in our firm. Per month social insurance payment is approximately two million yuan. The equipment, raw materials and transportation costs substantially more than labor.” (LT Enterprise, Interview #2071101)*

It is estimated the average labor cost in Kunshan is approximately 20 percent to 30 percent higher than that in Guangdong, this is because the Kunshan government tends to be more protective of the workers. In our field work, we heard managers warning of the “ever-increasing labor costs”. Nevertheless, the wage rate is still very low by western standards. An employer of a Taiwanese factory put it:

*“We are facing increasing labor cost in the past few years. The Kunshan government has increased the minimal wage almost every year. Generally we pay our new employees 1100 yuan per month, and experienced workers usually get 1300 yuan. Once the minimal wage is raised to 1370 yuan, we will need to adjust our wages for both new and experienced workers. We are faced with the double whammy of an increase in the labor cost and losing*



*our workers.” (LX Enterprise, Interview #2071201)*

As a result, some enterprises have shifted their production plants to other regions.

The local officials have noted this phenomenon but are not worried:

*“This trend will not impact us since these enterprises (Foxconn as reprehensive) retain their core production lines in Kunshan but shift low-value-added production to other regions.” (Local Official, Interview # 2071003)*

In the eyes of the local employers, geographical advantage, government leadership and market take precedence over labor cost and have kept the enterprises here. In sum, a well-developed industry helps to expand social insurance, since social insurance and labor cost are not the most important considerations for local enterprises. This argument is put forward by the following statements of the surveyed managers:

*“Though labor cost is increasing very fast these past few years, our Taiwanese enterprises don't have any plan to transfer the industry to Vienna or other*



*similar countries, since our main customers are still on the mainland. The labor wage here is about 100 yuan more than that in Dongguan. But government regulations, service, and efficiency is better here; whilst in Dongguan the government regulations are more arbitrary. That's why we moved from Dongguan to Kunshan five years ago.” (LX Enterprise, Interview#2071201)*

*“We started to transfer some factories to Kaifeng in Henan province since the local government has given us generous preferential treatment, such as cheap land-use fees, a long period of corporate tax exemption and so on. However, we still leave the R&D division and other related departments in Kunshan. ”*  
*(LH Enterprise, Interview #2071301)*

### 8.6.3 Skill

A review of the characteristics of the Kunshan firms allows us to see there is a great demand for well-trained workers of local enterprises. As analyzed in Chapter Four, it is likely that the employers who have invested significant resources in developing the skills of workers tend to favor social insurance that allow them to



target the benefits to a selected group of workers and reward their job performance.

Since the electronic and computer industries require heavy investments in fixed assets and equipment, a large number of loyal and skilled labors are required. This is reflected in the labor requirements of local enterprises:

*"We mainly produce circuit boards. Normally, six-months of training is required for new employees. At the same time, they have to learn basic English since the machines are almost all imported from western countries."*

(SH Enterprise, Interview #2071102)

*"Normally on-job training last one month, and the workers also need to pass an exam after training."* (TK Enterprise, Interview #2071202)

*"Workers with an associate college degree (dazhuan) in engineering are in great demand in Kunshan, especial for medium-sized and large-sized machinery. The enterprises usually pay 100-200 yuan more if an employee has a degree."* (Local official, Interview #2071003)

In this regard, migrant workers in Southern Jiangsu enjoy better wages and



non-wage benefits than other areas with a similar role in the global production chain. The government-regulated minimum wage and migrant worker income of the region show significant disparity with those of Guangdong. Until the summer of 2012, the minimum wage in Kunshan was 1370 yuan, whilst in Dongguan it was 1100 yuan. The monthly wage of the surveyed enterprises range from 2500 to 3500, and the basic wage ranged from 1600 to 1800; overtime pay contributes a substantial portion of the total income (Foreign Enterprises, Interview). Furthermore, five of the eleven enterprises adjust their salary by taking inflation and seniority into consideration (Interviews #2071101-02, #2071202).

Apart from the salary, generous welfare packages are also provided by the enterprises. Compared with the employers in Guangdong or Wenzhou, employers in Kunshan tend to offer more staff welfare. The local enterprises realize that have benefited a lot from the generous benefits in the social insurance design:

*“Kunshan has scored well in labor insurance. Compared with Shanghai, Suzhou and Wuxi, the relative contribution rate is still less but the benefits are generous. I heard insurance comprises approximately 43 percent of the salary in Wuxi.”* (TK Enterprise, Interview #2071202)





*“As employers, we need a tangible scheme to protect the workers and alleviate our risk rather than put out an insignificant scheme like “chicken ribs”, thus generous benefits are needed.” (LH Enterprise, Interview #2071301)*

However, local enterprises have different opinions of the five schemes. They have significantly benefited from the worker healthcare and maternity insurance schemes. Especially, the generous benefits of the healthcare insurance are meaningful in retaining workers. Workplace injury schemes are lower in importance since the workers are exposed to a lower risk in these high-tech enterprises.

*“Until now, the most useful insurance scheme is maternity since Kunshan has a significant number of female workers. The workers have highly praised the healthcare insurance in Kunshan, which provides them with generous benefits and allow remote medical treatment. For the senior workers, a higher contribution corresponds to higher benefits. ” (SH Enterprise, Interview #2071102)*

*“Actually, we don’t use workplace injury insurance so sufficiently, since our*



*needs are not so urgent in this scheme, and the reimbursement amount is small, ranging from 1000 to 2000. ” (TK Enterprise, Interview #2071202)*

As a result, a large number of workplace injury insurance funds have been retained without effectively use:

*“The procedure of claiming workplace injury insurance is so complex sometimes. We need to remit more than three million as social insurance fund, but at end of the year more than two million would be left.” (M Enterprise, Interview #2071103)*

*“We are not encouraging our workers to claim unemployment assistance since the benefit is far lower than the minimal wage, from 980 yuan to 1370 yuan.”*  
(SH Enterprise, Interview #2071102)

However, the contrast is that the respondents’ employers have low trust for the pension schemes, as they stated:

*“Until now, we have great demand for the workplace injury and healthcare*



*insurance. But we are short on confidence in pension since it is not transparent. Now, we know how much we turn over as premium, but we have no idea how much we would get during retirement.” (LH Enterprise, Interview #2071301)*

*“Pension is a big hole, we are filling the hole for the last generation, but we will never know how much we would get. It seems like a tax that we will never get back.” (SH Enterprise, Interview #2071102)*

Social insurance is perceived as a basic provision to workers. Yet in reality social insurance is insufficient to meet their needs, and commercial insurance is an important supplementary scheme. Below respondents who are managers in local enterprises reflected on social insurance and other welfare schemes:

*“Apart from labor insurance, our company purchases two million worth of commercial insurance every year, primarily in workplace injury in order to increase the compensation rate and provide tailored protection to the workers. We mainly add the accident of commuter time in commercial schemes.” (TK Enterprise, Interview #2071202)*



*“Social insurance is not flexible enough for our needs. The compensation is not satisfactory since it is set according to the Average wage. We advocate commercial insurance, which can be tailored to the specific needs of a company.”* (M Enterprise, Interview #2071103)

In order to boost its competitiveness when competing with nearby industrial centers, Kunshan city has adopted a more open *hukou* policy to absorb high-skilled and better-educated labors<sup>39</sup>. Kunshan has instituted the blue-stamp and talents market system since the early 2000s. The local government adopted a policy of “national citizens” by transforming the “guest migrant workers” into “new Kunshan people”, which received considerable political support from the provincial and central government. Though in reality status distinction between the local people and migrants still persists, the Kunshan government indeed took initiatives in providing equal entitlements to all residents.

From the perspective of the employers in Kunshan, a higher wage and non-wage treatments and labor insurances have been internalized as a welfare package to

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<sup>39</sup> For instance, Wuxi in the South Jiangsu region began to experiment with a new policy of residence permit in 2006. Enterprises can apply for a special employment permit for their workers, which grants these workers local *hukou* after three years' residence.

attract and retain well-trained workers. This is in sharp contrast with the reward system of social insurance in Wenzhou. However, Kunshan has been confronted with the challenges of “recruitment difficulty” and “high turnover” in the past few years, which is especially true for skilled workers. On the one hand, industry shifting from the east to west has constituted as a way to attract and to retain workers with their hometown nearby (LT Enterprise Interview #2071101). On the other hand, a new generation of migrant workers is mostly the “post 90s” generation, who are less obedient to management when compared with their father’s generation (LT Enterprise Interview #2071101; M Enterprise #2071103). Consequently, instead of social recruitment, Kunshan enterprises are resorting to the approach of enterprise-school coordination, through which the technical schools could directly supply the graduates as the trainees under some agreement. However, this approach also causes problems in social insurance development, which will be elaborated later.

#### 8.6.4 Corporate Social Responsibility

Expansion of social insurance takes place under the pressure of corporate social responsibility in Kunshan. The dominating enterprises in Kunshan are primarily



original equipment manufacturers (OEM), which are dependent on the orders from multinational corporations. Nevertheless, in the last few years, ethical issues and moral problems have arisen in the business environment and drawn public attention. A Lack of corporate social responsibility has emerged as barriers for exporting made-in-China products. In this regard, in order to be well qualified, factories are required to take up cooperate social responsibility (CSR) and adhere to international production standards. CSR is a form of corporate self-regulation being integrated into a business model. CSR policy functions as a self-regulating mechanism whereby a business monitors and ensures its own active compliance with the spirit of the law, ethical standards, and international norms. Social Accountability (SA) 8000 is the recognized international standard for CSR. How to balance the standard of SA 8000 and thus soaring labor cost is a difficulty for local suppliers:

*“We have no rigid requirement for social insurance before 2008, since our main customers are Huawei (a Chinese enterprise). However in 2009, our company has become a suppliers to Apple, and is possesses a higher standard in CSR and labor protection. It drives us to pursue universal coverage of social insurance.”* (SH Enterprise Interview #2071202)



*“Our company is a listed company in the stock market and thus we need to obey the law and cover our workers in the social insurance schemes, otherwise the price of our stock would be affected.” (LH Enterprise Interview #2071301)*

*“Our main office (in America) has increasingly focused on employee protection, since CSR is increasingly required. Now we have employee regulations and instruction, which standardized job security. We have also made efforts getting the workers social insurance cover. Moreover, the main office would independently organize annual satisfaction surveys for our employees without our local managers accompanying. I have to say, our management has become more humanized in these few years.” (M Enterprise Interview #2071103)*

#### 8.6.5 Bargaining Position

Due to the strategy of industrial upgrade, Kunshan enterprises possessed comparably weak bargaining power vis-a-vis the local government. As noted in Chapter Three, decentralization is perceived as a negative mechanism in greater social expenditure. The enterprises have competed for cheap labor among the



regions and the local governments tend to “race to the bottom” and dismantle the labor welfare provision. In this regard, the businesses have an active position in the bargaining game. Nevertheless, in Kunshan in Kunshan a successful industrial upgrade has helped the region achieve a faster speed of economic development, which would ensue with solid financial backing of the Kunshan government. In 2005, the industrial output value of Kunshan exceeded 23 billion *yuan*, and fiscal revenue surpassed five billion *yuan*.

This in turn would endow the local government with a stronger bargaining power vis-a-vis foreign investors. From 2007, rather than “introducing” foreign investment, the local officials tend to be more selective in choosing the type of capital (Local official, Interview #2071004). At the same time, in order to make room for high-tech enterprises, the Kunshan government is also trying to remove traditionally high-polluting enterprises (Local official, Interview #2071003). In addition, as is well known, the local officials under the southern Jiangsu model employ better management techniques and have a high transparency than their counterparts in Guangdong at the time of opening. It is difficult for the enterprises and local government to collude to evade the social insurance code. In short, the large FIEs became “cash cows” supporting the local social insurance agents.





## *Summary*

The southern Jiangsu model has several important legacies which have been carried into the current local regimes. Firstly, owing to the solid industrial base built up during the TVEs era, and the good fortune of its delay in opening up to outside investment, the region has achieved a faster pace in upgrading its industry and entails comparable low portion of labor cost. In turn, social insurance is affordable by these export-processing enterprises.

Secondly, since the electronics and computer industries require heavy investment in fixed assets and equipment, a large amount of loyal and skilled workers are required. Therefore, in order to boost its competitiveness to compete with adjacent industrial centers, Kunshan city has adopted an open *hukou* policy to absorb high-skilled and better-educated workers. On the other hand, better wage and non-wage benefits have been provided by the enterprises to retain skilled workers.

It contributed substantial resources to allow local Kunshan enterprises to offer sufficient incentives to cover their workers in social insurance schemes. However, the enterprises have different opinions of the five schemes. The generous benefits of healthcare insurance in Kunshan have been recognized and the local enterprises have benefited a lot from the schemes. Maternity insurance is also significant



since Kunshan's production plants hire many female workers. Workplace injury schemes are secondary in importance since the workers are exposed to a lower risk in these high-tech enterprises. Nevertheless, the contrast is that the respondent employers show low trust for the pension institution.

In addition, expansion of social insurance takes place under the pressure of corporate social responsibility in Kunshan. The dominating enterprises in Kunshan are primarily OEM, which are dependent on the orders from the multinational corporations. Hence, in order to be well qualified, the factories are required to take CSR seriously and follow international production standards.

Finally, the social insurance schemes preferred by the local employers are found in the literatures of the welfare production regime in Chapter Four. For large firms characterized by a low incidence of risk, and employing skilled workers, they tend to pursue private schemes which are under their control. As it turned out, apart from basic social insurance, employers in Kunshan have resorted to commercial insurances to provide additional welfare provision.

However, due to the strategy of industry upgrade, Kunshan enterprises possessed a



comparatively weak bargaining power vis-a-vis foreign capital. Both the strategies of “selecting the type of capital” and “obsolescing the weak enterprises” have undo the bargaining advantages of foreign investment and ensured the autonomy of the Kunshan government in the implementation of social insurance.

### 8.7. Perspective from Local Government: Linkage between Political Impulsion and Local Innovation

Kunshan’s pioneering position is highly contingent upon local policy innovations, as well as universal insurance coverage for the workers. This section explores the incentive of the Kunshan government in social insurance implementation. Why has the Kunshan government embarked on social insurance development? From the available evidence there are at least four key factors that contribute to the enthusiasm of the Kunshan government, including support from the central government and thus the local political impulsion, solid local financial capacity, local innovation and strong leadership provided by local officials.

#### 8.7.1 Celebrity Effect: Significance of Year 2003



Around 2003, the central government promoted Kunshan as a national model of well-off (Xiaokang) society. The CCP under Hu Jintao had staked its political legitimacy on the expansion of welfare provision to achieve a more balanced growth and remedy the social problems that have emerged with rapid economic expansion. In November 2002 then President Jiang Zeming proposed the goal of establishing a well-off society by the Sixteen NCCPC. Within the same month, newly appointed President Hu Jintao reiterated this objective by advocating both the “scientific development” and “building a well-off (*xiaokang*) society”. In order to promote the reform, the Hu-Wen government in winter 2011 issued a list of 10 criteria<sup>40</sup>. Yet, the central government did not have a well thought-out scheme to achieve these criteria, and thus chose Jiangsu province for a pilot scheme; whilst for Jiangsu, it chose the most developed Kunshan as the pilot. Based on the central criteria, Jiangsu province further expanded the criteria to 25 articles under four categories. Among them, article 14 states that “the coverage of three social insurance schemes (pension, healthcare insurance and unemployment insurance) for urban workers should reach 95 percent”. The provincial leaders in spring 2003 descended on Kunshan, announcing that Kunshan would strive to be “two

<sup>40</sup> The ten basic criteria are listed below: 1. GDP per capita of \$3000; 2. Disposable income of urban residents reaching 18000 yuan; 3. The net income of rural residents achieving 8000 yuan; 4. Engel coefficient of less than 0.4; 5. Housing area per capita of 30 square meters; 6. Urbanization rate of 50%; 7. Household computer penetration rate of 20 %; 8. Tertiary education enrollment rate of 20%; 9. The number of doctors per thousand people reaching 2.8 and 10. The minimal living guarantee for urban residents of 95% (Government document).



pioneers”, pioneer of a well-off society and pioneer of modernization. In turn the central and provincial governments urged the Kunshan government to enhance social insurance coverage. Figure 8.3 demonstrates the rapid growth of social insurance participants from 2003 to 2005.

Kunshan has become the poster town of a well-off society<sup>41</sup>. In 2006, the Central Party School, People’s Daily and Provincial Government of Jiangsu jointly held a seminar in Beijing to review the theory and practice of building a well-off society, but actually discussed the Kunshan experience. The learning activities at the provincial level have been brought to the national level.

Thanks to the outstanding performance, Kunshan’s leaders were rewarded with promotions. Xinpin Cao (2003-2006) became a prefecture-level city mayor (Xuzhou) and Lei Zhang (2000-2003) was appointed to the position of Director of the Department of Trade and Foreign Economy of Jiangsu province. From 2007, Guohua Zhang, the current party secretary of Kunshan (2003-), is also serving as a member of the Jiangsu Provincial Party Committee, an unusual dual appointment. Behind the political impulsion is the increasing financial support. Before 2003, the

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<sup>41</sup> Kunshan outperformed other regions in building a well-off society, and thus won high appraisal from the central government. President Hu in summer 2004 paid a visit to Kunshan and commended Kunshan saying that “A well-off society would be realized if all the cities learn from Kunshan”.



portion of social security in the financial budget is less than two percent; by 2003 the figure had doubled to 4.15 percent. What caused the local political impulsion? And what supported the increased financial expenditure? It is highly related to the clearly-defined goals of the Kunshan government and its solid financial capacity.

### 8.7.2 Local Innovation

Kunshan's ameliorative policies were carried out by a government with clearly-defined goals in competing for skilled labor. As mentioned in the last section, well-trained workers in the high-tech industry are in great demand in Kunshan. Therefore, the government has spared no effort in providing resources and supplying public goods to the workers, including migrant workers. Hence, in the early 2000s, Kunshan advocated "national treatment" to ensure that migrant workers are receiving equitable welfare provision on par with that of urban workers. In the survey, the local officials were asked about the "initiation" of "national treatment":

*"With intensive globalization in 2001, migrant workers are widely perceived as a new type of employment, but in terms of social insurance we have not*



*arranged this type of welfare for them. Thus we directly put the migrant workers into the urban workers' program and so there is no institutional discrimination against the migrant workers. Behind this is a plan to retain skilled workers. ”* (Local official, Interview #2071001)

They tend to be responsive to the desires of the migrant workers. With regard to labor insurance, Kunshan offered more generous welfare provision to migrant workers; whilst in other export-focused counterparts, migrant workers are usually covered by inferior schemes and thus enjoy substandard welfare services.

*“At the very beginning, our policy makers have reached a consensus in the policy objective of providing universal coverage for migrant workers. We are against low contribution and universal coverage since the benefits the workers received is related to the original contribution. We don't need a scheme like chicken feed that doesn't provide security for the workers. It would damage the labors' interest. ”* (Local officials, Interview #2071004 )

Still, in order to retain well-trained workers, Kunshan has instituted a talents market system. Since the early 2000s, Kunshan has initiated a series of measures



to transform “guest workers from outside” into “new Kunshan people”. This is primarily reflected in the hukou policy. Kunshan put out “talent green card” institution (*rencai lvka*), which is not different from the *juzhuzheng* in its basic design, but is transferable to the permanent *hukou*. Eligible applicants only need a vocational school degree or professional certificate, the age limit is a relatively inclusive 50 for men and 45 for women. Thus, a portion of skilled migrant workers are allowed access to the local *hukou*. According to a local official:

*“We have been supporting the industries of precise equipment and machinery these few years...both our government and enterprises have developed talents policy to retain workers and retain the well-trained workers.”* (Local official, Interview #2071003)

In sum, three key factors are offered to be accountable for the local innovations of equitable welfare provision in China. Firstly, the Southern Jiangsu model was hailed as a peculiar path of rural industrialization in China, characterized by an equitable welfare distribution between the rural and urban residents. Secondly, the Kunshan government has a clearly-defined policy goal in competing for skilled workers. For instance, Wuxi in the same region began to experiment with





talent-friendly policies with the aim to attract skilled workers. Thirdly, local officials in Kunshan have a “late-comer advantage” due to the delay in opening the city to outside investment and cadres were able to learn from the Guangdong experience. Both in Dongguan and Shenzhen (Guangdong Province), emerging employers-labor disputes have made the Pearl River Delta model contentious. The Kunshan government tends to more proactive in listening to the workers’ views. Wage arrears and nonpayment of overtime wages are also less rampant than in Guangdong province.

However, the Kunshan social insurance fund has had its difficulties, it faced an imminent standstill in the net growth of insured people owing to increasingly withdrawal by migrant workers. Kunshan is experiencing nearly “zero growth” in the past two years, with roughly 10 thousands new entrants but an equal number of people surrendering their policies. In the survey, the local official pointed out this dilemma:

*“We face a management problem on one hand we strive to expand the insurance participants, for example 10 thousand; but on the other hand, there are a equal number of participants choosing to withdraw from the*



*schemes. Therefore, the net addition is small. We have put out some policies to retain workers, but they don't seem effective to the second-generation migrant workers (aged in their 20s), who have a higher demand for security than their parents"* (Local official, Interview #2071004)

### 8.7.3 Financial Capacity

Kunshan's innovative policies were implemented by a government with a clearly-defined goal to compete for and retain skilled labor; of course, these policies would not be viable without its considerable financial accumulation. Thanks to the successful industrial upgrade, Kunshan has accumulated ample fiscal revenue from local enterprises in the last decade, and thus the residents have been eligible to enjoy good welfare benefits. Table 8.6 below compares the financial revenue and expenditure of Kunshan and Dongguan.

Table 8.6 Comparison of Financial Expenditures in Kunshan and Dongguan

<b>Kunshan</b>	Financial Revenue		Financial Expenditure		
	Total revenue (10 thousands)	Adjusted by total population (yuan)	Total expenditure (10 thousands)	Adjusted by Hukou population (yuan)	Adjusted by total population (yuan)
2000	201301	2772.74	92028	1546.69	1267.60
2001	273562	3398.29	125668	2094.47	1561.09



2002	415188	4236.61	196736	3241.12	2007.51
2003	642696	5864.01	342366	5530.95	3123.78
2004	852888	6752.87	386915	6064.50	3063.46
2005	1168196	8691.93	567256	8660.40	4220.65
2006	1513797	10797.41	747909	11213.03	5334.59
2007	2018523	12751.25	958123	14090.04	6052.58
2008	2472075	15036.95	1215399	17614.48	7392.94
2009	2821062	16772.07	1361232	19446.17	8092.94
2010	3806191	22103.32	2113446	29766.85	12273.21
2011	4244896	24077.69	2311790	32108.19	13112.82
<b>Dongguan</b>	Total revenue (10 thousands)	Adjusted by total population (yuan)	Total expenditure (10 thousands)	Adjusted by Hukou population (yuan)	Adjusted by total population (yuan)
2000	1035561	2542.31	336102	2202.36	825.13
2001	1259961	2059.74	478646	3110.31	782.47
2002	1678848	2846.28	649606	4159.08	1101.33
2003	2064052	3443.47	765190	4813.73	1276.57
2004	2591086	3992.92	941554	5813.14	1450.96
2005	3319079	4421.72	1170427	7065.66	1559.26
2006	4065412	5384.15	1478955	8787.09	1958.70
2007	5395362	7400.44	1930968	11275.07	2648.57
2008	6010642	8263.64	2182626	12482.13	3000.75
2009	6278114	10314.14	2326216	13015.25	3821.68
2010	7851003	13234.11	2898306	15944.91	4885.55

Source: Kunshan & Dongguan Statistical Yearbook (2001-2011).

As table 8.6 suggests, both cities seemed to be on the same level in terms of financial revenue after adjusting for *hukou* residents. However, Kunshan's financial capacity far surpassed that of Dongguan after adjusting for the migrant

population. Kunshan enjoyed a per capita revenue of 22,103 yuan in 2010, whilst Dongguan's was only 13,234 in the same year. In the category of financial expenditure, Kunshan also performed better than Dongguan based on both hukou population and migrant population, with an almost double per capita expenditure. Owing to the relative sanguine financial accumulation, the Kunshan government can take a relatively active position in its "negotiation" with local enterprises. This "independence" is reflected in the administrative capacity of the Kunshan social insurance agents.

#### 8.7.4 Administration Capacity of Social insurance Agents

Since social insurance revenues and expenditures are financed almost exclusively through levies on businesses, the administrative capacity of local social insurance agents is therefore an important factor. The Kunshan government has long developed a reputation for employing sound management techniques, being transparency in conducting its affairs and efficient, they are also seen as less inclined to take part in rent-seeking activities. This information can be confirmed using firm-level data from a survey conducted in 2006 by a research team.

Employers were asked the reason for investing in Kunshan, it turned out that listed in first place was "government-led and good governmental service for firms"



(Research Association, 2006). To achieve the policy goal set out by the central and provincial governments in 2003, local officials further standardized and improved the procedures of premium collections. Once contract is made with a firm, the workers are placed in the insured list. The tax agency would calculate the total premium amount and deduct wages from the firm's account directly. At the same time, the local supervision team would increasingly combat fee-evasion activities.

The Kunshan government vigorously pursued large FIEs for their social insurance premiums. Normally, collection problems are complicated by the fact that the employers in small private-sector firms, especially those with thin revenue, are very reluctant to have their labor cost increased by contributions to the local social insurance fund. In contrast, large FIEs in Kunshan offer a rich source of revenue for social insurance with its solid revenue. In order to accomplish the policy goal in 2003, the Kunshan government demanded that foreign enterprises achieved a minimum coverage of 80 percent within a year. In practice, the local inspection team increased supervision on large enterprises to combat fee-evasion activities.

Firms with stable employment constitute the implementation focus:

*"We usually require 90 percent coverage of the big enterprises whose labor*



*turnover rate is less than 5 percent. Foxconn is a local model that has all its workers covered by social insurance. But for enterprises with a high floating rate, it is difficult to monitor. Hence we entirely emphasize on the big enterprises.” (Local official, Interview # 2071002)*

Owing to the peculiar industry structure in Kunshan, this strategy in turn pushes the local small and medium enterprises to reach the target. Industry configuration in Kunshan is characterized by number of big enterprises and a considerable number of SMEs. These supporting SMEs rely on the big IT and machinery factories thus they are in a disadvantaged position in negotiations. Since the Kunshan government tends to be more selective in choosing the source of capital, these supporting enterprises are not able to take a risk in investment withdrawal. This spillover effect is specifically explained by a local official:

*“The industry structure in Kunshan is the large IT enterprises are surrounded by a considerable number of small supporting enterprises. For example, in order to support a factory assembling laptops, hundreds of small private factories usually surround it, like steel, material and logistics. In other words, these supporting SMEs are tied to their customers/suppliers in Kunshan. The*



*government has taken an active position in negotiations with enterprises as it is 'choosing' the investment".*

The official describes the relationship between the core and supporting enterprises as *"hens and chicks, that we only need to focus on the hens so that the hens would lead the chicks in the right direction". Furthermore, a large part of these firms are outsourcing firms.*" (Local official, Interview # 2071004)

Last but not least, Kunshan officials, when compared to those of other regions, appear to be much less inclined to take part in rent-seeking activities and more regulatory and redistributive. Therefore, it is difficult for local entrepreneurs to "negotiate" with the local officials. In the survey, when the employers were asked to "deal" with the enterprises, the most frequent answer is that *"we are cautious when dealing with the local government", "we are afraid that the local officials would get us in trouble"* (Interview #2071102; Interview #2071203 ), and *"we try our best to get far away from the local officials"* (Interview #2071301). This "fear" perception forms a contrast to the business-business collaboration in Wenzhou.

F Company is extraordinary in its genuinely comprehensive coverage. The manager told us in a resolute manner: All of our workers are offered with social insurance, except for those on probation. Otherwise, trouble will start immediately. Recently, complaints to the labor bureau have become more and more frequent when employees leave a factory, mostly asking for extra-hour wage and bonus compensation. Obviously, this high-end firm rigidly follows the rules. We double checked with the workers and they proved what the manager claims: Our company does things strictly according to the law. The employees are all insured, because our big boss demands it. Even the temporary workers are insured. ”

Workers in this factory appeared to be “loyal” and satisfied with the better wages and welfare benefits. Except for its particular corporate culture, this case can be also explained by its high technology and comparably lower costs spent on workers’ salary and other costs.

### ***Summary***

From the perspective of the local government, the capacity of a local state is a necessary factor in pushing forward social insurance policies favorable to the migrants in the urban system. An important motive is how local officials define their policy goals and priority, which is in turn determined by the central





government and intra- and inter-regional competition for development. In Kunshan's case, the central government has promoted Kunshan as a national model of a well-off (Xiaokang) society and thus urged the local government to provide universal insurance cover for the workers. Under the celebrity effect, a relatively low density of migrants and interregional competition for stable and well-trained labor has led to the equitable social insurance regime in Kunshan. Meanwhile, this clearly-defined goal in competing for retaining skilled labor, would not be workable without its relative sanguine financial accumulation and thus active bargaining position, as well as better management techniques.

Firstly, thanks to a successful industry upgrade, Kunshan has collected ample fiscal revenue from local enterprises during the last decade, and thus the residents have been able to enjoy good welfare benefits. Secondly, in order to accomplish the policy goal in 2003, the Kunshan government in turn demanded foreign enterprises to achieve a minimum coverage of 80 percent within a year. In practice, the Kunshan government vigorously pursued largely FIEs for their social insurance fees. The positive spillover effect has also expanded to the supporting enterprises in a small scale. Last but not least, Kunshan officials, when compared to those of other regions, appear to be much less inclined to engage in



rent-seeking activities and more regulatory and redistributive. Therefore, it is difficult for the local enterprises to “negotiate” with local officials.

As seen from the Kunshan case, typical examples of successful social insurance reform from around China attest to the proactive role of the local governments in crafting social insurance. Particularly in the cities with local autarky, the local government usually pursues social development in a manner similar to economic development, with the aim of improving administrative efficiency and legitimacy. Though labor outsourcing has diminished the outstanding performance of Kunshan, it is still undeniable that Kunshan is a leading city in social insurance implementation.

#### 8.7.5 Two Tale of “*Guanxi*”: Taiwanese and Private Enterprise

Implementation of social insurance constitutes an important test for the cooperative relations between the government and business. Amid the successful industry upgrade, inter-firm variation is significant due to the fact that each company “negotiate” with the local officials.



Owing to the rapid expansion of Taiwanese enterprises, in 1998 the central government approved the establishment of the Kunshan Association of Taiwanese Investors (KATI), a semi-official civic organization to promote Taiwanese investors' interests in relation to Kunshan development. The importance of KATI can be seen in several areas. It is the only business association to be invited as a guest organization to audit the annual mayoral report to the Local People's Congress starting in 1995. Regular bi-monthly meetings of the 'Taiwanese Investor Salon' were organized by KATI and Kunshan officials provide free consultancy services on tax, environmental protection, and customs. The KATI is perceived as the fifth leadership group in place despite the municipal NPC, municipal People's Congress, government and municipal CPPCC, and it possess the power to make suggestions.

Accompanied by industry upgrade, the bargaining position of Taiwanese business is decreasing. It follows the logic that the autonomy of the Kunshan government has been enhanced owning the increased financial capacity and the investment chosen. As the officials noted, "*KATI is no longer an interest group but a bridge between enterprises and the government*" (LH enterprise, interview # 2071301).

In contrast with the 1990s when KATI was intensively involved in policy making,



in the last few years the Kunshan government has directly put up a new labor policy without negotiating with the KATI. In turn the KATI can but adopt ad hoc enquiry instead of pre suggestion, and thus substantially weakens the negotiation effect. As a result, Taiwanese enterprises have to expand the social insurance coverage when the Kunshan government took initiatives in achieving the policy goal. The following case from LH enterprise is representative of the weakening negotiation power of Taiwanese enterprises:

LH enterprise is among the first wave of investors establishing factories in Kunshan. The leader of this enterprise L took the initiative in combining 18 local Taiwanese enterprises to establish a social club, affiliated to the KATI. Still, L was also one of the directors of KATI. As he reflected of the relationship between local government and KATI, he noted that:

*“before the 2000s, if we faced problems, we would resort to the town officials through the social club when dealing with minor issues, while with regard policy issues we tended to negotiate with the local government through KATI. However, the bargaining power of KATI is declining in the past decade. Now we are inclined to negotiate directly with the township leaders instead of*



*KATI, which can't exert a strong influence like before.” (LH enterprise, interview # 2071301)*

Individual political network is another important capital for local enterprises; however, *guanxi* in China is a double-edged sword: sometimes the entrepreneurs would utilize the political network to solve problems, while sometimes the entrepreneurs would have to pay a price in maintaining these networks. In terms of social insurance expansion, the local officials finally ordered the leaders of Taiwanese enterprises to assign the labor contract and achieve the policy goals of 80 percent coverage under the name of “cooperation”. Both the active position of the Kunshan government and increasing awareness of the law by local workers have pushed the social insurance expansion. In the survey, the enterprise director was asked the incentives to insure the workers:

*“The basic bottom line is we need to obey the law, otherwise the punishment is high, and the local officials will frequently pay us a ‘visit’. We don’t want to cause trouble.” (LH enterprise, interview # 2071301)*

*“A part of concern lies in that workers would report to the police if we refuse*



*to insure them. Early this year, the workers conducted a strike with the aim of increasing the wage. The workers in Kunshan seem not so obedient like those in Dongguan. ” (LH enterprise, interview # 2071301)*

Kunshan governments vigorously pursued largely enterprises for their social insurance fees, but they took a different approach with the private enterprises on a small scale. The local governments had to consider the risks posed by surging employment which would ensue with enforcing social insurance in these firms. The local government thus appears to offer local enterprises a favorable treatment in terms of their payment for social insurance fees, as the local cadres noted:

*“For a city, FIEs are fairly important, but the labor-intensive factories are also important since they absorbed the largest proportion of workers. Their sustainability is vital for us. Therefore we usually treat them favorably.”*  
*(Local official, Interview #2071003)*

### **Summary**

From the perspective of the local government, the capacity of the local government is a necessary factor in pushing forward the social insurance policies



favorable to the migrant workers in the urban system. An important factor is how local officials define their policy goals and priority, which in turn is determined by the intention of the central government and intra- and inter-regional competition for development. In Kunshan's case, the central government promoted Kunshan as a national model of a well-off (Xiaokang) society and thus urged the local government to universally cover all workers. Under the celebrity effect, a relatively low density of migrants and interregional competition for stable and well-trained workers has led to the equitable regime of social insurance in Kunshan. Meanwhile, this clearly-defined goal in competing for retaining skilled workers, would not be workable without its considerable financial resources and thus strong bargaining position, as well as sound management techniques.

Firstly, thanks to a successful industry upgrade, Kunshan has collected ample fiscal revenue from the local enterprises during the last decade, and thus the residents have been eligible to enjoy good welfare benefits. Secondly, in order to accomplish the policy goal in 2003, the Kunshan government demanded foreign enterprises to achieve a minimum 80 percent coverage for their workers within a year. In the practice, the Kunshan government vigorously pursued largely FIEs for their social insurance fees. The positive spillover effect also has expanded to the



supporting enterprises at a small scale. Last but not least, Kunshan officials, when compared to those of other regions, appear to be much less inclined to take part in rent-seeking activities and more regulatory and redistributive. Therefore, it is difficult for the local enterprises to “negotiate” with the local officials.

### 8.8. Local Manipulation: Labor Outsourcing

A caveat is in order. A serious flaw exists when we further explore the reality. As a counter tactic, “labor outsourcing” is employed in Kunshan. As analyzed, the central government used Kunshan as a showcase and in turn the Kunshan government is urged to enhance social insurance coverage. The abrupt adjustment poses a huge difficulty to enterprises. Therefore there is widespread use of “labor outsourcing” as a counter tactic by the firms. The trick behind this is a substantial portion of migrant workers are put under the category of “outsourced labor”. The workers placed under outsourcing are either left uninsured, partially insured by workplace injury scheme, or covered by an inferior program, through the arrangement of human resources agencies.

It is largely official-business collusion in evading the codes of labor. In fact, the





outsourced workers are usually arranged to be “affiliated” with independent human resources companies, often run by powerful ex-officials or established by the local government to create extra-budgetary revenue. Instead of social insurance contribution, the enterprises only need to pay management fees. Given the minimal base pay, the total social insurance per capita is 190 yuan, whilst the management fee is only 60 yuan. The proportion of outsourced labor is “negotiable” between the employers and local government. Generally, staffs in non-production and local residents are not allowed to be placed in the category of outsourced labor. In other words, the outsourced workers are primarily migrant workers. Though the human resources companies are also required to insure these workers in a “flexible” mode with one or two schemes, in reality they escape from this responsibility and are reluctant to provide any security. Kunshan officials privately encouraged and even tutored HRs in the enterprises to utilize the trick, as the HR managers noted:

*“This trick was promoted by the local labor agents owing to the huge pressure of labor insurance...these human resources companies are also enterprises, and they also need to generate revenue” (ZG Company, Interview #2071203).*



*“It was tutored by the local labor agents...The local officials knew a good social insurance environment would scare away investment, so they put up this interim approach ”(CJ Company, Interview #2071304).*

By this manipulation many FDIs have achieved comprehensive coverage on the official statistics. The overall pension coverage rate in Kunshan soared from 30 percent in 2002 to around 60 percent in 2003, a spectacular performance by the local officials. Our fieldwork at the firm level confirmed the ostensible progress. Eight out of ten surveyed companies resorted to outsourcing to reach the official targets (Table 8.7).

Table 8.7 Social insurance Coverage in Kunshan: Firm-level Findings

Company	Code	Type of Capital	Total workers (A)	Workers under outsourcing (B)	Workers insured (C)	Outsourcing rate (D)=(B)/(A)	Insurance coverage (E)=(C)/(A)
LT	#2071101	FDI_USA	3000	450	2250	15%	75%
SH	#2071102	FDI_TW	5000	1000	3890	20%	78%
M	#2071103	FDI_Can	1226	0	1100	0	90%
LK	#2071201	FDI_TW	70	0	70	0	100%
TK	#2071202	FDI_USA	3042	489	2153	30%	70%
ZG	#2071203	FDI_TW	280	177	103	63%	37%
LH	#2071301	FDI_TW	1500	500	1000	33%	67%
XN	#2071302	Domestic_Private	300	40	100	13%	33%
CJ	#2071304	Domestic_Private	536	340	196	59%	37%

ZY	#2071401	FDI_TW	500	325	175	65%	35%
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Of the remaining three enterprises that did not utilize outsourcing, LK was a Taiwanese small-sized company hiring 70 workers. This “anomalous case” can be explained by its small size of employment and relatively low proportion of its labor costs. LM was a domestic company with 80 local workers, and the manager had no intention to insure them owing to the local pressure. M company was a Canadian company producing lockers for automobiles, it seldom adopted the trick of outsourcing workers. The manager told us in an absolute manner: “except for 126 workers on probation, all of our workers are covered by social insurance.” We double checked it with the workers and they confirm what the manager had claimed: “Our company does strictly follow the rule”. Apart from M, the other two companies LT and TK utilized the outsourcing labors at 15 and 30 percent respectively. At the same time both of them performed better in their higher social insurance coverage which is more than 70 percent. Obviously, the high-end firms with a background of foreign investment (not Taiwan capital) tend to closely follow the law. This can be explained by their corporate culture.

There are five Taiwanese enterprises in our survey, and four of them adopted labor outsourcing. Among them, SH and LH were among the first generation in

transferring their production from Taiwan to Kunshan, and were both touted as the township model by the local government. They are ordered by the local government to insure all the non-outsourced workers with the aim of completing a “political task”, “otherwise the inspection visits from social insurance agents would be frequent” as they said.

There are three domestic private enterprises in our survey. CJ was a capital-intensive chemical company, falsely registered as an FIE to enjoy privileged treatment but owned by domestic capital. This enterprise maintained good relations with officials. It only insured 37 percent of the employees and used 59 percent of outsourced workers. For XN with a comparable scale, the outsourced proportion was less. We further found that it is because there was a large proportion of local workers in this company. The local enterprises point to the often-heard complaints by FIE managers that local officials treated these enterprises with double standard.

Therefore, labor outsourcing in most instances is nothing but a clever manipulation of labor regulation. Through this manipulation many foreign enterprises have achieved the universal coverage shown in official statistics. No doubt, labor outsourcing has diminished the outstanding social insurance



performance of Kunshan. Nevertheless, it is undeniable that Kunshan is a leading city when it comes to offering more equitable treatment to migrant workers and comparatively higher social insurance coverage, both of which has resulted in a positive contagious effect on the foreign-invested sector in the Yangtze River Delta. For example, the Wuxi Government in 2007 proposed a “non-differential wage policy” and “unbound social insurance policy” for migrant workers and announced that it has brought nearly 40 percent of the total 1.7 million migrants under social insurance.

## 8.9. Conclusion

The examination of the Kunshan case has demonstrated, firstly, the indispensable role of the central government’s support and local policy innovation in expanding the local social insurance development. Secondly, of course, the task could not be achieved without local autarky. That is to say, sanguine financial capacity has ensured the development of labor insurance. Last but not least, as can be seen from the Kunshan case, typical examples of successful social insurance reforms from around China attest to the proactive role of the local governments in crafting social insurance schemes. Particularly in cities with local autarky, the local government usually pursues social development in a similar manner as economic



development, with the aim of improving administrative efficiency and legitimacy.

Though labor outsourcing has diminished the outstanding performance of Kunshan, it is still undeniable that Kunshan is a leading city in social insurance implementation

The case of Kunshan has confirmed the hypotheses proposed in Chapter Four.

According to the hypotheses, the specific skill, big-firm dominance, and FIEs would be the institutional conditions to comparatively higher social insurance coverage. Kunshan is optimal for this regime. Thanks to the industrial upgrade, the local businesses have developed clearly-defined goals of retaining the skilled labors. In addition, the big FIEs are usually required to follow the corporate social responsibility and thus are more obedient in labor law in China. Finally, in a state-led regime, the local government usually possesses active position in bargaining with the local business, in avoiding the business intervention in labor insurances.

In light of decentralization, the central support has become an important driving force in developing labor insurances in Kunshan's case, in equipping political impulsion with the Kunshan government. Nevertheless, the local autonomy and



local capacity is decisive. In other words, in the case of well-developed labor insurances, the local institutions may have higher latitude in deciding the policy development in nature, while the central support constitutes as an external motivation.

The examination of Kunshan case has also reinforced the theoretical framework of this dissertation. If the local institutions of Wenzhou have constrained the policy options as discussed in the Wenzhou case, the local institutions of Kunshan have expanded the policy options in the present case. There are at least three key institutions that have facilitated the expansion of labor insurances in Kunshan, and they are strong financial strength, demand of well-trained labors and comparably low density of the migrant workers. Within these three institutions, the incentives of expanding labor insurances get the returns increased, and in turn determine Kunshan in the positive way. Furthermore, in the stakeholders' interactions, the Kunshan government has dominated the process of social insurance development. More generally, we could develop that within certain local institutions, the relationship between the local government and the local business would set the tone of local social insurance implementations. An enduring discussion of the local social insurance development is the role of the central government. At least,



the Kunshan's case has demonstrated the indispensable role of the central government in providing policy motivations. It needs to be noted, the role of central government in implementation of local labor insurances should be examined when applying to other case.





## CHAPTER 9

### DISCUSSION AND CONCLUSION

#### 9.1. Introduction

Having reviewed the evidences on the dynamics of local social insurance implementations in China, this chapter summarizes the major findings of the present research. In addition, this chapter also discusses whether the research objectives are achieved, and limitations of the present study will be discussed.

To recall, this research sets out against the policy context of decentralization to firstly examine how fragmented labor insurances have evolved in China. In order to achieve this research objective, Chapter Six has employed fs/QCA to discern the institutions causing varieties of social insurance implementations at the local level of China. The main findings are addressed in the Section 9.2.1.

Secondly, this research aims to examine how different stakeholders interact in



shaping the formation and implementation of social insurance schemes among the coastal regions of China. In order to achieve this objective, Chapter Seven and Chapter Eight have examined the cases of Wenzhou and Kunshan respectively, with particular reference to the incentives structure of local business and local government in developing labor insurances, as well as their capacity in shaping local policies. Section 9.2.2 compares policy trajectory, the shaping capacity of the local governments and local business, and the local institutions between Wenzhou model and Kunshan model. Section 9.2.3 summaries the findings and develops typology in accounting for evolution of local welfare production regime in China.

Finally, this research serves a third objective of developing a new theoretical insight into analyzing the decentralization and welfare state in China. Section 9.3 highlights our major theoretical contribution and empirical contributions. Our following discussion will highlight the major findings and contributions of the present study, together with the discussion of limitations to future research agenda.

## 9.2. Findings

### 9.2.1 Institutions Accounting for Varieties of Labour Insurance Implementations in



## Coastal Areas of China

The preceding chapters have investigated the institutions causing the varieties of social insurance implementations in the coastal areas of China by examining the approaches of the local production regime and decentralization. In this regard, five pairs of hypotheses were proposed in section 4.4. To recall, based on the literature discussions, this research assumes that the varieties of social insurance implementations in the regions, particularly the coverage, is a result of both the local welfare production regime and decentralization effect. This section summarizes whether these proposed hypotheses are proved or disproved.

First of all, decentralization is not following a progressive social insurance strategy. With regard to the hypotheses of the decentralization effect, it is proposed in section 4.4 that fiscal decentralization may hinder the expansion of labor insurance, whilst the evaluation indicators with more weight on social stability would contribute to the development of labor insurance. However, the fs/QCA results in Chapter Six proved that administrative decentralization, particularly more weight on the social stability, does not have the effect of expanding labor insurance. Technically, this is because there is no prominent difference between the regions in the variable of administrative decentralization,



or the operation of administrative decentralization (particularly share of fiscal expenditure of livelihood in the total fiscal expenditure) has not reached a certain threshold. Yet, our findings reveal that the development of local labor insurances is weighted more on the local authority than the higher-level government. In other words, according to the fs/QCA analysis, a progressive social insurance development would follow a pattern of comparatively advanced economic development, probably led by high-tech industries and thus more importantly, the local authority.

In order to advance economic development in China, local governments in the coastal China are targeting social insurance investments toward improving labors' human capital. This is largely because the coastal areas of China has to move away from the original labor intensive production pattern and step up to a second phase of economic development. The central government and the local governments in the coastal areas are also alert of this labor-intensive industrialization and have advocated industrial upgrade. Reflected in the labor market, in recent decades, discussions of the Lewis Turning Point have emerged in China, some have suggested that the transformation of China's labor market from labor surplus to shortage. In this regard, a higher level of economic development



in these regions depends on the labor human capital. Therefore, growing demands for much better and equitable public service by the workers is recognized by the local governments, and correspondingly, the local governments have responded to these challenges by improving social protection and hence human capital. The research of Cai (2010) has demonstrated the transforming functions of the local governments in China, from economic development to social protection, and this objective could not be achieved without a strong local fiscal capacity.

In addition, progress in local social insurance is attributed to the industrial regime which is dominated by big firms and specific skills of the workforce. According to the hypotheses, a local production regime with a specific skill profile, dominating big firms and FIEs is conducive to the expansion of labor insurance. As a result, the fs/QCA result has confirmed the necessity for the specific skill profile and big firms, and skill is the core. High-tech industries usually entail capital-intensive and high value-added industries and thus can afford a higher level of social insurance levying. Still, social insurance is increasingly seen as an investment in skills to retain skilled workers and stimulate the development of skills, which is key to the sustained development of high-tech industries. It is a fact that large firms are more capable of training workers this kind of skill and thus tend to



provide labor insurances as a kind of employment security.

Furthermore, the combination effects of fiscal decentralization and local industrial regime would exert negative influence to the development of labor insurances. As stated in the hypothesis, a production regime dominated by small firms, general skills and the private economy would hinder the development of labor insurance. Still, fiscal decentralization has had a negative impact on the development of labor insurance. The fs/QCA result has confirmed the combination effects of small firms, private economy and fiscal decentralization on the comparatively low coverage of labor insurance. In an increasingly decentralized environment, local governments tend to be more fiscally “conservative” in developing social insurance and more enthusiastic in developing economy. The significance of the private economy is vindicated by the private enterprises’ ability to intervene and push their agenda in the setting of social insurance policies. These enterprises usually possess a stronger bargaining capacity than FIEs through various formal and informal personal networks.

In sum, in addressing the varieties of social insurance implementation at the local level, the results in Chapter Six highlight that the local industrial regime, with



particular reference to the big firms, high-tech skills, FIEs, have real latitude rather than the decentralization effect in developing social insurance policies. However, decentralization, together with the local production regime of the private economy and small firms, would jointly hinder the expansion of labor insurance. So far, this research has fulfilled the first research objective of this research by discerning “what institutions matter”, but the question of “in what ways do the institutions matter” remains. According to the different institutional combination of a “positive” and a “negative” cases on the basis of the fs/QCA result, Wenzhou and Kunshan are two cases studied in examining the dynamics of stakeholders in shaping the local social insurance policies.

### 9.2.2 Comparative Analysis of Wenzhou Model and Kunshan Model

Comparing Wenzhou and Kunshan allows us to examine whether the second research objective has been achieved by investigating how different stakeholders interact in the formation and implementation of social insurance schemes among the coastal regions of China<sup>42</sup>. Three dimensions of policy trajectory, local

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<sup>42</sup> Wenzhou and Kunshan are very typical cases since they are two extreme cases in policy implementations. They are chosen through the fs/QCA analysis. Though they are at the different administration level, that Wenzhou is a municipal city while Kunshan is a county-level city under

business and the local government, and local institutions are put in comparison in the following discussions.

### ***Policy Trajectory in Comparison***

In this research, varieties of social insurance implementations among the coastal areas of China are measured in two dimensions of the generosity of labor provision and local protectionism. The former assesses the schemes, coverage and benefit levels of labor insurance; whilst the latter evaluates the equality of the treatment for the local and migrant workers. This research examines two social insurance policies. One is social insurance for urban workers. This type of insurance is generally well established, standardized by the central government and largely taken for granted, and thus local governments usually possess limited room for adjustment in its implementation. The other is social insurance for migrant workers, many details of this type of insurance is still taking shape. The central government allows the local authorities to experiment with the policies. These two social insurance policies target two main types of workers in China, local workers in the former and migrant workers in the latter. Table 9.1 below compares the difference in labor policy

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Suzhou, but the two cities share similar autonomy in terms of economic and social policy implementations. Their experiences have significantly reflect that how the local governments implement central social insurance policy in the practice.





implementation between Wenzhou and Kunshan.

Table 9.1 Policy Trajectory of Wenzhou and Kunshan

	Wenzhou	Kunshan
<i><b>Labor Provision</b></i>	<i><b>Minimal</b></i>	<i><b>Ample</b></i>
Social insurance for urban workers	Minimal coverage	Bundled five insurance
Coverage	Low	High
Benefits	Low	Ample
<i><b>Local Protectionism</b></i>	<i><b>Strong</b></i>	<i><b>Weak</b></i>
Social insurance for migrant workers	Exclusive	Integrated

As table 9.1 suggests, generally, Wenzhou has minimal welfare provision for the workers by setting minimal coverage requirements for the industrial sectors. It was not until very recently that the Wenzhou government has bundled the five insurance schemes. What had been compulsory pension and other voluntary four schemes became a bundled package of five compulsory schemes. It has been demonstrated in Wenzhou that enterprises would only insure a minimal number of workers in the limited social insurance schemes. Kunshan, by contrary, provides generous labor provision to the workers. The Kunshan government has legislated social insurance contribution rate required by the central government and advocated

universal coverage for all workers, making it a leading city in social insurance implementation. However, the outsourcing of workers has diminished its outstanding performance, since by manipulating the status of the workers firms have attained universal coverage more easily. The workers that are outsourced are either left uninsured, partially insured or covered by inferior programs. With regard to local protectionism, Wenzhou has shown a high degree of local exclusiveness where social insurance for migrant workers are still offered on a voluntary basis. Kunshan continues to be a showcase by covering all the workers and building a unified system, which does not show institutional discrimination against migrant workers (Sections 7.3 and 8.3).

Comparing the two cities in the social insurance performance specifically, Kunshan has achieved a much higher coverage in social insurance. The pension coverage has been outstanding since 2003, reaching 62 percent in 2010. In contrast, Wenzhou has a much lower pension coverage, and has maintained a slow growth, with social insurance coverage reaching only 20 percent of the workers in 2010. The general patterns of healthcare and workplace injury insurance of Wenzhou and Kunshan resemble those of the pension coverage above. In addition, the two cities are also divergent in welfare commitments of the local governments, in



particular labors welfare benefits. Kunshan city strictly enforces the legislated contribution rate of 20 percent and 10 percent for pension and healthcare respectively, hence it has become the policy model in the eyes of the central administration. In contrast, in Wenzhou, enterprises' contribution to social insurance is based on the minimum wage, which suggests a significant reduction in the financial burden for employers and minimal welfare service, and thus presents an employer-privileged stereotype (Sections 7.3 and 8.3).

***Business and Local Government in Comparison***

This research endeavors to explain how different policy are formed and implemented by identifying the interactions between stakeholders, including business, the local government, workers and the central government. Table 9.2 below compares the business environments in Wenzhou and Kunshan.

Table 9.2 Business Environment of Wenzhou and Kunshan

	Wenzhou	Kunshan
<i>Business</i>	<i>Private economy</i>	<i>Foreign-invested economy</i>
Labor cost	High proportion	Low proportion
Skill Intensity	Low	High
Bargaining Position	Active	Weak

As suggested by table 9.2, the booming private economy in Wenzhou entails

minimizing of the labor cost which constrains the financial affordability of social insurance among the local enterprises. Still, Wenzhou's private economy also has a high turnover of workers and thus entrepreneurs lack the incentives to offer welfare provision to employees. In addition, the active participation of Wenzhou entrepreneurs in politics has assured their strong bargaining position with the local government. All these factors have hindered the expansion of social insurance in Wenzhou. In contrast, in the foreign-invested Kunshan economy, the industry upgrade since 2003 has helped the city provide a better welfare provision to the workers. The local enterprises generally possess a clear policy goal of retaining well-trained workers, which is in great demand. The relatively lower proportion of labor cost in the cost structure raises the financial affordability of social insurance by the local enterprises. Meanwhile, Kunshan has been locked in the chain of global production, and international production standards including treatment of workers are required for export enterprises. Thus social insurance has been internalized as a CSR in these multinational corporations. On the other hand, thanks to the strategy of industry upgrade, foreign capital has a comparatively weak bargaining power vis-a-vis the local government. As a result, expansion of social insurance among Kunshan enterprises has been smoother (Parts 7.6 and 8.6).



Table 9.3 Comparison of the Governments of Wenzhou and Kunshan

	<b>Wenzhou</b>	<b>Kunshan</b>
<b><i>Government</i></b>	<b><i>Supportive</i></b>	<b><i>Dominating</i></b>
Policy Goal	Distorting the central government's policy to help local entrepreneurs	Improving worker's human capital and retaining skilled workers
Financial Capacity	Weak	Strong
Administrative Capacity	Weak	Strong

Table 9.3 above compares the role of the local governments between Wenzhou and Kunshan in crafting the social insurance policies. Generally, the Wenzhou government and Kunshan government have undertaken different roles in administration; the former has played a supportive role to the business whilst the latter usually takes the lead in economic activities. With regarding to social insurance, the Wenzhou government has deliberately misinterpreted the policies of the central government and thus tends to practice local exclusiveness in the administration of social insurance. Still, its weak financial and administrative capacity further constrain the efforts to expand labor insurance. Ultimately social insurance is deemed negotiable between the local government and local enterprises. Owing to the collusion between the business and the local government, workers in general distrust the local government and thus are reluctant to remit the social insurance fees (Section 7.7).

However, in Kunshan the story is completely different. The central government in 2003 started to promote Kunshan as a national model of a well-off (Xiaokang) society, because of its celebrity status the Kunshan government has urged local enterprises to insure all the local workers. On the other hand, the Kunshan government possesses a clear goal of retaining well-trained workers. Under this policy incentive, ample fiscal revenue from local enterprises has enabled the Kunshan government to offer more equitable social insurance. The Kunshan government also has a stronger administrative capacity. Local government officials, when compared with other regions, tend to be less inclined to indulge in rent-seeking activities and are more regulatory, and thus active in bargaining with local enterprises (Section 8.7).

Table 9.4 Local Institutions in Wenzhou and Kunshan

	<b>Wenzhou</b>	<b>Kunshan</b>
<i><b>Institutional Variables</b></i>	<i><b>Constraint</b></i>	<i><b>Contributive</b></i>
Economic growth	Economic downturn	Economic boom
Labor market	Small proportion of migrant workers	Well-trained workers

Table 9.4 above compares the local institutions in Wenzhou and Kunshan in contributing to or constraining the local social insurance development. Wenzhou is confronted with a dilemma in issuing social insurance development under the

economic downturn. Partly in order to alleviate growing social disparity, social security constitutes a policy tool to remedy the industrial risk from the economic downturn. On the other hand, local enterprises are financially constrained in their ability to offer social insurance under the economic downturn. Nevertheless, its sluggish policy implementation is a reflection of the influence of local business interest. Also, solidarity is hard to form in a small size of migrant workers of Wenzhou, and thus social insurance schemes for workers in Wenzhou tend to exclude migrant workers. By contrast, social insurance development in Kunshan has benefitted a lot from the economic boom of the most recent decade, as well as the demand for well-trained workers. This is largely due to the stronger industrial base of Kunshan and its good fortune of being late in opening up to outside investment. In sum, economic growth and the labor market have constituted as important institutional variables in the development of local social insurance regimes (Sections 7.5 and 8.5).

### 9.2.3 Summary: Drivers of Progressive Expansion of Labour Insurance

This research has demonstrated that local conditions remain an enduring dynamic in Chinese social policy. Meanwhile, the results from the empirical case analysis

show that at least three institutions have contributed to social insurance development. First of all, it shows that future expansion of social insurance can be secured by embarking on industry upgrade and thus driving the local employers to invest in human capital. Successful social insurance expansion is premised by an advanced industry structure.

At the same time, it is necessary to strengthen mutual trust among the local social insurance agents, businesses, and workers. One measure is helping the workers build confidence in the institutions by setting legal amounts for contributions and welfare benefits, this would avoid welfare provision becoming insignificant compared with the workers' salary. Another measure is to help citizens build trust in local social insurance agencies. As seen in the preceding chapters, the employers and workers often evade social insurance contributions out of the concern that the agencies would misuse the funds. The workers also lack trust in the social insurance agency out of the concern that the agency would retain their contributions owing to the existing institutional barriers. Thus institutional transparency of and trust in the local agencies need to be established.

Finally, an unresolved debate over the process of local social insurance





implementation concerns the role played by the state in general and by the central government in particular. As we have defined in the introduction, though the central government allows some discretion in local policy implementation, it is not a “passive party” that neglects its duty to monitor local innovations and deviations. Kunshan’s case demonstrates that the central government’s political support is indispensable in the progressive expansion of social insurance in Kunshan. To a certain extent, the central government’s stance on social insurance still matters under decentralization.

#### 9.2.4 Welfare Production Regimes in Regions of China

In addressing the varieties of welfare regimes in China, this research attempts to summarize different regional welfare regimes with a typology of welfare production regime. So far, the existing literatures have outlined two theoretical approaches. The first is the static approach, scholars in this camp usually examine the influential factors through panel data analysis. Through quantitative tools, the net effects of economic development, demographic structure, decentralization effect and so forth are calculated<sup>43</sup>. This approach is well developed in considering

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43For instance: Zhang,G.& Yang,J. 2007. The determinants of expansion of the coverage of the basic pension program. *Society*. 1, 164-179 (in Chinese); Li,W. 2007. The political economy of expansion of the coverage of the basic pension program. *Research of Elderly Problem*. 8, 164-179. (in Chinese);—Liu,J.Q.2011. Dynamics of social health insurance development: examining the

all the possible factors, but fails to capture the dynamics of policy implementation.

It is a huge insight that institutions are of great importance to future policy development, but the aspect is usually easily missed in quantitative analysis, in which institutions are usually perceived as common variables without causal and contextual effects.

The second approach is the dynamic approach, or institutionalism analysis, which focuses on the different economic ecologies of the regions. Scholars following this approach usually examine the linkage of some institutions and the final policy output, but cannot sufficiently capture the dynamics of the stakeholders in shaping the policy, and thus fail to form welfare “typologies” in the research. This research argues that it is the different alignment or interaction between the local business and the local government has decisive power in formation and implementation of local labor insurances, rather than the local institutions. Hence, this research contends that the interaction between local business and local government should be posited between local institutions and final policy outcome to form a causality linkage, and thus also form a typology or paradigm of welfare regime in China to allow us to apply for any coastal region. Esping-Andersen (1990) puts forward a

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determinants of Chinese basic health insurance coverage with panel data, *Social Science &*

*Medicine*, 73(4), 550-558.

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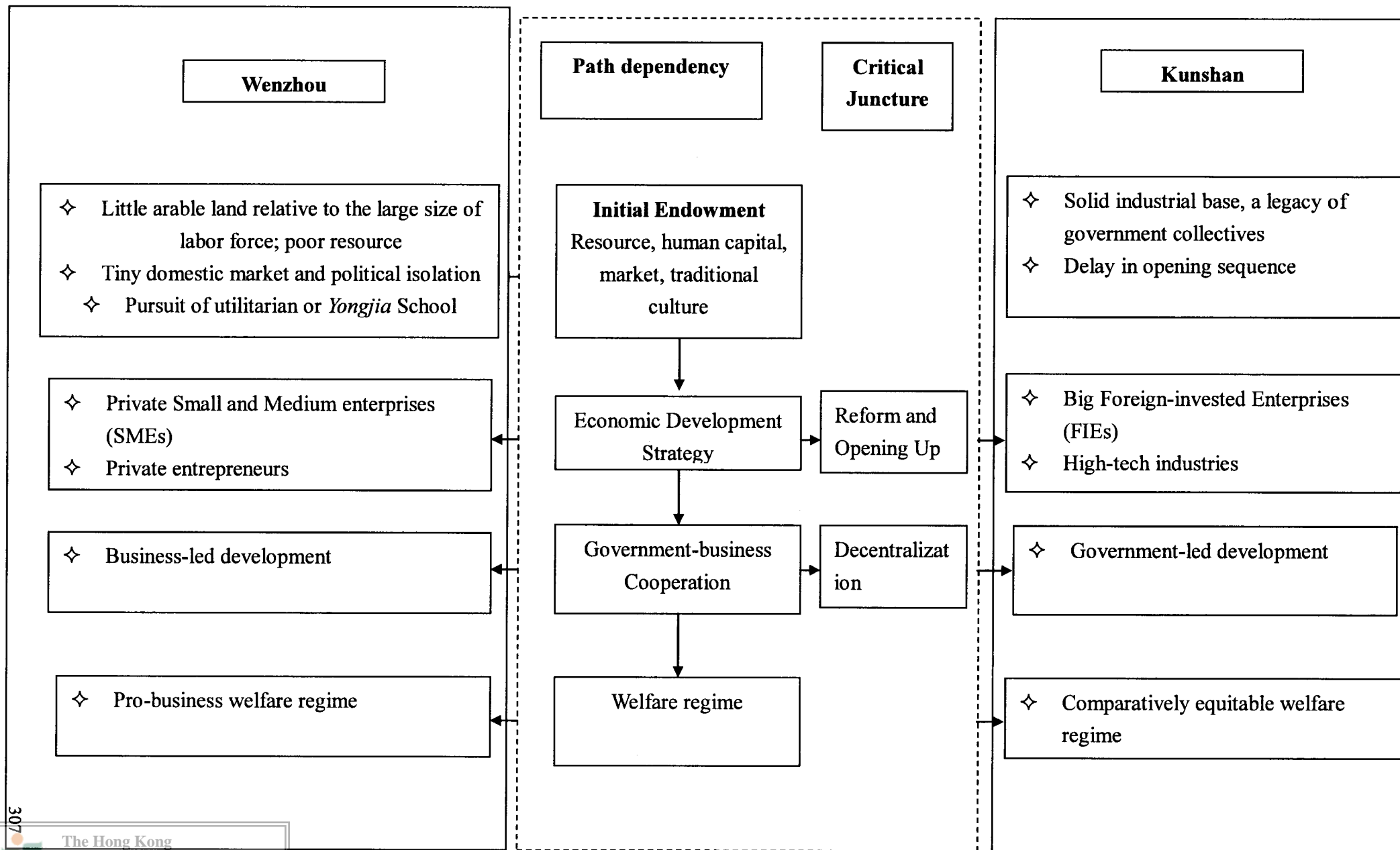
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typology of welfare regime based on different constellations of public and private welfare provisions, and triggered paradigm of welfare “regimes” research. In this regard, this proposed typology could be attempted to apply to all the regional welfare regimes in China. The followed Figure 9.1 would discuss the typology of welfare production regime in regional China.

The varieties of social insurance implementations allow us to establish a typology or paradigm of welfare production regime, and to conceptualize different patterns of local welfare regimes in China. This research also contends that the historical institutions are the best for accounting for the separate evolutionary paths of local welfare regimes in China. It suggests that preferences and behaviors are not guided by an autonomous logic of rational calculations of benefits and costs but are, instead, heavily influenced by long-standing institutions. Under this view, social insurance can be understood as a complementary element to the local production system. Therefore, this research examines precisely how institutions have defined the preferences and shaped the interactions of local governments, firms, and workers toward labor insurance, creating different regional welfare regimes. The following would explain figure 9.1.



Figure 9.1 Welfare Production Regimes in China



As figure 9.1 above suggests, the welfare production regime in China is also built on the notion of path dependency. It emphasizes the affinity between welfare regime and economic development strategies. The local orientation of its economic strategy is conditioned by the initial endowments, including the abundance of resources, human capital, the size of the domestic market and traditional culture. Still, the timing of the opening is an equally significant factor in determining the path of economic development since the whole of China has been gradually globalized since the 1980s.

In China, government-business cooperation is decisive in shaping the local welfare regimes. China's economic reforms have enhanced the power of business owners, who in turn have strongly supported the political status quo of CCP rule. As the preceding chapters have discussed, since the 1980s the main thrust of reform in China has been local trials. The central government has sufficiently decentralized and granted autonomy to the localities. Along this process, different forms of government-business networks are formed in the localities under different economic development patterns. This is especially true in the case of China, where local governments are required to fund the operations of virtually all government agencies and services they are supposed to provide after the 1994



fiscal decentralization, local governments are more dependent on the local business sector. In the sphere of welfare, different cooperation patterns determine how local social insurance policies are carried out. Since the rapid expansion in social insurance revenues and expenditures is exclusively financed by businesses, the rise of social insurance in China therefore constitutes an important test of the cooperative relationship between government and business. Did the power of the government trump over business power, or do the two parties collude with each other? The outcome of this contest has had a powerful influence on the design and pattern of local welfare development. In this research , Wenzhou and Kunshan constitute two opposing local welfare production regimes (Figure 9.1).

In a business-led environment, Wenzhou has developed a pro-business welfare regime. Due to the little arable land relative to the large size of the population and therefore poor resource, as well as influential academic tradition of the Yongjia School, peddler activities were old economic activities in Wenzhou. Since the economic reform and opening up, these activities have transformed the entrepreneurial resources. Such important human capital has made the Wenzhou model possible. Hundreds of private workshops sprang up under the fictive state-owned banner, helped by the Wenzhou government. Booming private SMEs



therefore features prominently in the Wenzhou model since the 1980s. Under such a development, the Wenzhou government and local entrepreneurs have formed a long period of collusion. As is well known, a variety of local fees were negotiable, and heavily dependent upon *guanxi* (personal network) and backdoor transactions. Careful not to upset the interests of local business, the Wenzhou government tends to be protectionalism and implemented minimal standards on local enterprises (Figure 9.1).

Kunshan is a totally different story. The government has developed a more equitable welfare regime. Thanks to the solid industrial base and good fortune of being one-step-behind in opening its economy to outside investment, Kunshan has experienced rapid development with big foreign-invested enterprises and high-tech industries since the last decade. During the whole process, the Kunshan government is deemed indispensable in guiding and transforming the economic development regime, and thus has played a leading role in economic and social activities. Under such a development, the Kunshan government has maintained a strong bargaining position with these foreign capitals in implementing social insurance. Furthermore, Kunshan has also benefited tremendously from this regime with a relative sanguine financial capacity. All these have made Kunshan a



showcase in providing more equitable social insurance policies and achieved a higher coverage of social insurance (Figure 9.1).

Until now, this research has identified a typology of local welfare production regimes in accounting for the research question of explaining the varieties of social insurance implementations in China. In this typology, the local welfare system in China is path dependent. The attitudes, behaviors, and choices of the local government and local employers are conditioned by peculiar political and economic contexts. Local social insurance implementation is not only reflects the behaviors of “principled” or “discursive” agents of the central government, it is an evolving process of the local institutions.

### 9.3. Major Contributions of This Research

In addition to the findings discussed above, this research does make some contributions from the theoretical standpoint which explains the varieties of local welfare regimes in China (section 9.3.1). This research also makes some contributions from an empirical dimension. It firstly discerns three-fold implications of welfare regionalism, and then puts forward an ongoing welfare





debate in China regarding local residentship and national citizenship. The following discussion will highlight both the theoretical and empirical contributions of the present study.

### 9.3.1 Contributions to Theoretical Understandings of Welfare Regionalism in China

This research has brought the “employers” back in where examining the power of business and its relations with the state, especially with the local government from a different and largely unexplored angle of development of local labor insurances in China. The above findings and analysis have demonstrated that, business preference or opposition over welfare policies has shaped local welfare state in China. In this regard, theoretical understandings of welfare regionalism in China have shared considerable similarity with the theory of Varieties of Capitalism (VOC). As noted in Chapter Three and Four, VOC theory emerged in the 2000s and become influential in explaining the welfare varieties across capitalist countries by the complementarities between welfare state regimes and industries. The VOC theory regards employers as the crucial actors in the welfare state formation, and in this process, employers do not necessarily object to social insurance, but instead may play a role in the establishment of labor insurances



(Hall and Soskice, 2001; Estevez-Abe et al., 2001; Iversen, 2005). However, this research would argue that these two approaches do have differences in nature. This is because the employers in western countries and China undertake different roles in welfare regimes.

The VOC theory contends that employers play a decisive role in the establishment of welfare states. The traditional theoretical approaches perceive the mechanism of welfare states as “politics against market”, and it primarily remedies the failures and inequities of the market and thus de-commodification of labor. The evidences of the VOC theory have shown that employers would provide workers with different forms of social insurance instead of uniformly opposed to labor insurance, this is the “politics of market”. For instance, prior to the promulgation of social insurance schemes by the Bismarck Government in 19<sup>th</sup> Century Germany, the employers had aligned themselves to establish voluntary social insurance to resist industrial risks. What the Bismarck government did was unifying the fragmented social insurance pooling and institutionalizing compulsory social insurance schemes. That is to say, under this approach, formation of the Germany welfare state is based upon the preference of employers (Mares 2003). The impact of employers is especially true in the rapid expansion of



welfare spending. Some researchers have found strong evidence that business owners and employers had a decisive influence on the passing of welfare legislation during the New Deal in the United States. As Colin Gordon notes “U.S. welfare policy has been, in large part, a business measure in progressive clothing” (Gordon, 1991, P.67).

However, in China, employers don't play a decisive role in the establishment of labor insurances schemes, but they do influence the policy implementation. More specifically, their preferences are “absent” in the policy formulation of local labor insurance, but conflicts over compliance with social insurance allows us to identify their preference. China created social insurance schemes to protect the laid-off workers from bankrupted SOEs in 1998. Adoption of social insurance schemes in China is thus will of the Chinese government more than the preferences of employers, is political initiation more than employers' initiation, it is different from the experiences of western countries in this aspect. Empirical evidence of this research has shown, employers in China are almost absent in the policy making. Weak democracy under strong hierarchical government has made policy making an opaque process. The government dominated in the policy formulation process and the voices of employers and workers were largely ignored.



Instead, the conflict over compliance and implementation has allowed us to discern the preferences and stances of employers. In other words, the employers have to “express” their policy preference by “negotiation” with the local social insurance agents, or by evading the social insurance coding. In this regard, bargaining power, solidarity capacity and the relations with local governments have constituted important factors in shaping the local social insurance policies in China.

In this regard, the local governments dominate the formation and implementation of labor insurance. Since local governments are required to fund the operations of virtually all government agencies and services they are supposed to provide After the fiscal decentralization in the 1990s, fiscal revenues and local resource distribution are an enduring concern of Chinese local governments in implementing labor insurance. In this regard, policy goals, financial capacity, and administrative capacity of the local governments have shaped the implementation of local labor insurance. In the case of Wenzhou, misunderstanding of the central government’s policy has made Wenzhou government local protectionist. At the same time, both limited financial capacity and administrative capacity have constrained the efforts of Wenzhou government in developing labor insurance.



Local employers enter into Wenzhou's story by colluding with the Wenzhou government. Infiltrated by local business interests, social insurance schemes have become negotiable between the local government and enterprises. While for the Kunshan case, helped by a well-defined goal of training the workers, ample fiscal revenue, and reputation of an efficient government, the Kunshan government is able to expand labor insurance. In this state-led model, the Kunshan government is more independent from the local business, and thus enables the local government to take a strong and active position in bargaining with local businesses over social insurance issues. In short, the theoretical understandings with the fact that, local governments plays a decisive role in shaping the varieties of local welfare regimes, however, to what extent they are able to impose their design is influenced by the local business.

Social insurance is not only the welfare provision goods financed by employers and enjoyed by workers, they entail different fiscal meanings for local governments. As a general trend, we easily found that pension coverage in all the cities studied is higher than health coverage. In China, pension takes a primary role in welfare policy because they offer in many aspects the path of least political resistance. Local officials seem more enthusiastic in promoting pension than



healthcare, as pension funds are important sources of local revenue (Frazier, 2010).

China's pension scheme is primarily a pay-as-you-go system, so a large amount of insurance contributions can be retained as net income when compared with expense, particularly in coastal areas featured by a high young-to-elderly ratio. Furthermore, owing to institutional barriers, it is still difficult to transfer funds from the individual accounts of migrant workers to other regions, and thus these funds constitute revenue to the local governments. Without adequate oversight, pension funds can be easily diverted for other use.

However, in healthcare, it carries different policy implications. It was not until very recently that the central government has instructed local governments to provide health insurance to migrant workers. Local governments need to undertake the responsibility to provide healthcare services if workers are insured. It proves to be local protectionism as healthcare insurance means a portion of the local resources would be reallocated along with the coverage expansion (Wu, 2008). Nevertheless, for some cities which have a high percentage of young migrant population, healthcare insurance also constitutes a source of revenue since the young migrant population are less likely to use medical service. In this regard, healthcare insurance contributions by migrant workers are an important source of



funding to the local healthcare insurance fund.

In conclusion, in addressing the varieties of local welfare regimes in China, the incentives of local governments may take precedence over employers' preferences in examining China's local social insurance policies. Nevertheless, their incentives are intensively embedded in the local production regimes. In this regard, the expansion of social insurance in China has showed different experiences. In the new regional welfare regime in China, the alignment of the interests of local governments and employers has shaped the local social insurance policies in China, whilst the workers are in a weak position in the policy formulation and implementation process. The local governments, with their position compromised by local business interests, tend to be conservative and are cautious in extending insurance cover to the workers, especially migrant workers. . On the contrary, if the local governments are relatively independent from local business interests, the chances of expansion of social insurance are higher.

### 9.3.2 Contributions to Empirical Understanding of Welfare Regionalism in China

#### *Welfare Regionalism in China*



The findings of this research are important in the way they have contributed to the empirical understanding of welfare regionalism in China. Scholarly works on China's welfare reform have clearly demonstrated the important role that decentralization has played in promoting local initiatives since the late 1990s. But the term "decentralization" is often used rather mechanically, suggesting that a decision by the central government to decentralize administrative authority produces local discretion that is properly keyed to local conditions. But that notion begs an important question: does decentralization actually allow localities to utilize discretion in the fashion intended? This research, derived from the research on the impact of decentralization on insurance, particularly social insurance development in China, suggests that earlier efforts of administrative decentralization produced rather diluted effects on the scope of local discretion and the local implementation dynamics was by no means straightforward but entailed complex interaction of various factors.

Decentralization has brought far-reaching impact on China's welfare development.

This research examines welfare regionalism, with particular reference to labor insurance, under the decentralization in China. Welfare regionalism in this research has three-fold implications. Firstly, it could be a peculiar social policy





process in China, in which the combination of local discretion and central government intervention has facilitated social insurance formation in China (Wang, 2008). And second, it is a de facto fragmented configuration of social insurance development at the local level of China, which hinders national proliferation (Zheng, 2009). Finally, it signifies a transformation of the welfare regime in China from stratification to regionalization, which underlies differentiated citizenship in China (Shin, 2009). The three implications are elaborated as follows.

In the policy dimension, it suggests that a decision by the central government to decentralize administrative authority produces local discretion that is properly keyed to local conditions. With such an administratively decentralized structure, “adaptive efficiency” can be achieved. Firstly, this policy model is of great potential to promote efficiency by recognizing local diversities and variations and acquiring bottom-heavy information (Chung, 2000). Secondly, social insurance in China is gradually improved by local trials and error at the least political cost, this is because this policy process successfully avoids large-scale cancellation once a local experiment has failed (Heilmann, 2008). As a consequence, local governments have greater autonomy and flexibility in carrying out the social



insurance policies, and this local discretion is institutionalized in an arrangement in China termed as jurisdictional management based on *hukou* (*shudi guanli*). According to the national social insurance regulations which came out in 1998 all enterprises within a given jurisdiction of the municipal government have to remit fees to that government rather than to the central government ministries, as had been the practice. The effect of the new policy is the social insurance pooling and the fund administration are localized. On the other hand, the central legislation sets a basic policy framework but leaves certain room for local governments to make detailed measurements. Hence, local governments possess large discretions in re-framing the social insurance policies (Zuo, 2003).

In addition, with intensified fiscal decentralization, the local discretions discussed above have transformed into significant intergovernmental devolution of authority, and thus have caused de facto fragmentation of social insurance at the local level in China. Based on a broad framework provided by the central government, provincial governments specify some principles, formulate some policies and transfer them to the municipal (county) governments for further deliberation. As a result, three or four layers of intergovernmental policy-making constitute the decentralized system of policy implementations in China (Zheng, 2009). In this



regard, the policy implementations are differentiated from each other at the local level. This constitutes a localized, fragmented but legalized social insurance system. This is welfare regionalism in China. On the other hand, the increasingly fragmented welfare regime in China requires a further look at the increasingly decentralized structure. Local governments are administratively obliged but generally lack the financial incentive to provide public goods. More specifically, while the tax-sharing system reform has recentralized revenue assignments, its asymmetrical structure means the fiscal-administrative responsibility is shared between the central and local governments (Peng, 2011; Lu, 2011). In the realm of labor insurance, local governments tend to be local protectionists in nature, and thus creating fragmented and localized welfare regimes bringing obstacles to the national proliferation of labor insurance.

Furthermore, regionalism suggests a paradigm shift from stratification to regionalization in welfare research in China. Discourse of the welfare regime in China has long been dominated by occupational stratification, in which workers' welfare provision is highly linked to their occupation division. Meanwhile, an inter-occupational welfare regime has been exerted as a mechanism of social exclusion to reinforce the existing occupational stratification, with pension as the



most prominent case in China (Yang 2005; Tan 2011). Under the “state-led model of industrial achievement”, the overall configuration of welfare institutions in urban China today can be characterized by “one nation, three systems<sup>44</sup>” (Frazier 2006). To tackle the problem, the critical issue here is to extend the social rights to the disadvantaged labors in order to narrow the gap among the occupations (Yang 2005). Nevertheless, a more dynamic trend, spatial boundaries of social insurance, has gained considerable attention recently. These emerging spatial boundaries suggest that, on the one hand, Chinese citizens in different territories are entitled to different welfare provisions; on the other hand, this constitutes as an exclusive/incorporation mechanism to provide different institutional treatments to local workers and migrant workers (Sonliger 1999; Shi 2009). Both fragmented configurations have hindered national efforts of policy integration, which is necessary to ensure jurisdictional justice that citizens across the territories in one

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44 Three broad segments of population live under distinct welfare regimes. China’s present welfare regime is a work unit based system, communist party members and government officials numbering 10 to 11 million enjoy generous benefits ranging from free healthcare to full pension at the taxpayer’s expense (Frazier 2006). Similarly, roughly 64.5 million urban workers from state-sectors are obliged to join social insurance schemes financed through payroll deductions, due to the compulsory legislation of the legal code. For the roughly 125 million urban workers in non-state-sectors, including private enterprises, multinational enterprises, etc., they are nominally covered by pensions, healthcare, and other welfare protection. At least 250 million rural workers in urban areas are literately incorporated in the welfare system, but generally are placed in an inferior position with lesser benefits than those granted to locals, some continue to be totally excluded from

most urban welfare benefits.



nation should be entitled with equal welfare provision. Wu (2011) describes this welfare regionalism as differential citizenship:

*Citizenship in China is not a concept of universalism; it is characterized by regional segmentation, hierarchy, and differential rights. This citizenship regime is shaped by a series of formal and informal institutions, which are created by the nation, including central and the local governments. (Wu 2011: 65)*

***National Citizenship and Local “Residentship”: An Ongoing Welfare Debate in China***

This research has argued that, instead of national citizenship (*guojia gongminquan*), welfare regime in China is measured by local residentship (*difang shiminquan*). In the development of the welfare state, especially important were the contributions of T.H. Marshall to the concept of “citizenship”. Social citizenship came as welfare rights and the state is required to guarantee a secure level of welfare provision to the citizens according to the standards prevailing in the society (Marshall, 1963). However, the emerging welfare regionalism in China has claimed the “local residentship” instead of “national citizenship”. As



suggested by local residentship, welfare rights are realized by local governments, that citizens (*hukou*-based) within a given jurisdiction are entitled with some welfare provisions, whilst workers outside this region are not entitled. Within such a large country with uneven pace of development, fragmented “local welfare state” is highly related to the unbalanced local economic status, local fiscal capacity and local resource. At the same time, local residentship is further solidified by the decentralization trend, with the diminishing role of the central government and enhanced local capacity. With regard to the role of the central government, it is almost impossible for the central government to make specific policies in the national regulations since each locality has its own economic and demographic landscape. With enhanced local government capacity, the preceding chapters have demonstrated that, the local governments of the coastal areas of China have different social insurance policies under the logic of local protectionism. In this process, local interest groups have been nurtured which further solidify the localization of welfare distribution. Contrary to the notion of national citizenship, local residentship has become an ongoing welfare debate topic in the new welfare regime of China.

Migrant workers feature in one of the most prominent debates regarding “local



residentship” since they are treated as outsiders in the cities they live in. The migrant working class is created by a dual process of restructuring the division of labor in world production and massive population migration in the era of economic reform. There are two debates regarding the issue of welfare provision to migrant workers. One is related to the longstanding *hukou* system, migrant workers are perceived as residents of the flow-out cities, and thus are not entitled to enjoy the welfare provision in the flow-in cities. Still, their welfare right in the flow-in cities is doubted due to their non-permanent resident status instead of “residence”. The other one is, from the standpoint of welfare rights, migrant workers have made a large contribution to the flow-in cities and thus deserve decent welfare provision. The logic behind this is that, since the local governments have used these cheap labors, they have to provide welfare to these migrant workers. Among the two justifications, the latter is gradually recognized by the central government. In the very recent years, the central government has issued some policies and demanded that local governments improve migrants’ welfare conditions. Yet, the migrant working class continues to suffer from the rural-urban division, without local registration (*hukou*) in the cities they live in, they tend to be excluded from most urban welfare benefits. Solinger (1999) described this great demand for welfare rights in urban China of the migrant



workers as “contending the citizenship in urban China”.

Local residency is prominent in welfare regions of China. The local governments tend not to provide completely equal treatment to the migrant workers as they do local workers, and they utilize institutional devices with a priority of serving local residents. In Wenzhou’s case, urban protectionism is straightforward, migrant workers are excluded from the urban welfare regime. In Kunshan’s case, though the local government has ostensibly incorporated migrants into the urban citizenship regime, it has provided better financial subsidies to the local residents covered by the local schemes which are not granted to the migrant workers. In some other coastal cities, though the migrant workers are also incorporated into the urban welfare regime, they are relegated to a position of inferior citizenship when compared with local residents. Furthermore, a pattern of incorporate-to-discriminate has emerged in that local governments utilize the young population structure of migrant workers to compensate the elder local residents in welfare spending. With the enhanced local state capacity, local governments tend to focus more on the interest of local residents rather than outsiders.





National citizenship stipulates that residents in a locality are entitled to equitable access to welfare, whether in the flow-in cities or flow-out cities. That is to say, the central government is required to ensure baseline equality. The existing literatures have put much focus on the welfare provision in the flow-in cities, but shed little light on the welfare provision in the flow-out cities. When we further explore the structural reasons for the emerging migrant class, it seems that the lack of basic livelihood security in the flow-out cities is a push factor. In other words, our policy designers shed little light on the welfare rights in the flow-out cities. Beyond the migrants, the welfare right is not merely equitable access to welfare, but also freedom of choice. It seems that it is meaningful to discuss the true integration of migrant workers into local communities; otherwise, blindly integrating the migrants into the urban regime would only aggravate the “illness of the city”, leaving the vast less-developed areas an abandoned desert in the policy sphere.

#### 9.4. Research Limitations and Need for Further Research

For any research, we are bound to find limitation of the research projects.

Likewise, the present research also has some limitations. At the same time, the



process of posing and answering particular research questions typically generates more questions that need to be explored through further research. The following would discuss the major limitations.

Firstly, the extent to which the findings of this research can be generalized requires further investigation. Since this research primarily focuses on coastal regions of China represented by nine cities, in particular, choosing Kunshan and Wenzhou as case analysis, reference to other settings may give different results regarding local social insurance policies. Within such a vast area, there is great regional inequality. This research has demonstrated that in the coastal well-developed cities, expansion of social insurance mainly depends on the initiation of the local government and influenced by the local industrial institutions; whilst in the inner and western space in China, the central government may exert more influence in the expansion of social insurance owing to fiscal transfer. Hence, my future research would focus on the extended investigation of other regions in China .

Secondly, preliminary verifications showed one limitations of this research regarding the fs/QCA mythological issue with nine cities. Firstly, because of time



constraint, the researcher was not able to build a more systematic dataset. If the samples could capture whole coastal regions or even all cities in China, the results would be more convincing. Secondly, panel data is a good alternative method in trace the regional social insurance development. Unfortunately, in China there is a lack of panel data in the welfare development issue. In this regard, more effort is needed by scholars in this field to establish a panel data set. Last but not least, limited by its research scope, the researcher just collected the data of social insurance coverage. However, regional varieties of social insurance implementations should be measured by social insurance coverage, contribution rate and benefit replacement and these three indicators intertwine to capture different treatments of local residents and migrant workers among the localities. My future research would try to overcome this limitation and expand the operations of regional varieties of social insurance implementations.

Thirdly, the policy process known as “black box” in China makes it difficult for researcher to uncover the whole story, and thus the viabilities of the information are slightly diminished in this research. This is an especially serious limitation for a postgraduate student without solid endogenous network with the local governments. More specifically, it was difficult to build trust with the local



officials. Thus the researcher has faced problems in approaching the key policy makers, and requesting data from local officials who would conceal “valuable” information on the grounds that the data is state secret. This is particularly true in data collection, since local governments are almost reluctant to release their first-hand social insurance data without masking. With assistance of friends, the researcher got her hands on parts of preliminary social insurance data directly from a Wenzhou social insurance agent, and saw gaps between these first-hand data and yearbook data. In other words, the performance of local social insurance implementations in reality is not the same as that published in public records. Researchers who endeavor to research this area are recommended to spend a longer time communicating with local officials or chose sites where they have a strong personal network.

Finally, the present research has scant focus on other policy stakeholders in the policy implementations. Compared to the western countries, decentralization and policy implementations are far complex in China, and the present dissertation cannot unveil the whole story. Owing to the time constraint and chosen scope, the present dissertation focuses on the horizontal perspective by examining a simplified stakeholders’ interaction of the local employers and the local



governments. However, it doesn't mean that other policy stakeholders are not important. My future research would try to reach upon other policy stakeholders, such as the central government, the provincial governments, different departments of the local governments and the labor unions.



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# APPENDIX A LIST OF INFORMANT

Wenzhou		
Interviewee	Code	Position
Local official	#2070201	Deputy Director Human Resource and Social Security Bureau
	#2070202	Section Chief, Social Insurance Office Human Resource and Social Security Bureau
	#2070203	Former Director Human Resource and Social Security Bureau
	#2070204	Section Chief, Labor Inspection Team Human Resource and Social Security Bureau
	#2070301	Staff Member Labor Inspection Team of Lucheng District, Wenzhou
	#2070302	Clerk Labor Inspection Team of Lucheng District, Wenzhou
Employer & HR manager	#2070401	Employer Local private enterprise
	#2070402	HR manager Large public-traded enterprise
	#2070403	HR manager Foreign-invested enterprise
	#2070404	HR manager Large local enterprise
	#2070501	Employer Local private enterprise
	#2070502	Employer Local private enterprise
	#2070503	Employer Local private enterprise
Workers	#2070601	Migrant worker
	#2070602	Migrant worker
	#2070603	Local worker
	#2070604	Migrant worker
	#2070605	Local worker



Kunshan		
Interviewee	Code	Position
Local official	#2071001	Section Chief, Pension Office Human Resource and Social Security Bureau
	#2071002	Section Chief, Healthcare Insurance Office Human Resource and Social Security Bureau
	#2071003	Section Chief, Labor Inspection Team Human Resource and Social Security Bureau
	#2071004	Deputy Director Human Resource and Social Security Bureau
Employer & HR manager	#2071101	HR manager, LT company Foreign-invested enterprise
	#2071102	HR manager, SH company Foreign-invested enterprise (Taiwan)
	#2071103	HR manager, M company Foreign-invested enterprise
	#2071201	Employer, LK company Foreign-invested enterprise (Taiwan)
	#2071202	HR manager, TK company Foreign-invested enterprise
	#2071203	Employer, ZG company Foreign-invested enterprise (Taiwan)
	#2071301	HR manager, LH company, Foreign-invested enterprise (Taiwan)
	#2071302	Employer, XN company Local private enterprise
	#2071304	HR manager, CJ company Local private enterprise
	#2071401	HR manager, ZY company Foreign-invested enterprise (Taiwan)

## APPENDIX B INTERVIEW QUESTIONS

### *For local officials:*

- 1 Please introduce social insurance development of your city.
- 2 How do you perceive social insurance development in this city?
- 3 How do you implement the labor insurances schemes of pension, healthcare, unemployment and workplace injury? And there is any social insurance policy for migrant workers?
- 4 What result has been achieved? And what are the difficulties in the implementation?
- 5 How do you interact with the local enterprises? How do you deal with fees-evasion activities?
- 6 How do you balance local interest and central government's task?

### *For enterprises:*

- 1 Please briefly introduce your company.
- 2 How do you perceive labor insurances? What kind of insurance do you prefer?
- 3 How do you implement labor insurances? What is the result?
- 4 Do you provide different welfare packages to the local workers and migrant workers?
- 5 How much does the social insurance occupy labor cost of your company? What about the affordability?



6 How do you evaluate the social insurance policies in this city?

7 How do you involve in the local social insurance policies?

***For workers:***

1 Are you understand social insurance policies?

2 How do you perceive the social insurance schemes?

3 Have you participated in the social insurance schemes?

4 (*for migrant workers*) How does the *hukou* relate to social insurance policies?

Any difference between you and local workers in the same enterprise ?

5 How do you bargain with the employers? How do you evaluate the local administration agency?

