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Master Thesis

Constrained or Beyond Path dependency:  
The challenge of pension system reform in China through the lens of  
Path Dependency

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**ABSTRACT:**

This thesis is attempting to analyze the main causes that shaped the Chinese welfare system in the way we see it today. In order to achieve this the author surveyed secondary literature on the topic and summarized the findings. The Chinese welfare system is relatively young, and most attention and political capital was generally directed towards the urban regions of the country. The fragmentation of the system is one of the main problems that impede comprehensive reform and are indeed a legacy of the previous choices of the central government.

**Key Words:** Chinese welfare regime, Chinese pension system, pension reform, path dependency.

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**List of Abbreviations:**

Basic Residents Scheme (BRS)

Defined Benefit (DB)

Defined Contribution (DC)

Five-year plans (FYP)

Pay-as-you-go (PAYGO)

Public Employee Scheme (PES)

State-Owned Enterprises (SOE)

Urban Employee Scheme (UES)

Varieties of capitalism (VoC)

## Introduction

The traditional mode of social insurance against old age risks has been primarily delivered through family and community care. Industrialization and development have presented challenges which traditional measures couldn't effectively combat and overcome, and new systems had to be put in place to compensate for the new realities.

In the case of China, the accelerating economic development following the cultural revolution and economic reforms aimed at restructuring the economy over the decades since has underlined the need to reform and update the social protection systems to support the population in an adequate manner.

Social protection is concerned with more than just worker's rights. Social protection encompasses the multitude of social safety nets and programmes that support the population, including healthcare, education, old age pension, long term support, and minimum income.

The first social pension that was introduced in China was an 'urban old-age insurance system' and dates back to 1951, the 'Labour Insurance Regulation' introduced by the Council of the PRC, and stipulated the fashioning of an insurance system that would protect industrial workers of the state-owned enterprises (SOEs) against illness, work accidents, disability, maternity, and old age. (Liu and Sun 2016)

Since the establishment of the 'Labour Insurance Regulation' and its dismantling in 1978, the development in the sphere of social protection in China has been nonetheless impressive. The central government has made multiple attempts to create different insurance schemes that cater to the needs of the population, however most of the effort has gone into insuring the urban workers and residents while side-lining the rural regions. Despite the fact that much progress has indeed been made, reform rollouts have been rather slow, especially when comparing the urban and rural reforms. The literature on the topic has identified a multitude of challenges which will be discussed in this thesis.

Many of the problems identified in the literature stem from the institutional inheritance of the Chinese social protection systems since the PRC's establishment, and some that are the fallout of the market reforms of the 1980's, and there isn't an easy and painless way to solve these problems.

In order to answer the research question of this paper, whether and how the Chinese pension system challenges the theory of Path Dependence, that is whether the Chinese pension reform is locked into a certain path and whether it can easily shift focus to a more 'efficient' track. First, it is needed to go over the literature on the structure of the Chinese pension system, identify a timeline of the reforms and point out the challenges of the system. To gain insight into the topic of pensions, it is perhaps useful to survey the literature on the typology of welfare regimes and functions of a pension system. Due to China's particular institutional makeup, however, the author believes that ultimately China cannot be boxed into a specific welfare regime type and is unlikely to fit into one in the near future, however, there seems to be some degree of distinguishing of specific features.

By utilising the theory of Path Dependence, the author then will analyse the degree to which 'the past choices have affected the present'. The analysis will focus on how the past policy choices have given rise to the current design and shortfall of the system, alongside with the typology of welfare state acting as a guideline for speculating the direction of possible future developments.

This thesis is structured in three parts, as follows:

The first part is the theory and methodology chapters. The 'Theory' chapter will be a summary of the theory of Path Dependence, a description of its' main characteristics that will be needed for the analysis section. The 'Operationalisation' chapter will focus on explaining the way the concepts of the theory can be practically applied in order to facilitate the goal of answering the research question of the thesis.

The 'Methodology' chapter will contain the description of the type of data, the way in which the data was selected, following that a subchapter discussing the limitations of this thesis and difficulties of data gathering that have been an impediment during the research process.

The second part of the thesis functions as a literature review. In the 'Background and Context' chapter there will be laid out a brief summary of the Chinese social protection system's history and some of the pivotal policies that shaped it. The chapter on the Chinese policymaking process is needed for context to understand how the legislative processes were shaped.

The next chapter will be presenting an overview of the three main Chinese pension schemes that, as of recently, offer coverage to almost the entirety of the Chinese workforce, as well as an explanation of the funding pillars of these pension schemes. Next, the chapter on the Challenges to China's pension system will outline the shortfalls of the pension arrangements, as an institutional or structural inheritance. Following that, a cursory explanation of the relevant theory on welfare regimes and the discussion on type of welfare state most suited to China's case will complete the Data Collection section.

The third part of this thesis will include the 'Analysis' chapter and the closing remarks.

### Problem Formulation

This thesis aims to find the answer to a two-pronged question. The first and main research question of this thesis is "How was the Chinese pension system shaped by the challenges it faced through the lens of path dependency?". In order to manage to answer it, however, we need to investigate:

What have been the contributing factors or obstacles that constrained China's pension reforms over the years and whether the China's welfare typology mix has had a significant impact?

## Methodology

This thesis consists of a literature review and an analysis of the data found through the means of surveying secondary sources. This thesis is based on qualitative data collection method, and the data gathering has been guided by the perceived relevance of the topics to be brought up in order to answer the research question adequately. The data was obtained through the means of desktop research, from the following online databases:

- Aalborg University Library,
- Google Scholar,
- Reports and papers written by international organizations or independent researchers.
- Official Chinese Yearbooks,
- China's State Council articles,
- Asian Development Bank yearly reports.

## Limitations

This thesis is relying upon data available online, published in English, which is an impediment to acquiring the most recent data available on the topic. As such, the author had to rely on studies made by researchers to execute the data collection for this thesis.

## Theory

### Path Dependency

For the purposes of this thesis, I will be utilizing the path dependence theory as a main analytical tool, thus I will be giving a short summary of the theory of path dependence and its core features and characteristics.

In basic terms, and as far as definitions go, path dependence can be explained as the past affecting the future, past choices constraining the choices an actor can make in the future. Path dependence is the equivalent of the chain reaction process in chemistry, except that it's native to the realm of social sciences and economics. For the purposes of this thesis, I will focus on political science definitions of path dependence.

Going along with the metaphorical comparison of path dependence and chain reactions, some mundane yet crucial distinctions must be made. The path dependence theory is focused on processes that occur in our history and society, and unlike in chemistry such processes take a long time to complete and are much messier and harder to control. Many social theories share this limitation amongst themselves as it is impossible to study society in an ideal environment, thus these theories cannot be fully applied to our current situation and it's more common to find examples of a deviation than of an ideal type in the real world.

The path dependence theory displays a few undisputable core features such as path dependency's reaction and counter reaction dynamics (Mahoney and Schensul 2011)(p. 455), path-dependent sequence events – self-reproducing dynamics (ibid. p. 456). A very important feature of path dependence is, what Mahoney J. and Schensul D. call, a 'temporal lag'. The effect of a given event might not be felt initially but becomes clearly visible at a later point in time.

The authors state that there exists an agreement amongst the scholars of social sciences that the widely used statistical methods and the method of analysis featuring the rational choice theory can divert attention from collateral historical events and skew the perception of causes of important outcomes (ibid. p.457)

The authors Mahoney J. and Schensul D. identify six 'potentially defining features of path dependent sequences'. Those being:

- a) The past affects the future.

Events that occur in the present are caused by the past ones, or as one might say 'actions have consequences'.

- b) Causal importance of initial conditions.

*'Initial conditions are the historically specific configuration of variables at the "beginning" – or perhaps even before the beginning – of a sequence of events'* - (Goldstone, 1998) as quoted in (Mahoney and Schensul 2011).

The initial conditions feature is referring to the circumstances that allowed for an unlikely outcome to come forth, although only in retrospective has that become evident.

There exists a debate amongst the scholars whether the initial conditions help to determine an outcome for a path-dependent sequence. Others argue that what really affects the outcome is the



immediate reaction following these initial conditions – the critical juncture. Initial conditions do not limit the range of future possibilities.

Critical juncture is a period when an option or course of action is chosen, and it guides all the subsequent developments in the chosen direction. Through this process the pool of possible future outcomes is narrowed. Thus, the critical juncture is considered a starting point for a sequence, while initial conditions are the basis for the sequence to take place.

c) Causal importance of contingent events.

It is disputed whether it is crucial for an event or factor to be ‘contingent’ and where is its’ place in a path dependent sequence. The choices made during the critical juncture are unpredictable and have a factor of randomness or luck associated with them, it can be a small or big event, and such an occurrence cannot be predicted on the basis of existing theoretical frameworks. Adding the factor of contingency allows for randomness to be operationalized, yet such a theory has very little predictive power.

Others reject the idea that contingency is necessary for a path dependent sequence. Some scholars fear that allowing for contingency brings in too much uncertainty and lets the chance have too big an impact in events. Thelen K., as quoted in (Mahoney and Schensul 2011) (p. 462) argues that most important political trajectories are not launched by an initial contingent event, and Schwartz doesn’t consider contingency at the beginning of a sequence a useful approach for analysis as it threatens to hide or mistype events that are otherwise important and systematic origins of institutional outcomes.

Yet, as (Arthur 1994) and (Pierson go on to describe, path dependence is characterized by:

- unpredictability,
- inflexibility – changing the path becomes increasingly difficult with the passage of time,
- ‘non-ergodicity’ – random factors don’t ‘average out’ over time,
- path inefficiency – the outcome might not be the most efficient from the available choices at the time.

Since all of the above are characteristics of path dependence, and contingency is a necessary condition for those characteristics to manifest, it stands to reason that contingency must also be a feature of path dependence.

d) Occurrence of historical lock-in.

The idea of historical lock-in is quite self-explanatory. Again, amongst the scholars there are those who are pro and who are against including this specific feature in their framework. The historical lock-in stems from a similar idea of the ‘past affects the future’, mainly that once a sequence is set off, and certain future choices become constrained, it becomes increasingly difficult to stray from the ‘predetermined’ path as time goes on. An example that is used to explain this phenomenon is called the Polya Urn example, in which a random early event leads to a particular set of outcomes, which is then stably reproduced over time. Although such pattern is often times observed in political sciences and real-world historical processes, in a broader sense, there still exist plenty of counter examples that show how situations can break out of a specific trajectory of development.

For this purpose, the presence of critical juncture is crucial as it is at this point that an actor can break out of historical lock in, break preestablished patterns of action.

The authors bring attention to the fact that some events have more impact and thus are more important than other events in a sequence. That is due to their temporal location in said sequence, mainly events

that happen early on have a significant influence on determining the direction of the path and contribute more to a lock in of outcome.

Against this deterministic backdrop, Thelen [464] introduces the concept of layering. By layering of (policies) outcomes gradually shift their developmental trajectories over a series of events, these changes then accumulate over time and can cause radical shifts in outcomes over a long period of time.

e) Occurrence of self-reproducing sequences.

As the name suggests, self-reproducing sequences are those in which a given outcome is stably reinforced over time. For example, increasing returns sequences are prominent in political science research, such as voluntary associations and economic development.

The literature suggests that increasing returns processes that are affected by path dependence have two possible end stages: forever increasing returns and equilibrium. The former implies that a probability of a given outcome to be reproduced will continually increase over time, while the latter implies that the probability of reproduction eventually reaches a threshold, beyond which the likelihood of reproduction doesn't increase any further.

Sociological approaches to analysis suggest several mechanisms of sustaining self-reproducing sequences, like functional, power and legitimation mechanisms.

f) Occurrence of reactive sequences.

Reactive sequences are those that are not self-reproducing, in those kinds of sequences the events are interwoven tightly, each event is a reaction to the previous one and a cause for the next one in line. Thus, an outcome is dependent on each prior event. As Mahoney describes [as cited 467] the "reactive sequence" as "chains of temporally ordered and causally connected events".

While a strong case can be made for the presence of such sequences in the real world, some researchers are strongly opposed to including reactive sequences as a criteria for defining a path dependent sequence. The reason being that allowing for a reactive sequence brings forth one too many variables to consider, besides the fact that those same scholars argue for contingency playing a major role, yet reactive sequences are by their nature deterministic, i.e., they "imply a deterministic chain of causation" that comes into conflict with the idea of unpredictable, yet plausible, events shaping the path.

These criteria are not exhaustive, and scholars disagree on their definitions of path dependence that relies on the presence or absence of the features mentioned above, thus there's no agreement whether a sequence must possess all or none or some features. And if the sequence must possess some of the features to qualify as a path dependent self-reproducing sequence, which one should those be?

Primarily, the researchers of path dependence in political science and sociology have focused on historical analysis to pay more attention to such variables as 'role of chance, agency, timing, particular events, and overall methodology of temporality.'

## Operationalization

Path dependency as an analytical tool allows us to examine the past occurrences in the light of the present events as we are now possessing a perspective of the past. Analysis of historical events is a matter of qualitative study, and thus, in order to be able to evaluate the data presented in the data collection section of this thesis, it is needed to define how the variables will be judged and evaluated against the backdrop provided by the theory of path dependence.

(Mahoney and Schensul 2011) have presented six ‘potentially defining features’ of the theory of path dependence that were summarized briefly in the theory chapter of this thesis. These features will be the metaphorical ‘goal posts’ used to measure the impact a sequence of events and reforms seems to have had over the present outcomes that have been identified in the literature review section.

Although all six of the features play a role in defining a path dependent outcome, the author will be selecting the reforms and historical sequences to be examined in the analysis chapter that are already compliant with the first of the six features of a path dependent sequence of ‘the past affecting the future’. The historical sequence will be evaluated on the basis of causal importance of initial conditions and contingent events, as well as whether or not there seems to have occurred a historical lock in. The occurrence of self-reproducing and reactive sequences however might not be possible to evaluate thoroughly, but nonetheless will be attempted if such an opportunity arises.

## Part II. Data Collection

China, as many other countries around the world, is experiencing a demographic transition. Low birth rates, alarming aging trends across the country and recent economic slowdown paints a stressful picture of the future of China, yet it is the reality that many people will have to navigate and make the best out of the circumstances they find themselves in.

The Chinese government has repeatedly declared their commitment to ensuring that the elderly have access to care services and are able to keep growing old and live comfortably in their later years. The approach taken by the CCP includes the development of a comprehensive social insurance safety net, informing people about healthy aging strategies, creating care centres, and expanding the scope of community-based activities for the older age group.

For example, in a study of China's Elder Care Policies through the method of narrative document analysis (Krings, et al. 2022) have examined the Five-year plans (FYP) from 1994 until 2020. What they have concluded is that the Chinese government has indeed taken steps to mitigate the impact of an aging society. The study notes that as the declarations show the central governments with the situation of the elderly and is encouraging them to increase their participation in the labour market, volunteer for causes, become more self-reliant. Over the years the FYP mention the need for the elderly to continuously engage in physical activity, the importance of filial piety and home-based care is underlined and to this day is, in fact, the norm in China. The FYP's promote healthy aging policies which aim to engage the older Chinese in the cultural lives of their local communities. (Krings, et al. 2022)

In their study (Krings, et al. 2022) note the remarkable progress that the Chinese government has made in the recent decades, as they have effectively found themselves in need of building old age care systems almost from scratch, and this process of building and implementation of the systems had to happen at a high pace while the capacity of these services would be continuously tested by the growing number of older people in need of such services over the coming years.

Today, the market of services for old age care constitutes a third of China's healthcare industry. The CCP has committed to creating numerous elderly care facilities and nursing homes, although the emphasis stays on home care. (Krings, et al. 2022) have marked that although the market is experiencing continuous growth, many of the services have high price points. The CCP has succeeded in raising a great amount of people out of poverty since the economic, and also have reiterated their commitment to handle the issue of elderly poverty with the China's Elderly Rights and Protection Law of 1996. Yet to this day there exist shortfalls in coverage, eligibility, and benefit level of the pension schemes, leaving many elderlies with limited access to services, if any.

In the 13<sup>th</sup> FYP, the Chinese government has stressed the importance of the elderly engaging in volunteering and has expressed support for the elderly to start their own businesses. All of these initiatives coupled with systemic efforts to improve pension coverage is telling of the awareness the CCP possesses regarding the demographic changes that are underway.

This section is organized as follows:

This section will present an overview of the Chinese pension system. It will talk about the reforms that shaped the social insurance system. We will then explain the particularities of the Chinese policy making process as it plays a pivotal role in shaping the Chinese policy across all dimensions. Then we will have a brief summation of the timeline of the pivotal reforms, following that the author will explain the structure of the Chinese pension system and a describe the functioning of the funding pillars of the pension schemes. The next section will describe the shortfalls of the

Chinese pension system as identified in the literature on the topic as they are rather features of the structural arrangement.

## Background and context

China's social security system is fairly young, and although the first social welfare system was introduced in the 1950's. (Singh 2019) admits that the setting of that welfare arrangement was highly stratified and gave preference to certain occupations and locations of the country, mainly in the urban areas, while excluding the rest of the Chinese population. However there still existed some systems of support for the rural residents. Predominantly the support came from the rural communes, i.e., collective farms, and the rural residents that didn't have a family that could take care of them were afforded a modest support, called "The Five Guarantees", which provided food, clothing, shelter, medical care, and funeral services. (Williamson 2017)

(Singh 2019) explains that these kinds of arrangements like the "iron rice bowl" and "cradle to grave" have drained fiscal resources and have had a negative impact on labour incentives. Thus, from 1980's onward the central government has stressed that the aim of social policy is to assist productivity. As (Williamson 2017) explains, this meant that the care for the most vulnerable became once again the responsibility of the family unit, and until the recent reforms the rural population wasn't covered by any form of social protection.

The Chinese social protection system is still in throws of development, experiencing growing pains as the country is facing demographic and economic challenges as a developing economy with shifting demographic realities.

As mentioned above, the history of the modern Chinese pension arrangement starts back in 1951 with the passing of the 'Labour Insurance Regulation' bill.

Starting with 1978 with the adoption of the 'opening up' policy, as (Liu and Sun 2016) describe it, 'a recalibration of the economy' has occurred, by which started a process to rework the Chinese economy in order for it to better fit into the capitalist realities of the world. Under the new reforms the SOE's have taken up a more independent role and have at that time been made responsible for the pay-outs to their retirees, which as the authors admit, the SOE's couldn't deliver, and in consequence the end of that decade was marked by social unrest. Alongside the economic reforms, according to (Yang 2021), the central government has been pushing for social security reforms as a key component of economic development.

As (Singh 2019) explains, the authoritarian regimes tend to use provision and expansion of welfare, as a tool to consolidate state interests. In his paper comparing the process of pension reform in China and Russia, (Remington 2019) comes up with insightful observations. First of all, the author characterises the Chinese policy making process as preferring a layering pattern of change. This pattern is characterised by creating policies that supplement the old policy. Reform in China also has a starkly incrementalist character to it, as combined with layering, sets of rules build atop each other, rather than displacing the old ones.

### The Pension Reform Process

As (Remington 2019) asserts, the Chinese pension system started off as a contribution based social insurance scheme for urban workers, and as time went on new schemes kept being added in parallel, extending pension coverage to urban and rural residents, urban residents who are self-employed or public sector employees. The schemes were a combination of individual notional defined accounts pulled at a regional or local level from employers and employees alike. The specific makeup of each scheme differs slightly from local government to the next, but in essence all of them are contributory social insurance plans to some degree.

The local governments and their officials have a high degree of deliberation and possess strong competitive spirit which plays a role when it comes to designing policies, and (Remington 2019) claims, it is a common practice to invite international expertise. That was especially the case when the Chinese governments and specialized institutions and working groups were designing the pension programs. Thus, as (Remington 2019) describes, in the early 1990s the so-called “liberal” and “socialist” blocs have had a serious disagreement over the way in which the social insurance fund must be pooled. The Ministry of Finance and several other specialized working groups have been pushing for individual accounts while The Ministry Human Resources and Social Security was advocating for social pooling. There was a big debate over what should be the preponderance of one style of funding over the other and as the ministries and the working groups that were looking into the issue as they couldn't figure out a compromise the State Council make the decision to let the local governments choose 1 of the two proposed models.

As the ministries and the governments couldn't agree on a single arrangement, the State Council has adopted the pension arrangement promoted by the World Bank, in the style a three-tiered system. In 1997 the World Bank issued a report which the central government has been using as a guideline to develop comprehensive social insurance coverage for the urban workers. As such (Remington 2019) asserts that the World Bank didn't not in impose its three-tiered model in China and that in fact it was the initiative of the Chinese policymakers to rally behind the World Bank model. The problems with this arrangement have started from the stage of implementation, according to (Remington 2019). In order to meet their current pension obligations local governments had taken money out of personal accounts to pay out the benefits to current retirees. To this day the provinces from the Northeastern Rust Belt region consistently run deficits.

The Chinese government has implemented several different pension schemes targeting specific cohorts of people, and as (Remington 2019) asserts the Rural Pension Scheme follows the reform path of the Urban Worker Pension arrangement with great faithfulness.

The distinct characteristic of China's policy making process is that it values and invites international perspective and expertise allowing for a wide range of information to facilitate the best course of action for the central policymakers. This fact facilitates easier replication of policies at the local level and allows for adaptability across the regions of the country. As a result of China's specific policymaking profile, the local government leaders are seeking support from the locals and then go on to promote their initiatives at the central level. As consensus is the aim in central government policy negotiation, such an arrangement that allows for multiple parties to be involved means that every vote matters, and the right to veto is making it very difficult to overturn decisions that would go against the consensus. (Remington 2019) underlines the importance of the head of the state in the matters of policy development, however he notes that over the years and with the change of leaderships the policy path has remained steady towards economic development. (Remington 2019) then concludes that considering China's political features the country is well prepared to respond to the economic and demographic pressures of an aging population.

We turn towards the widespread critique of the Chinese pension system that although there has been achieved an extensive level of coverage over the pension arrangements, there are still big questions of

sustainability left to solve and the issue of the low benefit levels, specifically for the rural pensions, as (Remington 2019) claims that the issue lies with the political rivalry and not fiscal inability to fund those pension pools. Remington explains that the Ministry of Finance still opposes common pooling at the provincial level and is still against a unified pension system advocated for by the Ministry of Human Resources and Social Security. The heads of the local governments refuse to pull their pension funds at the provincial level as the Ministry of Finance is averse to any reforms that could disjoint the link between contribution levels and benefits, the argument employed by the Ministry of Finance is that if a well off provincial government takes on the responsibility for the poorer regions, there is a strong risk of moral hazard, meaning that the poorer regions might engage or become subjected to economic risks in an intentional or careless manner. Either way that would impose strong moral hazard on the parties involved as in this case the responsibility of solving the issues and covering the expenditures would fall on the shoulders of the richer regions.

As there isn't a strong will to overhaul the pension system, the social security arrangements will remain to be fragmented for the foreseeable future with minor improvements, amendments and policies being layered on top yet no paradigmatic shift for the time being.

As (Remington 2019) explains, “both institutional and non-institutional circumstances constrain policy choice”, and a great impediment to the Chinese pension contribution pooling has been the inability of the local governments to demand and enforce strict compliance with contribution requirements towards the pension pools on the part of employers and employees. Remington identifies that China's path has been one of adding on new programs until the pre-existing ones rather than shifting the gears and unifying them all at the national level.

### The timeline of Social Security reforms

As (Yang 2021) explains, China's first pension scheme launched in 1951. It was an enterprise sponsored public pension scheme and as the Chinese pension entitlements are tied to employment, same as are other types of social benefits. (Remington 2019) posits that amongst the main beneficiaries were urban industrial sector workers and government employees, the system tended to exclude most of the rural population. At the time the great majority of Chinese people lived in the rural areas, the share of rural residents was around 80 to 90% of the total Chinese population, China was also a developing country with a predominantly agrarian economy, thus by 1989 seven percent of adult population in China participated in a public pension scheme and by 1986 there was a new reform which introduced a defined benefit pension that was administered by municipalities but financed by enterprises. As the enterprises started to dodge their obligations for contributions, that arrangement ran into deficits.

Since the turn of the century the Chinese central government has put in great effort to mitigate the demographic shifts that's the BOAI coverage that was expanded to multiple cohorts across the country and by the year of 2005 the coverage has reached urban workers and those who are self-employed.(Yang 2021)

In contrast to comprehensive coverage and substantial benefit levels in the urban areas the rural pension arrangements have left coverage voids. In response the Chinese government launched a new stage of reforms and in 2006 the CCP proposed to establish a universal Social Security system for Urban and Rural Residents. In the following years several new initiatives have been launched, amongst them the new rural social pension scheme was established in 2009.

Following that the social insurance law which stipulates that migrant workers with a rural hukou are to be given equal treatment as urban workers after a minimum of six months of residing in an urban area.

Then in 2012 a new scheme which this time targeted urban unemployed residents, called the Urban Residence Pension Scheme, was merged with the New Rural Social Pension Scheme, and was later reformed to be The Urban and Rural Residence Pension Scheme by year 2014.

Thus, in 2015 the public employee pension which previously was fully funded from the budgets of local governments and offices without the employees needing to pay any sort of contributions has been merged into the basic old age insurance to be subject to similar laws of benefit contribution and compliance as the other schemes.

In 2014 the New Rural Pension Scheme was merged with the Urban pension scheme, thus achieving near universal pension insurance coverage. While the breadth of the policy is wide, the benefit level is shallow.

### Explaining the pension schemes

There are three public pension schemes that are in use these days: the Urban Employee Scheme (UES), the Public Employee Scheme (PES), and the Basic Residents Scheme (BRS). The oldest public pension scheme, the UES, was created in 1997.

As (Wong and Yuan 2020) recount, after the basic framework of the Urban Employees scheme was set in 1997, the financing of pensions was passed on from SOE's to pension pools at city and county levels. Although the UES is a national pension scheme that is directed by the State council and administered by the Ministry of Human Resources and Social Security, de facto, it is managed by the city and county governments, which creates issues of fragmentation. Due to differences in economic and demographic realities at the local level, the decision to let the counties and cities finance and decide the benefits levels in individual manner has led to variance in contribution requirements of eligibility to receive a pension, which ends up affecting the pension expenditures as well.

The establishing document of the UES, called "Decision of the State Council on the Establishment of a Unified Basic Old-Age Insurance System for Employees of Enterprises", includes the decision to create a "three-part pension system". First, a Defined Benefit (DB) plan – the "Basic Pension" funded through enterprise contributions alone, second - a Defined Contribution (DC) plan that draws from employer and employee contributions, and third - a voluntary private pension plan which is simply individual retirement savings.

Although, until a couple years ago there wasn't much progress made on the third part of the pension system, however just last year the China Briefing has reported on the new decision by China's State Council which announced a new private pension scheme that would allow citizens to make voluntary deposits and invest in financial products. (Huld 2022) According to the article, financial regulatory authorities have yet to determine the institutions and products allowed to operate under the new scheme. According to the document "Opinions on Promoting the Development of Personal Pensions" (Office of the State Council 2022) released by the Chinese State Council, various government departments are called upon to "formulate relevant guidelines and regulations to facilitate the growth of the industry."



The UES only covers city dwellers, it has enrolled almost 500 million urban workers and in total the Basic Endowment Insurance has over 1 billion participants as of the year-end of 2021. (24-25 Basic Statistics of Social Insurance 2022)

The PES, as (Wong and Yuan 2020) explain, is a transitional scheme. The aim is to integrate the public employee's pensions into the UES, as before 2015, when the scheme was first launched, the public employees have been enjoying a special status by which their pensions were funded on a pay-as-you-go (PAYGO) basis, with funds coming from the budgets of public institutions and government agencies. That meant that the public employees weren't paying any sort of contributions while still enjoying retirement benefits in the amount of 80-100% of their final salary. As the total sum of benefits of the public employee's pensions crept up, it eventually reached almost double of the pensions granted through UES.

Ultimately, (Wong and Yuan 2020) clarify, the goal of the PES is to integrate the public employees into the UES and have them be subject to the same set of rules as the participants of the Urban Employee Scheme. The authors of the paper note that while the transition is being handled the management and financing of the PES remains separate from the UES.

The Basic Residents Scheme (BRS) is described by (Wong and Yuan 2020) as a residual pension scheme that achieves to cover the greatest amount of people. BRS was designed to incorporate the New Rural Pension Scheme and the Urban Residents Scheme, so as to provide pension coverage to urban and rural residents without formal employment as well as migrant workers. On top of that, the enrolment in the scheme isn't compulsory, yet it functions as a default choice of a pension insurance scheme for many migrant workers that are not eligible for UES, the drawback being that this scheme provides the lowest amount of monthly benefits. The BRS is a scheme that is funded through government subsidies and personal contributions to individual accounts. While contribution to UES and PES is compulsory, contribution to BRS is voluntary.

## Challenges to China's pension insurance scheme reform

There exists an extensive amount of literature on the topic of challenges that can be identified in China's pension systems. While it is a functioning system that provides millions of people with a form of financial support, different regions of the country have registered varying levels of efficiency and success and a universal social insurance has yet to be put in place.

The literature indicates the most pervasive challenges to China's pension system are as follows:

- Fragmentation

The issue of fragmentation is one of the most evident problems when one starts to research the makeup of China's pension system. (Hong 2014) Although progress is being slowly made, where in small pension funds are being incorporated into bigger ones the issue remains as there are just way too many out there. From new pilot programs that are being designed to address the issue of disparities along the urban – rural divide, to the disparate setups in each county or city. As (Wong and Yuan 2020) put it the severe fragmentation of the system in presence of socio-economic disparities becomes a barrier to the free movement of labour inside of China. [Cai, Yong 2014] believes that the situation isn't going to change significantly in the near future, as beyond the issue of disparities in benefit

amount and contribution levels there exists a vast difference across provinces in the rules of the pension pools themselves.

Another issue caused by fragmentation is the administrative costs of running such a system. The price of running big administrative apparatuses as well as multiple smaller ones, have a cumulative effect of adding up the costs, the constant need for oversight and supervision of compliance creates a lag between decision making and policy implementation and causes inefficiencies. It also creates impediments on the user end, as researchers and citizens alike lack accurate, relevant up-to-date information. It hinders data gathering, accurate reporting and feedback loops that would go into the planning of future improvements.

(Wong and Yuan 2020) consider the core of the issue to be a conflict of responsibility at intergovernmental level. In their words, disjointed central policy making and pension pooling at the local level, combined with fiduciary management has caused problems of the moral hazard nature and agency issues.

As the management of such a system presents a challenge at best of times, there's a parallel issue of non-compliance. Such a system risks to exacerbate regional long-term inequalities (Cai 2014) and although the government has attempted to consolidate and integrate the pools at provincial level, it has found limited success. Burden sharing and redistributive initiatives don't seem to be enticing policy initiatives for many provinces, especially the rich ones, and today the topic of creating shared pension pools is not talked about much. (Wong and Yuan 2020) (Cai 2014) As (Wong and Yuan 2020) admit, be it due to the initiative being unpopular with the local governments or lack of funding, the effort to consolidate big pension pools has been stymied.

A feature of the Chinese policy making process is its' tendency to be incremental. As (Cousins 2021) explains, there exist a range of factors that affect the process reform. In his view, a paradigmatic shift in the policymaking vision is necessary to be able to solve the issue of fragmentation in a timely manner, however it isn't characteristic of the Chinese policymaking process. On top of that, ((Beland and Yu (2004) as quoted in (Cousins 2021)) assert that there exist a multitude of other factors that impede the implementation of paradigmatic reform, including decentralization of policy implementation and feedback issues.

Although the Chinese style of policymaking is not one that can be observed in the West, it has arguably been an extremely effective method of circumventing some of the challenges of the Chinese reality on the ground. As (Remington 2019) explains in his article, despite the degree of fragmentation of the pension pools there haven't been any policy reversals over the years. The Chinese policy making process, of the pension schemes specifically, is a continuous process of creation, refinement, and merging of said schemes. By casting a wide net to cover bits of the population and then later bringing them together under a bigger program has allowed a continuous reform process without causing big shocks. There can definitely be envisioned a future in which the pension system will be unified, or at least managed by a single governing body.

The UES is effectively a patchwork of thousands of pension pools, spread across the country, each having different demographic and economic conditions, with pension benefits also differing greatly across the provinces. (Wong and Yuan 2020)

- Problems of Compliance

In a fragmented system where constant oversight is challenging, many researchers have found a widespread issue of contribution underpayment from the side of employers, the underreporting of wages is yet another tactic used. Some companies can even resort to deliberately choosing wrong

basis for calculation of benefits, called imputed wages. (Wong and Yuan 2020) While the local governments are aware of the issue, and condone such practices, officials find themselves unable to do anything about the situation as the companies have the choice to relocate, a move that can negatively impact the fiscal base of the city or county. As there don't exist national quotas or regulations, the local governments are unable to enforce strict rules of compliance.

- (Un)sustainability (Chen 2016) (Cai 2014) (Hong 2014)

There have been written numerous articles and studies that examine the sustainability of the current Chinese pension arrangements. It is important to note that we cannot talk about one single pension system in the case of China and that there are pension pools which are doing great in current conditions and those which are doing poorly.

Yet still, the experts agree that many of the pension arrangements, that are not yet in a deficit, will start running out of funds in the coming decades. In fact, there have been found reports of 14 provinces that were running in deficit and required subsidisation back in 2010 (Fang and Feng, (2018) as quoted in (Wong and Yuan 2020) ). More recently, in data from provincial budgetary accounts (Wong and Yuan 2020) from 2017 have found that out of 13 provinces that reported their expenditures, eight have exceeded the spending limit in their local UES accounts, before receiving subsidies from the central government.

Another issue that is plaguing the social insurance system of China, and presents a worrying factor for the researchers, is the low retirement age.

As (Wong and Yuan 2020) explain, the increase in number of people aged 65 and over, and the predicted quadrupling of expenditures in the UES, as more people reach the retirement age in the next decades, will put the social system under great duress, signalling the necessity to reform the social insurance system with the goal of making it sustainable for the government to run it as the demographic changes run their course. The UES covers almost half of social insurance participants and is the most expenditure costly scheme of the social insurance systems in China. With the governments push to expand the coverage and improve social services, a praiseworthy and necessary improvement, the social insurance systems need to be designed in a way that makes them sustainable to run and that allows them to provide an adequate level of benefits.

In their paper (Yang 2021) goes over several challenges facing the Chinese pension arrangement. They start by recognizing the big gap in benefits among the different public schemes, as it is but a symptom of the inability to redistribute effectively.

As (Yang 2021) notes the formal sector pensions which are tied to employment causes greatest amounts of inequality through the basic income insurance or dibao, all the while the other schemes that target rural residents and the unemployed seem to equalize the income distribution in China. Thus, (Yang 2021) believes that equity-oriented policies which have indeed been recent government initiatives are a step in the right direction.

Particularly when focusing on elderly households the distribution of income is highly unequal. The crux of the matter is that urban social benefits are much more generous and progressive in contrast the rule, social pension schemes offer minimal benefits which consistently diminish as (Yang 2021) also explains that one of the main problems of China's public pension is its fragmented nature and instead of focusing on providing a certain level of income security or support the scheme is overly tied to pension contributions.

As the pension coverage increases however it will naturally lead to greater inequality and in the view of (Yang 2021) that would contradict the goal of social warfare transfers. This level of income

inequality has a rippling effect on the health disparities for the elderly in China, and although the URRPS has seen a great expansion and coverage it isn't very meaningful unless the benefit level meets a certain standard.

(Yang 2021) identifies that the current Chinese pension policy is mostly a Bismarckian model. (Hinrichs 2010) explains that the social policy approach to pension programming is centered around a main pillar which is financed through public contribution. The Bismarckian model is employment centered, while the benefits are derived from work and prioritize status maintenance rather than poverty alleviation. At some stage of development, as the author suggests, all Bismarckian system countries established a so-called 'floor' that offered a minimum of protection even for those who have not met the contribution requirements and couldn't qualify for a sufficient benefit. Traditional Bismarckian systems tend to have higher rates of income inequality amongst elderly since as quotes (Lynch, 2006) in (Hinrichs 2010) it is a natural consequence of their reliance on a single main pillar the primary goal of which is status maintenance.

Another challenge faced by China's pension system is the unsustainability. A lot of studies agree that in the near future the sustainability of the Chinese pension system is going to be put under question. As it is already the case for many regions that their pension schemes are running at a deficit before central government subsidies and the situation is bound to worsen as the rural regions continue to age and the young workers migrate to urban centers. (Yang 2021)

Ways to tackle this problem have been proposed alongside several initiatives, amongst which is increasing the retirement age and the contribution rates to the pension funds. Yet, increasing contribution rates might not be a feasible solution as the system stays fragmented and the governments maintain a high level of deliberation over their local pension arrangements.

(Kongshoj 2015) argues the declining generosity and adequacy of benefits has been tendency in social protection. The pension systems face problems of financial fragmentation and accessibility, and these issues are especially severe when it concerns the rural residents or those who are unemployed. The system is not only fragmented across smaller administrative units like provincial, regional, and local governments. The greatest divide is the separation caused by the urban rural divide and the hukou system. This fragmentation creates impediments in the administrative process, as it also limits redistribution effects of the programs and hinders accessibility and portability of the benefits across schemes as quoted (Zheng, 2009) in (Hong 2014)

According to (Kongshoj 2015) the greatest challenge to the Chinese pension system is the declining level of benefits and replacement rates. As the replacement rate for the Pension Scheme for Urban Employees has been falling there has sprung up a legitimate concern with the increase in relative poverty for the Chinese urban elderly. The financing issues of the pension funds are only made worse by the fragmentation of the local pension funds and without reform the funding gap will only widen. The wage in the fast-developing Chinese economy keeps growing, yet the benefit levels have not kept up, meaning that people that receive social support benefits have increasingly become poorer. The Chinese pension system is suffering funding issues which threatens the individual contribution personal accounts meaning that although the pension arrangements have been established and their coverage expanded, people still remain reliant on their family for social support or otherwise depend on themselves.

Aside from low level benefits the recipients for any kind of welfare subsidies including health, education, and housing continue to be relatively poor as well as face stigmatizing and alienating attitudes constant assessments that judge whether they are eligible for the support. Such an attitude is raised in order to render this kind of poverty relief support as the least desirable solution. The design of the scheme also excludes large cohorts of people in need who do still fall below the local income thresholds yet do not qualify for the support for one reason or another. (Hong 2014)

Although not explicitly in line with the ILO's social protection floor agenda the Chinese government nonetheless has made great progress in ensuring coverage and availability of protection to the most vulnerable. Improvements regarding the divisive nature of the hukou system have been put in place however there is still work to be done. (Hong 2014)

## Worlds of welfare

While attempting to analyse the Chinese welfare regime, scholars seem to be of the opinion that China doesn't have just a single welfare regime, but in fact it is comprised of several welfare arrangements across the nation. (Gao, 2012 as quoted in (Singh 2019)). Of all the challenges facing China's pension system the most pressing seems to be the rural-urban divide in welfare provision. In China the Urban welfare arrangement, including healthcare, education etc., is more akin to the makeup of a welfare state found in economically developed industrial states, all the while the rural welfare arrangement can be compared to a rudimentary welfare arrangement characteristic of developing nations.

Due to the style of governance in China, where the local governments have a high degree of deliberation about the type of policies to pursue and how to implement them, there exists an inherent conflict when the topic of expanding the state capacity comes up. As (Pei, 2006 as quoted in (Singh 2019)) asserts, any effort to expand the competence of the central government in the matters of pension welfare specifically, risks to be countered by a loss of control over the local governing bodies that are, and still would remain, responsible to deliver the services in the region. Thus (Singh 2019) believes that a push for expansion of competence from the side of central government has an inherent risk of diluting the state capacity. As (Frazier, 2010 as quoted in (Singh 2019)) has found, the increase in pension coverage has resulted in exacerbated regional economic inequalities, due to "[...] uneven regional social welfare coverage and pension provision [...]" (Singh 2019, 231). While there has been an effect on social risk mitigation, the study finds, the beneficiaries of such redistribution efforts happen to be mainly the urban pensioners.

Thus, while consolidation of the national welfare programs is an important step in ensuring equal treatment for all, the central government might be unwilling to overreach its' competence, just as it just might be unable to do so.

## Democracy and Capitalism

In order to thoroughly explain the theory 'welfare regime' and 'old age pensions' we must first review what *is* the purpose of these systems. At its core, a welfare regime's and a pension system's function is to redistribute resources. Welfare regimes are classified by the amount of redistribution they achieve and are also preoccupied with the degree of labour de-commodification they are able to achieve.

The author feels it is important to note that, as (Iversen 2010) writes in his chapter on 'Democracy and Capitalism', there doesn't exist a strong causal link between redistribution and democracy, and that data suggests that egalitarian societies are naturally better at redistribution than inegalitarian ones.

The way (Iversen 2010) sees it, 'The three worlds of welfare' by Esping-Andersen are an homage to 'the importance of multidimensional distributive politics' as each type of Esping's welfare regime is

associated with a tax-benefit structure. The social democratic type of welfare regime is the most distributive type. In it the 'progressive taxation is coupled with flat rate benefits'. The 'liberal' type of welfare regime is less distributive and mostly provides means-tested benefits targeted to the poor. In the 'conservative' type of welfare regime the type of occupation and amount of income are tied to one's benefits.

In the account provided by (Iversen 2010), Esping-Andersen makes an argument that the structure of benefits is associated with different social divisions and political patterns, and that these benefit structures, in turn, might be responsible for causing the social divisions and political patterns that the researchers observe. Esping-Andersen suggests that 'the structure of the benefit system reproduces the political support for each type.'

However, (Iversen 2010) notes that the welfare regime theory doesn't hold much explanatory power on its' own as it cannot explain the reason why these welfare regime types function the way they do. The researchers put forth hypothesis of why the types emerged based on historical analysis and observations, yet those theories are unfalsifiable and are descriptive in their nature.

Although there exist several approaches to explaining how the welfare regimes came about, the most well-known being through the use of power resource theory, the other being the approach of Varieties of Capitalism (VoC). However, as (Iversen 2010) admits all these theories are only conjectures and further historical research is needed, and the provenance of the welfare state phenomenon is beyond the scope of this thesis.

Before moving on to the overview of the literature on welfare regimes, the author thinks it would be useful to briefly go over the concept of social pensions and its' main aims.

Initially, as (Hinrichs 2010) explain, pensions spread throughout Europe as a response to industrialization and mounting social risk for laborers. In the beginning of the twentieth century, when the first pension initiatives began to be introduced, only select groups of people had the privilege to receive a pension after retiring, among them being public sector employees and white-collar workers whose employers would voluntarily offer private pension arrangements. At that point in time most of the labour force had to take care of their own wellbeing, health, and old age security. Amongst them, the blue-collar workers had to 'work until death or disability' ((Stearns, 1975:260) as quoted in (Hinrichs 2010)). In many developing African and Asian countries limited pension coverage is still the norm to this day.

In general, pensions perform several different functions:

- A. The aim of a pension system is to "[...] smooth consumption by transferring economic resources" (across stages) "[...] of an institutionalized life course". (Hinrichs 2010, 354-355)
- B. Pensions as annuities insure against biometric risk (outliving one's savings), insure against death or disability of the main earner in a family unit. (Hinrichs 2010, 355)
- C. They generally aim to alleviate poverty by paying out flat rate benefits to individuals above a certain age or those who are in a dire socio-economic situation. (Hinrichs 2010, 355)
- D. The objective of a pension system is to redistribute income. (Hinrichs 2010, 355)

### Welfare regimes

In talking about welfare regimes, we cannot go on without touching up on Esping-Andersen's 'The Three Worlds of Welfare'. His classification has gone through decades of criticism and reviews, however so far it withstood most of the criticisms directed at it, only needing to be expanded to include and account for other contributing factors and countries as case studies that break the mould. In its' essence 'Three Worlds of Welfare' present the reader with a model of three ideal type welfare regimes. The countries are clustered in 3 categories, judging by: their degree of decommodification,

their public–private mix and how these interplay with social stratification and socio-economic inequality.

Decommodification can be defined as a recipient not relying on the market for social service, social security, or social benefits, instead all or some of these things are granted to the individual by the government as an entitlement and/or a social right.

The so called ‘public-private mix’ can be better explained as “[...] the manner in which the major institutions guaranteeing social security – state, market and family - interact in the production of social welfare;” (Arts 2010, 570)

The last part is the stratification system that is generated by a country’s social policy and maintained by the institutional mix of the social institutions and organizations – that is, how much does wealth or socioeconomic status disadvantage a person.

As (Arts 2010) point out, Esping-Andersen argues that ‘the balance of power in a society’ is crucial to the way a welfare regime will turn out. In his later book Esping-Andersen would conclude that:

*“[...] the crystallization of welfare states into different worlds of welfare capitalism is best understood as the path-dependent outcome of political struggles and coalition formation at historically decisive turning points”*. (Arts 2010, 570)

Esping-Andersen would then conclude that the three worlds of welfare should rather be considered “[...] a clustering around three ideal-typical developmental trajectories” (Arts 2010, 571). (Arts 2010) explains that “welfare states with similar patterns of resource mobilization, dominant ideologies and political coalitions will have relatively similar institutional structure.” (ibid.)

There presently exist two groupings of welfare regimes based on their stage of development. The *established welfare regimes*, which are represented by Esping-Andersen’s original classification of countries with developed economies split into three ideal types, and the *emerging welfare regimes*, which have been added at a later date to Esping-Andersen’s original classification. The emerging welfare regimes extend their analysis to the countries with developing economies, including Eastern Europe, Latin America, and Asia.

Over the past several decades that welfare regimes started popping up in Asia, and while initially comparative welfare state researchers have been tempted to generalize all Asian emerging welfare regimes under the guise of a ‘Confucian regime type’, upon closer inspection it became evident that this statement doesn’t hold true for most of Asian nations. Instead, the researchers understood that needed to take Esping-Andersen’s approach and focus on “institutional traits, political structures and social outcomes” (Croissant, 2004 as quoted in (Arts 2010, 578)). Although the Asian welfare regimes have emerged several decades later than the European ones, the researchers believe that in broad sense, the Asian welfare regimes follow similar stages of development that the Western welfare states had to contend while their welfare regimes have been at a similar stage of development in the past.

The welfare state in East Asia, in general, is much smaller than its’ counterparts in the west. As (Peng 2010) asserts, the governments in East Asia tend to play a leaner fiscal role in financing welfare and social security. East Asian welfare states also tend to use social insurance schemes rather than universal national redistributive programmes, which can be seen as an impediment to redistribution efforts, as has been previously established, redistribution is one of the main preoccupations of a welfare regime.

The author explains that in East Asian setting the welfare has historically been delivered by the family unit. East Asian households are generally characterised by high household savings, households where

multiple generations cohabitate, and low participation rate of women in the labour market. Researchers take all this information as indicative of the fact that the responsibility for offering social protection falls to the family and households, not the state. The only exception from this pattern seems to be education, as East Asian governments allocate significant amounts of public resources to it. (Peng 2010, 657)

The case of China is generally disregarded in conceptualizations of the capitalist welfare state in Asia, as generally the researchers take the stance that any and all efforts to improve welfare system are happening due to the need of the authoritarian government to assert its' legitimacy.

The initial analysis of Asian welfare structures back in the 1990's has come up with several distinctive traits of East Asian welfare state evolution. The authors (Peng 2010) explain that most East Asian states share these traits, however these are just sweeping generalizations and, although in many instances the case of China has been disregarded, the author believes such general statements can still hold true for the Chinese case.

The authors identify:

1. A "tremendous emphasis ... placed on a 'common' Confucian heritage shared among East Asian societies". (Peng 2010, 657)
2. "The absence of a strong political 'left' in mainstream (Asian) politics". (Peng 2010, 657)
3. A 'productivist approach' to social policy development. Meaning that social policy reform is intended to promote economic productivity and not redistribution or social protection. (Holliday, 2000, as quoted in (Peng 2010, 658))

However, such a view of the social policy systems in Asia only serves to other these countries, and feeds into the kind of attitude that makes it seem like the Asian systems are somehow 'exceptional' and not affected by the processes happening in Western welfare states. Thus, the authors of the chapter "argue against an exceptionalist East Asian experience". (Peng 2010, 658) Instead, they have identified two broad patterns of social policy regime evolution in East Asia. The '*Inclusive social insurance*' model and the '*Individualistic social protection*' model. The author is interested in the latter one as China's classification falls under the 'Individualistic social protection' model.

As (Peng 2010) explain, under the Individualistic social protection model the workers and citizens generally live without extensive social safety nets. While the Chinese government has made great progress in expanding social safety net coverage for the population, the generosity of benefits on average is not that high.

In the view of (Peng 2010) when China has initiated economic reforms it prioritized industrial development in certain regions and coastal cities, skewing the funding distribution, the effects of which can be felt to this day across the provinces. Beyond that, (Peng 2010) identify that there exists a lack of social cohesion and solidarity, that has been crucial to the implementation and development of a welfare state in the West. (Peng 2010) assert that the Chinese society appears to be more tolerant to economic inequality, there appears to be higher support for policies aimed at improving 'competitiveness' than for policies promoting 'egalitarianism'. They argue that due to the fact that China hasn't experienced growth with equity, it has been locked into a path in which it becomes increasingly harder to pursue sweeping social policy reforms, compounding the issue that the national government has limited control over the implementation of policy reforms at local levels.



To this day (Peng 2010) asserts that the preferred mode of social protection, in China, Singapore and Hong Kong has been letting the individual to take the responsibility for mitigating their own social risk, as the Chinese citizens have been doing since the economic reforms of 1978, which only serves to exacerbate socio-economic inequalities further.

(Peng 2010, 665) concur that “the move towards individualized savings mechanism in China marks a change in emphasis in social protection, a move from the collective to the individual and from the public provision of welfare to protection through private means”.

The subnational variation across China makes local governments seem more akin to a local developmental state. In China local governments act like corporations that are managing state firms utilizing the tools characteristic of a state corporatist system by leveraging encouragements and limitations upon the private sector, as to exert a certain amount of control (Oi, 1999) as quoted in (Singh 2019).

Local government administrations have a specific type of competition they engage in against each other which results in increased experimentation and adoption of novelty reforms which allows for greater mobility for the migrant labor force. The hierarchical system surprise local governments with incentives to improve their performance. As a side effect this system incentivizes regions to focus on maintaining economic stability. This leads to less friendly ties with government businesses and by ext lower institutional capacity while the leaders of better off regions focus on economic growth which in turn improve the relations with state owned enterprises and improved control over local representatives. (Singh 2019)

#### China's Welfare regime type

As (Peng, 2010) and (Singh, 2019) seem to suggest the Chinese welfare regime has been disregarded from most studies on the typology of an East Asian welfare regime. There exist a multitude of classifications that can encompass some parts of the Chinese welfare system while neglecting the others. The literature seems to suggest that the Chinese welfare regime ‘defies easy characterization’. As (Singh, 2019) explains, the Chinese welfare type doesn’t conform to the usual ‘post-socialist retrenched welfare model’, while also not fitting into the three western types of welfare. In fact, due to its’ communist political regime China has even been disregarded from classifications of East Asian ‘capitalist’ welfare regime. The literature tends to include China into the emerging welfare state category, which is also the case for this thesis. In fact, the Chinese Social Security system has been described as an array of policies that is designed to absorb the loss of employment to is the burden for the most vulnerable members of the society and support short term relief and consumption rather than long term poverty alleviations (Cook, Kabeer and Suwannarat, 2003) as quoted in (Singh 2019). In the opinion of the Asian Development Bank China’s welfare type bears close resemblance to the conservative welfare regime.

The centralized approach which is a characteristic feature of the Chinese System has seen local governments actively adapting policies and measures that would promote their particular socio-economic needs as quoted (Leung and Xu, 2015) in (Mok 2019).

Regional inequalities coexist alongside with economic and social development (Cook 2011) as quoted in (Mok 2019) has identified that a complex geography of welfare regimes has emerged and displays

particular regional or local features leaving the local governments to handle they are complex makeup of welfare geography it depended on their capacity and willingness.

In summary the reason for disparity between policy targets of the central government and their implementation results are closely associated with welfare regionalism and thus local governments are responsible for their own welfare provision where the central government just maintains the most basic level of social protection for the citizens as local governments generally possess better understanding of the local landscape the needs and wants of their local residents and means that they are better prepared to allocate resources to meet these goals.

However, as (Mok 2019) have observed the social policies in China aren't implemented based on the citizen's social needs. Meaning that recent studies on welfare citizenship are you that such things as social rights are not well understood or embedded in Chinese society.

Several researchers however still believe that the Chinese government remains A productive welfare regime as local governments continue to prioritize economic growth over social protection (Leung and Xu, 2015; Mok et al., 2017; Qian and Mok, 2016) as quoted in (Mok 2019). The example the author provides is that when the performance of local officials is measured, it is weighted against the economic outcomes (Gao, 2015) as quoted in (Mok 2019).

In their paper examining the pension development between the Chinese and Korean pension systems the author has investigate whether the East Asian warfare model can adequately represent China and Korea (Xia 2015)

The future of the East Asian welfare model includes cultural factors like Confucian values, filial piety, and "social harmony". Some even claim that the East Asian welfare model is somewhere in the vicinity of the developmental or productivist welfare models as they claim that social policy is always subordinate to economic growth in the context of East Asian countries.

However, the need for social welfare in modern society is not something that can be put aside, and the Chinese government has grappled with the issue over the decades. Following Deng Xiaoping's ideas of economic development and boosting efficiency the central government has been focused on economic growth and it tended to tackle the issues of poverty through the means of economic development rather than through welfare transfers and because be BOAI has been dismantled during the Cultural Revolution it has left a cohort of elderly without any old age benefits. (Xia 2015)

Jian Zemin's administration has maintained their path towards economic growth however that came at the price of aggravation of the social problems that have been present for quite some time in the Chinese society. As a consequence of the one child policy that has reshaped the familiar structure of the Chinese people and after the majority of the young labor force left the rural regions to pursue better lives and employment in the urban areas that has left many elderlies without meaningful form of support in their older years.

### Part III Analysis

China's journey across welfare arrangements throughout its' long history has been quite turbulent. In the words of (Singh 2019) an authoritarian government that is seeking to expand social welfare provision is necessarily trying to consolidate state interests of is vying for legitimacy. In such an arrangement, welfare benefits are the payment for the population's compliance in political matters. Thus, proactively affording expansion of welfare benefits by an authoritarian government is also seen as a pre-emptive measure to stymie challenges to the regime's stability.

At the establishment of the PRC, China has had a comprehensive welfare system, but unfortunately the arrangement was costly and unsustainable and had to be abolished when the economic reforms of 1978 came along.

Since the 'opening up' policy current took hold, most of the social insurance systems in China were abolished, and it took well over a decade for some sort of comprehensive social insurance to be instated. Of note is that the government officials have been enjoying generous retirement conditions all throughout the years.

Thus, after the reforms from 1978 the Ministry of Labour and Social Security (1999) as quoted in (Singh 2019) has set the main course for the Chinese social policy as being rather a support for market oriented economic reforms whose aim would be to enhance productivity and ease social tensions.

The initial conditions of the Chinese welfare regime before the crucial economic reforms of 1978 when the old pension schemes were abandoned, seemed to lead China on the path of creating a comprehensive and generous welfare system, however such a system needs to be supported by a strong economic base which eventually has made it unsustainable to maintain, and was abolished soon after.

The critical juncture point in the history of China's welfare system the author considers the reform of the 1978, as it has effectively marked the end of the old welfare arrangements and their complete dismantling. Any social welfare developments have come as brand-new initiatives, building the system up from scratch. As (Xia 2015) explains, this has marked the beginning of the transformation of the Chinese economy from a centrally planned one into a liberal market based one together with reforms of the Social Security systems.

The contingent event of this reform then can be considered the shifting of the focus of the Chinese policy toward facilitating economic growth, productivity, and development, which to this day has a big influence on the decision-making process of the policy makers concerned with social welfare. Although, the central government has committed to expanding the scope of social welfare by increasing coverage and trying to basically create a pension arrangement with universal coverage, this commitment hasn't been reflected in the benefit levels, as they remain very low for BRS specifically. Increasing the benefit levels through different social assistance schemes however doesn't seem to be an effective strategy as there exists a stronger connection between occupationally related social assistance that lend themselves much better than the universal programs. and targeting policies. (ibid.)

As new pension arrangements have been established over the years for rural and urban residents and migrant workers, for urban workers and public servants, the local governments are treated as independent entities. The reform of 1978 has also allowed the local governments to keep a percentage of fiscal revenue, which has incentivised profit seeking behaviours in the form of establishing good relations with the local businesses. In this study (Singh 2019) has examined the preferential policy of

fund allocation between 1978 and 1994. He has found that as certain provinces were afforded greater benefits and economic subsidies, while others were not, there has been created a level of disparity in economic development between these regions that is evident to this day.

Singh (ibid.) asserts that this preferential treatment of provinces at a critical juncture point in history of the welfare development in China has created a historical lock-in effect, that manifests itself through the disparate level of pension provision. The preferential policy wasn't just distributed in form of subsidy money, it was a targeted and strategic plan to attract investment and develop the local secondary and tertiary industries, and the huge disparity has maintained to this day.

The government has proclaimed its commitment to delivering welfare for all, but the implementation hasn't been as easy. Due to the fragmented nature social system that has characterized the Chinese welfare and pension systems it has become increasingly difficult to unify the management and administration of the pension funds and pension pools across the country, while as has been said before, great improvements have been made over the last two decades and even a basic living standard insurance has been implemented, however benefit levels have remained insufficient. Due to the specific culture of the Chinese governance environment the local governments are given a breadth of competence, and that is unlikely to change.

Although uniting pension pools has happened before, there does not exist a will to share and redistribute the wealth amongst the regions even for the sake of supporting the most vulnerable. The richest provinces also seem to be the ones who are opposed to such initiatives the most.

The author considers that a certain amount of historical lock-in has occurred beginning from 1978, which over the past several decades has defined the current state of the Chinese welfare system as being consequently fragmented, across the smaller governmental units.

Although logically we would think of self-reproducing sequences as those reproducing good or positive outcomes, in the given context of absence of a centrally governed social security net, and a lack of will to integrate the future pension arrangements have to either be mandated by the central government in close collaboration with the local governments who have the knowledge and needed competences or let the regional governments develop economically in natural manner so that they could raise their benefit levels to an acceptable national level should one ever be established.

Considering the current situation, it seems unlikely that a unification of the social system will occur in the short to medium term. Another feature of Chinese policymaking is the fact that they prefer to layer policies rather than revamp the systems from ground up the Chinese policy making, and governance landscape is a mobile environment.

The resurgence of such concepts as the Confucian filial piety, the emphasis of the government on healthy aging, the establishment of elderly care centers and new programs that help engage the elderly into the lives of their communities is a deliberate choice on the part of the government. In the absence of better alternatives the preferred course of action seems to be an accent on letting people handle their own situations while trying to help out the most vulnerable members of the society the way it looks is that China will possibly be moving in the future towards a conservative type of welfare regime in the less developed provinces, as (Singh 2019) explains China should rather be compared to a union of countries rather than a single state as the wide intra-regional disparities are more akin to separate European or American states.

It isn't possible to predict the degree of economic development and thus a lot of social policy hinges upon the fiscal capability of a county yet there definitely is a strong will for expanding the benefits to

as many citizens as possible the government attempts to reach its goal of providing universal social insurance coverage to the population.

As (Xia 2015) explains the pension system development in China wishes to become a universal system, unfortunately however it followed a path of dual track development, a separate system for like urban and rural residents but mostly ignoring the rural areas and being pressured into prioritizing the urban working class due to the advocacy of pro-welfare state owned enterprises. The implementation of pension reforms at this point in time isn't motivated out of concern for inclusiveness and facilitating redistribution of income. (Xia 2015) explains that productive welfare state is the one that pursues welfare reform and expands the social security coverage to fulfill economic goals however that is not a feature of the post reform China in truthfulness the will fear reform has only happened one it was politically necessary and when it was deemed affordable (Ringgen, 2013) as quoted in (Xia 2015).

In their paper (Xia 2015) stresses that although concerns about sustainability of Chinese pension system are valid the central government of China should avoid falling into the trap of high benefits and low contributions model that has become an issue for the reform in Korea a country which shares a lot of similarities with China across multiple characteristics.

## Conclusion

The Chinese social insurance system has been shaped by its' not long but colourful history. Following the establishment of the PRC and the instating of the first kind of pension support for the population, even though narrow in scope, it has been the first stone that paved the way to where we are today. The Chinese pension system cannot be described as unreasonably generous. Considering the extensiveness of the urban pensions and the limited character of the rural support, the Chinese welfare type averages out to a conservative type of welfare state. The truly striking feature of the Chinese pension arrangement is the disparity across the urban rural divide. Due to China's specific policy makeup the local governments tend to have the greatest influence on the policies, their implementation, and the consequences for the people.

In attempting to answer the question of whether the Chinese pension reform path has been affected by Path Dependence and to what degree we can say that, to a certain degree there exist immediate consequences as a result of policymaking choices. Yet it isn't easy to judge how much impact the government decisions have over the overall structure of the system, as it is still in its' early days. However, what is undeniable is that the challenges that the system is combating to this day are the result of political moves, namely the delegation of autonomy and responsibility for policy implementation and promotion that has created the fragmented system. After the opening up reforms the central government judged that economic reform was more valuable than half realized control over remote regions of the country, thus a certain amount of autonomy was ceded from the central government in favour of support for economic development.

China seems to have several types of welfare regimes, alongside the urban rural divide. However even in the more developed regions of the country China's pension system doesn't strike as extremely generous, if not exclusively for certain cohorts of people. For the most part, China's welfare system seems to be quite scarce in levels of benefits, preferring to delegate the main responsibility of care to the individual, and in style of a Bismarkian pension model is interested in short term assistance, and 'status maintenance'.

The history of China's welfare development has been shaped by the economic reforms after 1978 as preferential treatment was afforded to coastal cities and southern regions of the country. The provinces that have benefited from selective investment policies and have had the chance to develop their industries and social security programs have a more developed social protection system in place. The same cannot be said about the regions that haven't been able to achieve significant economic success, which were also not given the same opportunities and funding for development by the central government. As China was chasing rapid economic development to achieve the fastest results, it has metaphorically put most of its' eggs in only a few baskets. In the future it would be needed to extend support to the lagging behind provinces in order to equalize economic development across the entire country.

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