
Journal of
Current Chinese Affairs

China aktuell

Topical Issue: Marginalisation and State Intervention in China
Guest Editor: Armin Müller

Stepan, Matthias, and Quan Lu (2016),
The Establishment of China's New Type Rural Social Insurance Pension: A Process Perspective, in: *Journal of Current Chinese Affairs*, 45, 2, 113–147.

URN: http://nbn-resolving.org/urn/resolver.pl?urn:nbn:de:gbv:18-4-9662

ISSN: 1868-4874 (online), ISSN: 1868-1026 (print)

# The Establishment of China's New Type Rural Social Insurance Pension: A Process Perspective

Matthias STEPAN and LU Quan

**Abstract**: This study explores the processes and outcomes of the public policy reforms from 2002 to 2014, targeting income security among the elderly for a segment of the Chinese population that was increasingly marginalised throughout the 1990s: the rural population. The authors reconstruct the policy process from 2002 until 2014 that led to the establishment of the New Type Rural Social Insurance Pension and assess its impact on providing adequate and sustainable old-age income. One particular focus is the study of the influence of international actors. Yet, as key to the success of the initiative, the authors identify the decisive support of the central level leadership, which facilitated the process by announcing a new development model and providing earmarked transfers from the central government. Despite the improvements in the income security of elderly rural Chinese, questions remain about the Chinese pension system's long-term sustainability and the influence of the system's fragmentation on social mobility and equality.

■ Manuscript received 18 July 2014; accepted 4 December 2015

**Keywords**: China, policy process, rural China, pensions

**Matthias Stepan** is the deputy director of the research area Politics, Media, and Society at the Mercator Institute for China Studies (MERICS). He is also affiliated with the VU University Amsterdam as a doctoral researcher. His research interests include governance in the Chinese context, and multi-level governance and social policy from an international comparative perspective.
E-mail: <matthias.stepan@merics.de>

**Dr. Lu Quan** is an associate professor at the Social Security Research Centre at Renmin University of China. He specialises in the policy-making process in China in general, specifically focusing on pension reform and the role of central–local relations in China's attempt to establish a nationwide, unified social security system.
E-mail: <hanluquan@126.com>

# Introduction

Providing adequate and sustainable pensions for its ageing population is one of China's main challenges. Despite major efforts in the 1990s to extend the coverage under old-age pension insurance programmes, the results up until the year 2002 were more than disappointing: less than 40 per cent of the urban workforce and only slightly more than 10 per cent of the rural workforce were covered. Efforts targeting those segments of the Chinese population that were increasingly marginalised throughout the 1990s – the rural population, rural-to-urban migrants, and urbanites without employers – remained ineffective. By the end of 2014, the numbers tell a different story. Whereas the number of participants in the pension scheme for urban employees remained rather stable, more than half a billion individuals were covered under two new schemes as of 2014: the New Type Rural Social Insurance Pension (新型农村社会养老保险, *xinxing nongcun shehui yanglao baoxian*; also known as the New Rural Pension Scheme, NRPS) and the Urban Residents' Old-Age Social Insurance Pension (城镇居民社会养老保险, *chengzhen jumin shehui yanglao baoxian*; also known as the Urban Residents Pension Scheme, URPS) – a pension scheme for individuals with urban *hukou* (户口, "household registration") who do not take part in the urban employee pension scheme. Among those, more than 140 million are already receiving old-age pensions (MoHRSS 2015). In 2014, the State Council announced the formal merger of the NRPS and the URPS, which had originally been established and run independently from each other (*Reuters* 2014). Henceforth, the scheme became known as the residents' social insurance pension scheme (RPS, 城乡居民社会养老保险, *chengxiang jumin shehui yanglao baoxian*). The extension of the coverage under the public pension system through two new pension schemes and their eventual merger constitutes a break with two legacies: 1) selectively providing old-age income only to employees in urban enterprises and individuals retiring from state and party organs, and 2) the strict institutional division between social policies for individuals in urban and rural areas.

In this study,[1] we explore the process leading to the establishment of the NRPS and coverage extension. Our leading research question reads as follows: *How can the establishment of the NRPS scheme be explained against the legacy of one-sided protection of urban employees and the dominance of family-based solutions for providing old-age income in the countryside?* Building on existing scholarship on pension reform and policy-making in China, we reconstruct the policy process leading to the implementation of the scheme and its current status. Special attention is paid to the influence of international actors. The period covered ranges from 2002 to early 2014. Using the method of process tracing, we select and analyse data to determine who the major actors pushing for the establishment of the new pension scheme have been, and what factors facilitated the success of the policy initiative. Last, in order to make a qualified statement about if and how the marginalisation of the rural population has changed, we provide statistical data on the adequacy of the levels of pension benefits and on the financial sustainability of the current scheme.

## Old-Age Income and Pension Politics in China

The absolute number and the relative share of China's older population has been increasing since the 1990s. According to our own calculations based on data provided by the United Nations (n.d.), the value of China's age dependency ratio – the number of dependent Chinese aged 60 years or older per 100 members of the working-age population (individuals aged 15–59) – increased from 14 in 1990 to more than 19 by 2012, and is still rising. These developments have called existing institutions for providing old-age income into question. How old-age income support is organised in China and the underlying principles are therefore highly relevant subjects.

Family support has been the main pillar of the old-age income guarantee in China for centuries. The institution of family security (家庭保障, *jiating baozhang*) is deeply rooted in Chinese culture. Lin names Confucianism as the core concept to understand the provision of welfare in East Asia (Lin 1999). He defines a "Confucian welfare

1 The research for this paper was supported by the Fundamental Research Funds for the Central Universities, and the Research Funds of Renmin University of China (No. 12XNK025).

cluster" grouping as South Korea, Japan, Taiwan, and mainland China in this category of welfare systems in which families are the first resort for support in old age. The state plays only a minor role, if any.

Striving for fast industrialisation in the late 1940s and early 1950s, the leaders of the Chinese Communist Party (CCP) at the time established a dualist system: First, state-guided efforts that assigned work units (单位, *danwei*) the task of providing old-age income targeted only urban industrial workers; in rural areas, family and kin, at times supported by the commune, remained the main provider of social welfare for dependent elderly. The second institution central for understanding public social policy in China is the household registration system (户口, *hukou*), which defines the residence of a person and attaches to it a rural or an urban status that cannot easily be changed. These early policy choices constitute a legacy that continues to shape both the administration and the thinking about the clear institutional division of social policies for the rural and urban population. Since the start of the transition period in 1979, these central institutions have come under pressure, and the government began searching for alternatives to provide for old-age income in the framework of its emerging market economy. The reform process, outcomes, and projections for the future development of the Chinese public pension system have turned into an object of interest for both Chinese and international scholars. One group within the Chinese labour force has received by far the most attention: full-time employees in urban enterprises. Reforms of the pension scheme for urban employees have been studied extensively since the early 1990s (Béland and Yu 2004; Frazier 2010; Hussain 1994; Lin and Zhang 2005; World Bank 1997; Zheng 2002). These publications consider the reforms of the pension scheme for these "urban enterprise employees" against the backdrop of China's transition from the planned to the market economy and assess the options for future directions. Despite urban enterprise employees constituting but a small part of the Chinese labour force, their scheme was often, though maybe not intentionally, presented as the defining representation of the Chinese pension system. Much less research has been conducted and published in English on rural pensions. Among the first scholars who lifted the question of rural pensions up to the same level as the one for the urbanites was Gong (2003). He analysed the developments in rural and urban areas jointly instead of treating them as completely unrelated policy fields. While rural pensions were a rather well-established field of study for Chinese scholars in the late 1990s, English-language publications focusing on the situation in only rural areas became more prominent throughout the first decade of the 2000s (Liu and Han 2010; Shi 2006; Zhang and Tang 2008). An increasing horizontal mobility in China and, especially, the question of social security for China's rural-to-urban migrants triggered research agendas on equity and equality in the Chinese pension system and sparked the interest of researchers and practitioners alike (Wang 2011; Zheng and Wong 2006). Publications on the pension income for the growing group of urbanites without employers are nearly absent. The World Bank publication edited by Dorfman et al. (2013) is among the first major publications that list them next to the schemes for urban enterprise employees and rural farmers.

Pension politics belongs to the wider field of social politics in China. It is one of the strategic policy fields for the CCP, as providing social welfare or income-replacement transfers are central to maintaining social peace and stability. According to Ngok (2009), the CCP has the sole authority to redefine the development paradigms to shape public policymaking and define major policy goals. Chen (2003) refers to the CCP as an authoritarian sovereign that shapes social policymaking. However, research in the late 1990s and early 2000s shows the clear limitations of the top leadership of the CCP to dominate social politics. The central–local relationship is now more salient to understanding social politics (Guan and Xu 2011). In their research on pension policy in China, Frazier (2010) and Lu (2008) stress the role of actors on different levels of government, especially the bureaucracy. Line ministries and local governments are linked to certain groups within the CCP leadership and have inherent interests as they compete over influence. What role civil society groups play, and whether their influence is substantially constrained, remains somewhat disputed (Mertha 2009). Additionally, the impact of public consultation on the policy process remains limited despite its increasing institutionalisation (He and Thøgersen 2010). Last but not least, the presence of international organisations as partners in reforming China's pension system shows that the policy process is no longer strictly closed to the outside world and that these organisations also comprise a part of the policy subsystem (Frazier 2010; Salditt, Whiteford, and Adema 2007; Stepan 2008).

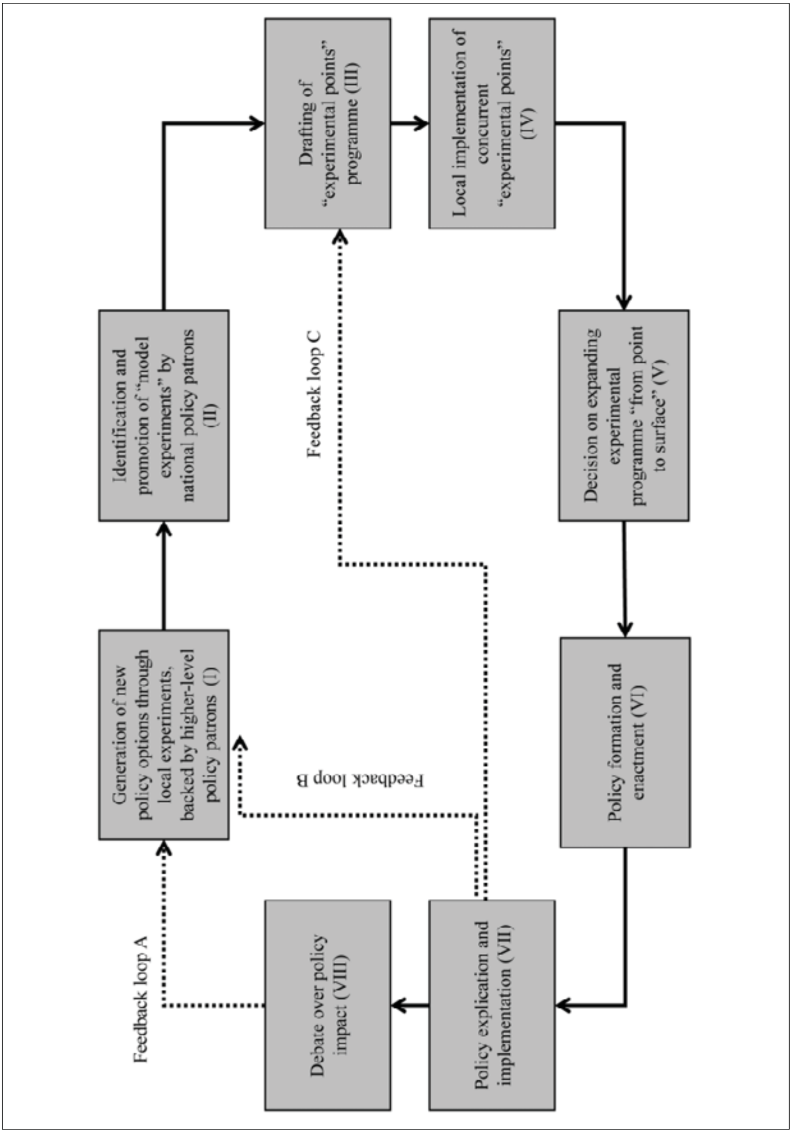
With this paper, we are contributing to filling two gaps in scholarship: first, the dearth of in-depth studies on the policy processes in the field of Chinese pension politics and, second, the lack of attention that has been paid over the past decade or so to the old-age income situation for the largest population group in Chinese society – those in rural areas.

## Explaining the Establishment of the New Pension Scheme and Coverage Extension

The establishment of the NRPS constitutes a policy change that brought with it a major coverage extension. *How can the establishment of the NRPS be explained given the legacy of one-sided protection of urban employees and the dominance of family-based solutions for providing old-age income in the countryside?* Research on the reform of social policies around the globe suggests that functional pressures alone cannot explain changes in public social policies (Hemerijck 2013). Instead, it is imperative to understand the interactions of different institutions and groups of actors, along with the role of ideas when explaining a certain policy process and outcome (Vanhuysse 2009).

This study is an in-depth analysis of the policymaking process. Research on the policy process targets the so-called "black box" between policy input and policy output. Even though the ideal-typical policy-cycle heuristic with six phases has developed into a point of orientation, its application to an increasing number of countries has led to a growing number of variations, which feature different phases and sequence orders (Jann and Wegrich 2003). Applying the policy-cycle heuristic to a country with a different political system, such as China, requires further adaptations. The work of Lieberthal and Oksenberg (1988) revealing the protracted nature of policymaking in China became a classic for students of the Chinese policymaking process. Heilmann developed a policy-cycle theory for China. Rearranging the order of the phases of the ideal-typical policy cycle, "China's experimentation-based policy cycle" (Heilmann 2008) consists of eight phases (see Figure 1). Heilmann takes the generation of new policy options in phase I as a starting point for the policy cycle. He makes explicit that these options are a question neither of local, bottom-up initiative nor of top-down initiation alone. Instead, it is the interplay between the levels of government, which are mutually dependent. After results of local initiatives are known and evaluated as positive, the top-level policy advocate searches for ways to broaden the group of supporters. Phase II sees an increasing number of actors involved, as domestic and foreign experts are invited to provide feedback on the policy initiative. If the policy community evaluates the new initiative as positive, and top-level decision makers show their support, the formulation of national guidelines for so-called "experimental points" follows in phase III. In this phase, local officials compete to provide specific input and to lobby that their location obtain official experimentation status. The national guidelines are a framework rather than an instruction sheet for the implementation of but one specific solution. Local implementation in phase IV sees concurrent experiments, and local governments are required to report regularly to higher-level authorities about the advances made. Phase V sees the internal and often public debate about the experiments. In the last step of consultation among policy makers and experts, it is the central government that chooses one "model experiment" to be extended nationwide. Government regulations are issued only in phase VI. Their drafting is a complex process of review and negotiation open to only a limited number of state and party organs. The last word remains in all cases with the highest leaders in the State Council and Politburo. After the endorsement of the top leadership, the state administration passes a regulation or law. This document serves as a guiding light for nationwide implementation in phase VII. However, phase VII marks the end point in only few cases. Instead, it commonly triggers new rounds of experimentation that can start from phase I again after a general evaluation in phase VIII. While Heilmann's heuristic is built upon his experience in the field of economic policy, research by Liu Dongmei (2011) and others shows that the process in the field of social policy evinces many of the same characteristics.

Figure 1. China's Experimentation-Based Policy Cycle




Source: Heilmann 2008: 10, with minor modifications.

Our research method is process tracing (Collier 2011). Instead of a purely inductive approach, we take into consideration the rich literature on policymaking and empirical studies of the reform of the social security system in China. Falleti (2006) calls the deductive approach combined with process tracing "theory-guided process tracing" (TGPT). The researcher uses different types and sources of data such as documents, statistical data sets, and expert interviews.

Central to our analysis is the triangulation of data from different sources and authors: government documents, expert reports, and interviews with government officials and leading experts. Statistical records from Chinese government agencies are complemented by data from international organisations.

We reconstruct the policy process leading to the establishment of the NRPS and eventually to the extension of pension coverage in China making use of Heilmann's policy cycle. The model, in combination with existing scholarship on policymaking in China and pension reform in general, serves as the basis to develop a hypothesis. Furthermore, it is used as a heuristic to trace the different phases in the policymaking process. We present the main actors of the reform – the proponents and opponents of the establishment of the NRPS, along with their instruments and strategies – and discuss how the overall context influenced the establishment of the new pension scheme. Pension reform is no longer a strictly domestic affair. International actors – especially international financial institutions such as the World Bank and the Asian Development Bank (ADB), but also specialised bodies such as the International Social Security Association (ISSA) – are involved. They provide new ideas and policy solutions, in addition to subsidies and support in capacity building. Orenstein (2008) has built a model on transnational actor intervention in pension-system reform. It suggests that transnational actors influence the search for solutions, join coalitions with national actors to advance specific solutions, and provide substantial input in the implementation phase. Reconstructing the policymaking process, we pay special attention to the role of international actors.

## Hypothesis

International actors played a decisive role in overcoming the legacies of one-sided protection in the Chinese pension system and in the establishment of an official, state-supported pension scheme in the countryside. They have been present in all phases of the policy process, contributing policy solutions, subsidies, and training.

## Process: Rural Pensions

As stated in the section on old-age income and pension politics in China, from the early 1950s to late 1990s public pension programmes were organised around the work unit, targeting employees in urban companies. The majority of Chinese living in rural areas had no access to public pension programmes. Instead they relied on the support of kin in their old age. Initial initiatives to introduce rural pension programmes started in rich counties in the mid-1980s. Covering only a small number of individuals, the central government started initiatives to introduce a nationwide scheme at the beginning of the 1990s. Led by the Ministry of Civil Affairs (MoCA), pilot programmes were rolled out throughout the 1990s, facing competition from the Ministry of Agriculture and the predecessor organisations of the National Development and Reform Commission (Shi 2008). Despite the interdepartmental competition, all pilot programmes had one thing in common: the goal of establishing a financially sustainable pension scheme that did not require state subsidies. The pension accounts were literally saving accounts, into which farmers and local enterprises made deposits. Even though the State Council supported the MoCA pilot, a State Council working group tasked with evaluating the performance of the insurance industry marked a change. In its final report, presented in 1998, the group recommended that the pilot programme be discontinued. Amidst the Asian financial crisis in 1998, the State Council retreated from its previous commitment in favour of the pilot and transferred the responsibility for rural old-age income to the Ministry of Labour and Social Security (MoLSS). Formally, local governments were again left without guidance on how to provide adequate old-age income to the rural population.

## A New Start

Until 2001, the MoLSS was primarily occupied with the extension of social insurance for urban employees that had been shaken to its core by the Asian financial crisis. It was only in 2002 that the MoLSS commissioned a survey on the condition of rural pension schemes. It found that 1,955 counties throughout all 31 provinces operated some variant of the original pilot scheme (MoLSS 2003a: 289). The total number of people covered had dropped from a high of 82 million in 1997 to approximately 54 million in 2002. Despite this, the ministry had little knowledge of the exact financial structures and benefit levels of the locally operated schemes. The turn of the year 2002/2003 marked a change of leadership in the Politburo.

Following on the decision of the CCP, the MoLSS issued two notices on strengthening work on the reform and correcting rural old-age insurance. Whereas the first was dated July 2003 (no. 115) and addressed to the respective local government offices for labour and social security, the notice in November (no.148) additionally listed the local MoCA offices of five provinces (Henan, Jiangxi, Hubei, Shanxi, and Qinghai) and two autonomous regions (Ningxia and Xinjiang) (MoLSS 2003b, 2003c). With these two notices, the ministry offered a policy patronage to local governments willing to go forward with the extension of rural pension schemes. According to Heilmann's policy cycle, the process entered phase I. According to high-level civil servants at that time, the target group of the initiative was not yet the rural population at large, but specific groups, such as farmers whose land was expropriated and employees in township and village enterprises (TVE) (Song 2010: 100).

Prior to the return of the central government on the scene, the most prominent models in academic and public debates were all located in the richest and most advanced coastal provinces. Leading among those were the "Dongguan model," implemented in one of the manufacturing hubs in Guangdong Province, and the "Sunan model," in place in the southern part of Jiangsu Province.

At the third plenary session of the 16th CCP Central Committee in October 2003, the "Decision on some major issues concerning improving the rural social security system" was taken. It included the principle that "old-age provision in rural areas should rely on family support, community service, and state assistance" (Birmingham, Cui, and Wu 2006: 15). After the top level endorsement, the reform had entered phase II by spring 2004. MoLSS chose two models for promotion, one from Daxing, a southern district of Beijing ("Daxing model"), and one from the prefecture-level city of Qingdao in Shandong ("Qingdao model") as the references for experimental points of the reform of rural old-age pension insurance (MoLSS 2004: 295). Both models combine an individual account with a social-pooling component. However, the funding sources and respective target groups are very different. The Daxing model works with individual contributions and government subsidies. It targets all rural residents aged 16–60 and participation is voluntary. In Qingdao, no government subsidies are foreseen. Targeting local cadres and TVE workers, funding stems mainly from individual contributions, and contributions by the collectives and TVEs represent a secondary stream of income (Deng and Liu 2007; Lin 2011). The choice of two reference points with different funding sources reflects the debate over whether the government should take over financial responsibility.

With a revision of the Constitution of the PRC in 2004, the position of the MoLSS and other advocates who called for an increase of public spending for rural social security was strengthened. Article 45 introduces the universal rights of Chinese citizens to state and societal support in old age:

> Citizens of the People's Republic of China have the right to material assistance from the State and society when they are old, ill, or disabled. The State develops social insurance, social relief, and medical and health services that are required for citizens to enjoy this right.

This new constitutional norm signalled a change of direction for the development of the Chinese social security system away from a selective system rewarding the industrial workers and towards a system by which individuals could expect a guarantee of basic income security in old age.

The exercise of reviewing the local experience helped the ministry to identify the lack of capacity as the main challenge for the future development of the system. In its approach to tackling these problems and advancing the rural pension project, it searched for partners both within and outside China. Phase III, the drafting of the experimental points programme, was running in parallel with the consultation of domestic and international experts looking for answers to questions about policy design and management. International pension experts were commissioned to write a report with recommendations for pension reform in China, drawing from experiences in other countries. The results were presented to Premier Wen Jiabao on 12 December 2004. From the public version of the paper, we learn that old-age pensions for the rural areas was but a minor point in a document that focused mainly on the pension system for urban employees. In respect to the design and set-up of pensions in rural areas, the experts recommended multiple pathways. Whereas TVE workers and some rural regions should be included in the urban pension system, they suggested non-contributory citizen pensions or a modification of the existing minimum-income scheme for the majority of the elderly (Asher et al. 2005: 30–31). In 2004 the central government started pilots to expand to the countryside the minimum-income scheme that had hitherto existed only in urban areas. The rural *dibao* (农村最低生活保障制度, *nongcun zuidi shenghuo baozhang zhidu*) was operated separately with much lower benefit-level standards than its urban counterpart.

In order to gain an in-depth understanding of the different policy options, Chinese line ministries actively looked for international partners. The MoLSS looked into ways to adapt the social insurance design for the rural areas. The MoCA – which is in charge of the minimum-income scheme in both urban and rural areas – favoured the non-contributory models. The international partners of the MoLSS in research projects were, amongst others, the United Nations Development Program (UNDP) and the International Labour Organization (ILO). Programmes on capacity building with the World Bank and Asian Development Bank (ADB) were running in parallel. Furthermore, in September 2005 the MoLSS had signed an agreement with the Japan International Cooperation Agency (JICA). The project focused on both the design and implementation of the Chinese rural old-age pension (MoLSS 2006: 303–304, 2007a: 319). Japan shares many cultural traits with the Chinese, such as the social norm of respecting and taking care of the elderly, derived from Confucianism. The main feature of the design of the Japanese pension system is coverage by a universal national basic pension that is complemented by private or occupational pension products. There are three categories of insured people in the Japanese system: 1) self-employed workers and persons engaging in the primary sector; 2) employed workers in public and private sector; and 3) their dependents (spouses who earn no income, children, etc.). Individuals in category 1 are required to pay a monthly premium to the national pension system and will later receive a defined amount financed from contributions from the current workforce and state subsidies. Insured people in categories 2 and 3 will receive additional pensions from occupational pension funds (Pension Bureau of the Japanese Ministry of Health Labour and Welfare n.d.).

The cooperation project under the headline "Research project innovation and management standardisation of China's rural social pension insurance system" started officially in January 2006. In the meantime, the discussions evolving around the drafting of China's 11th Five-Year Plan (2006–2010) brought further support for the initiative to establish rural pensions. During the presentation of the draft to the 16th Central Committee of the CCP in October 2005, Premier Wen Jiabao called for improving the social insurance schemes and extending them to rural areas (*Gov.cn* 2005). In March 2006, the chairman of the National Development and Reform Commission, Ma Kai, named "Building a New Socialist Countryside" (社会主义新农村建设, *shehui zhuyi xin nongcun jianshe*) a primary goal of the incumbent leadership (*Gov.cn* 2006). With the start of the implementation of the campaign in 2006, its elements became increasingly visible. The campaign consists of five complementary elements: the elimination of restrictions on labour migration; a better protection of land rights; improvement in the income of people in rural areas through the provision of subsidies; the abolition of the agricultural tax; and increased central-government spending on health, education, and rural infrastructure (Ahlers 2014). Even though rural pensions were not explicitly named, the MoLSS used the campaign for the experimentation with different pension designs. By spring 2006, it had selected eight counties and city districts in seven provinces as experimental points for China's new type rural social pension system (NRPS): Beijing: Daxing District; Shandong: Zhaoyuan City, Heze City, Mudan District; Anhui: Huoqiu County; Shanxi: Liulin County; Fujian: Nanping City, Yanping District; Sichuan: Tongjiang County, Yunnan: Nanhua County. The choice of the locations mirrors the different socio-economic development levels across China, from the rich coastal provinces to underdeveloped ones like Anhui. To improve the management of individual accounts that had already been a central part of the failed pilot of the MoCA in the 1990s, the MoLSS started a cooperation with the Agricultural Bank of China. More than 300 staff members of institutions of the rural pension system administration received training (MoLSS 2007a: 298). While the build-up of capacity found little opposition, the discussions about the very design remained a tough issue, revealing conflict lines between different groupings in the domestic policy debate, and disagreement among international scholars and domestic ones. A leading international expert working for a joint project of the MoLSS, UNDP, and ILO presented the following framework as a policy design option:

> a compulsory contributory basic pension, with a target benefit of 120 per cent of local minimum living standard level, and based on a pooling arrangement financed partly by individual contribution and partly by government. The contribution base would be the net income per capita of the rural population, with adjustments for poorer regions and an exemption for those living in absolute poverty. It would be administratively and financially simpler than an individual account system – and we estimate the fiscal impact if expanded nationwide may be around 1 per cent of GDP. Government contributions would of course be higher in poorer areas. (Bikales 2006: 71)

Summarising the content, the framework suggests a clear departure from the design of the pilot in the 1990s. It does not make reference to employers, such as TVEs or the collectives. Instead, the individual and government subsidies alone are named as the sources for old-age income. Reference to family responsibility or the role of land ownership are also absent. For domestic experts, especially the latter were central for elaborating potential solutions. With regard to how these solutions would look, views differed. He Ping, the director-general of the Social Security Institute, attached to the MoLSS, advocated for the extension of public old-age pension schemes on top of the existing system of family and communal support for the elderly in rural areas (He 2006: 163). Yang Tuan – the deputy director-general of the Policy Research Centre of CASS, suggested increasing the financial and administrative capacities of the villages to act as the basic unit for providing comprehensive mutual assistance. Financial schemes on individual bases would act as a complement (Yang 2006). According to the latter suggestion, existing programmes such as the "five guarantees" or "rural *dibao*" would be redeployed to guarantee old-age income and be complemented by individual saving plans where necessary.

## A Preparation Exercise Turns Into Quasi-Nationwide Practice

Whereas originally the central government initiative to establish rural pension seemed to have little appeal to local governments, 21 more provinces were taking part in the preparation for the pilot for the NRPS by the end of 2007. The increase in the number of counties was even more impressive – from just eight to nearly two-thirds of China's roughly 3,000 counties (MoHRSS 2008: 388).

In August 2007, the MoLSS issued the *Circular on the Issues Related to the Work on the Improvement of the Work on New Rural Social Insurance Pension and Social Security for Landless Farmers* (MoLSS 2007b), in which a general audit of all local rural pension funds was announced. This step was decided upon by the State Council. Signed by the MoCA, the National Audit Office of the PRC; the document had additional weight, as it marked a clear point that the central government was determined to get a better understanding of the local situation of rural pensions and consolidate the management practice. Local governments got the message that there was no way to escape the implementation by referring to any of the other ministries. In line with the newest insights available, a deputy director-general of the MoLSS Pension Department presented the existing measures of the government to provide rural elderly with sufficient old-age income in 2007 as follows:

> The government protects the farmland contracting and operating rights of the elderly in rural areas and intensifies the effectiveness of farmland- and the family-based elderly support model through laws. The government also encourages people to sign a "family-based elderly supporting agreement," which defines the elderly-supporting responsibilities of the family members and support items and standards so as to ensure that the elderly enjoy the rights of being supported and assisted, and to strengthen the functions of the family-based supporting systems in rural areas. (Tang 2007: 224)

Income from the NRPS was still considered as a complement to the existing sources of old-age income for farmers. The official decision to expand one single programme design across the country (phase V – from point to surface) had still not taken place. This reveals that some issues were still contested among the decision makers within the ministry as well as the highest ranks in the party and state leadership. Even though the MoCA was among the signatories to push forward the social insurance solution, it still worked on non-contributory solutions in cooperation with the United Nations Population Fund (UNPFA).

During the 17th National Congress of the CCP in October 2007, the new Politburo was elected. Among the announcements made by the top political leadership was the intention to "explore approaches of establishing rural pension insurance and encourage local rural pension insurance pilot programmes" (Liu and Han 2010: 84).

## Top-Level Support for the NRPS

With the government reorganisation in 2008 – for instance, the Ministry of Personnel being merged into the Ministry of Labour and Social Security in March of that year – the newly established Ministry of Human Resources and Social Security (MoHRSS) gained additional administrative power. In October 2008, the CCP Central Committee published a decision that put the importance of the work on rural social pensions beyond any doubt. Among the issues listed in the *Decision on Several Big Issues on Promoting the Reform and Development of Rural Areas*, the commitment to establish an NRPS featured prominently:

> We shall stick to the principles of covering as many people as possible, securing the basic livelihood, doing the work from multiple levels and making it sustainable so as to speed up the building of the social security system in rural areas; set up a new type old-age insurance system in rural areas according to the requirements of combining individual payment, collective allowances, and government subsidies; create conditions for working out effective measures for making the urban and rural old-age insurance systems *consistent with each other*; do a good job in providing social security for farmers whose land is requisitioned and provide social security for them before requisitioning their land so as to make sure that the basic living of farmers whose land is requisitioned is secured for a long term. (Central Committee of the CCP 2008; author's emphasis)

The State Council defined MoHRSS as the leading organisation of a new cross-departmental investigation group to prepare the "State Council Opinions on Launching New Rural Pension Insurance Pilot Programme" (Liu and Han 2010). The group conducted in-depth investigations and paid field visits to counties across the country in which rural pension pilots were already running. Apart from the issue of administrative capacity, the financing mechanisms and the issue of coverage highlighted in the decision of the Central Committee were critical. In all Chinese localities the practice prevailed that participation was voluntary. This setting resulted in large variation of coverage rates among age groups. Surveys by independent domestic and international research groups confirmed the observation that participation is almost universal amongst those aged 45 to 59, and that it drops below 50 per cent for the younger age groups (Herd, Hu, and Koen 2010). In the pilot areas of Baoji City, the participation of eligible persons aged 60 and above was even reported as 93.6 per cent in 2008 (Zhang and Tang 2008: 1).

During the 70th executive meeting of the State Council, on 24 June 2009, Premier Wen Jiabao gave a speech in support of the NRPS and endorsed the design of a social insurance pension for rural areas. The characteristics of these are the guarantee of basic income security in old age, a broad coverage, flexibility in adjusting the structures, and sustainability in respect to its financial management. The design should consist of a basic pension financed out of general government revenue and an individual account in which contributions from the individually insured, the collective, and subsidies of local governments should come together (Zheng 2011: 79). Especially in the design we see an innovation in respect to the commitment of public spending for the purpose of rural old-age income. At the same time, the endorsement is a clear rejection of the idea of non-contributory pensions. An international expert involved in the process recalled that "Wen Jiabao in particular was against the idea of social assistance [to fight old-age poverty]" (Anonymous 3 2014). This gives us an idea of the main conflict lines and the compromise found in phase VI. In order to supervise the implementation of the social insurance solution, the State Council installed the "Leading Group on the Pilot of the New Rural Social Insurance Pension" in 2009. Vice Premier Zhang Dejiang was appointed the leader of the group that brought together thirteen CCP and central government bodies: the State Council, Ministry of Human Resources and Social Security, CCP Central Propaganda Department, CCP Organisational Department, State Population and Family Planning Commission, Ministry of Public Security, China Disabled Persons' Federation, General Office of the State Commission for Public Sector Reform, General Office of the Leading Group on Rural Affairs, National Development and Reform Commission (NDRC), MoCA, Ministry of Land and National Resources, and Ministry of Agriculture. MoHRSS Minster Yin Weimin, Vice Minister of Finance Wang Juncai, and Vice Secretary of the State Council Xiao Yaqing were appointed deputy leaders. The operational side was vested within a bureau in MoHRSS headed by Vice Minister Hu Xiaoyi. The vice minister was already known as an outspoken advocate of extending old-age insurance to the farmers and migrant workers. He considered it as an essential building block to the overall strategy of the government to improve the situation of Chinese society at large:

> The major defect of our social security systems is that old-age insurance does not cover farmers and rural migrant workers. If no proper institutional arrangement in old-age security is made for farmers and rural migrant workers at present, our social polarisation will get worse, and the goal of building our country into a moderately prosperous society in an all-round way cannot be realised. (Hu 2008: 47)

## NRPS Turning Into an Official Pilot

Eventually, on 1 September 2009 the State Council published a guideline for the pilots for the new rural social insurance pension. The four main objectives of the new rural social insurance pensions are to provide "basic security, wide coverage, flexibility for adjustments, and financial sustainability" (State Council 2009). They correspond with the main points of the premier's speech earlier in the same year. The benefit levels should start at a modest level and take into consideration the economic development levels on the ground. Whereas the individual and family are named first in respect of their responsibility for the provision of old-age income, they are followed by the collective and then the government. Participation in the scheme is voluntary, and the central government is in charge of establishing a framework with the basic principles and standards that have to be applied nationwide in phase VII. According to the document, local governments maintain the authority to make detailed decisions concerning the exact management and implementation of the scheme (Birmingham et al. 2009). In respect to the framework, the NRPS shows major similarities with the urban employee pension scheme. Individual accounts play an important role, being complemented by social pooling financed by government revenues. However, the authors of the State Council document made explicit that social insurance pensions as a combination of individual and social pooling accounts is only one component of a set of policies to guarantee for adequate old-age income. The others are family security, land security, and social welfare policies such as *dibao*. The state-guaranteed monthly minimum pension payments are anything but generous. In 2009, the nominal level was set at CNY 55 (EUR 6.90) per month. It is financed out of general government revenues, and local governments are expected to complement it by local government resources to guarantee the basic security addressed in the guidelines. In order to help guarantee at least the minimum across the country, the central government committed to provide 50 per cent of the funding of the minimum as transfers to the interior provinces, and 100 per cent of the funding for the Western provinces (State Council 2009). To what extent the local government share is financed by the different levels of subnational governments is based on local regulations.

On top of the basic pension, individuals receive benefits from their individual account. The individual account is administered by the Agricultural Bank of China. Financial input comes from the insured persons, and subsidies of the collective and local government. According to the guideline, the insured can choose between five different contribution rates annually: CNY 100, 200, 300, 400, or 500 (EUR 12.50–62.50). Collectives are not mandated to make contributions, whereas local governments are required to make a contribution of at least CNY 30 (EUR 3.76) per year to the individual account. This practice is internationally known as "matching individual account contribution" and is thought to incentivise the insured to make contributions to the individual account or participate in a voluntary pension scheme in the first place.

Looking into provincial-level and even county-level practice, we find a diversity of local regulations that stipulate different contribution rates and methods. Yet, the conversion factor – which determines the level of the monthly pension benefit from the individual account – and the fund investment and supervision rules are defined by the central government level, and local governments are supposed to comply. The conversion factor of 139 means that the beneficiary receives the total amount in the personal account divided by 139 as a monthly benefit on top of the benefits from the social pooling account. It is 139, as there are 139 months between the national average life expectancy at birth, which is 71.5 years, and the retirement-entry age, which was set at 60 for the rural population in 2009 (State Council 2009). However, Cai et al. (2012: 96) found that, in the years after the pilot was rolled out, there was great variety in the conversion factor, ranging from 120 in Suzhou to 180 in Zhuhai. Furthermore, the nationwide implementation did not end the debate or the search for feasible alternatives. In December 2009, two leading international pension experts – Nicolas Barr and Peter Diamond – presented another commissioned paper on non-contributory pensions to the Chinese leadership (Barr and Diamond 2010).

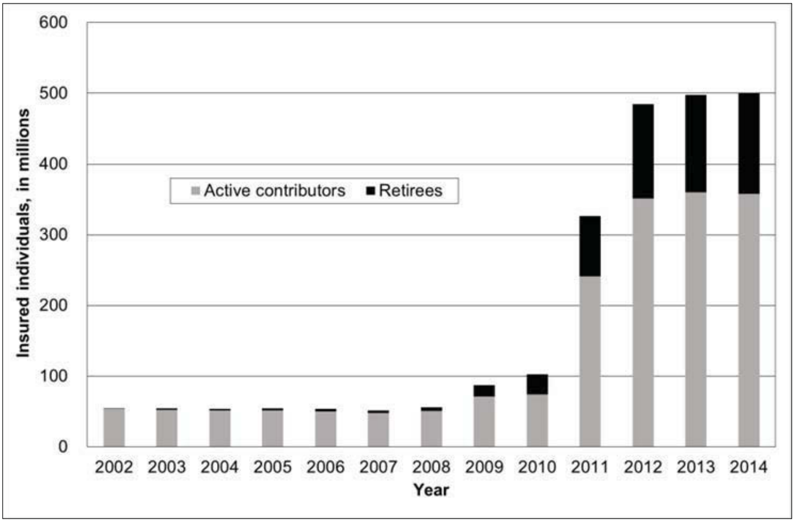
There remains diversity in the practice even years after the central government communicated its intention to follow a unified practice. As a leading government advisor on pension pointed out in an interview in 2012, the conversion factor remains one of the most hotly debated issues among provincial leaders and the central government. People in regions with lower life expectancies, especially in the Western provinces, feel disadvantaged compared to those in coastal provinces (Anonymous 1 2012). Considering the existing gap in life expectancy, the longevity risk borne by local governments differs, as do the potential central government subsidies flowing to the provinces. Despite ongoing debates about the management issues, participation in the scheme has increased year after year. Behind this development we also recognise Premier Wen Jiabao’s constant support in both internal documents and in speeches made available through the media. He has stressed time and again that

> the important thing for now is to ensure full coverage. After that is achieved, we can continue to improve these programmes and raise insurance standards in line with the country’s social and economic development. (*China Daily* 2011)

## Impact: NRPS as a Success Story of the Present and for the Future?

Participation rates in the NRPS have exceeded the forecasts every year. In the first official year of the pilot, the number of participants had reached already more than 72 million. The Statistical Communiqué on National Economic and Social Development of 2011 reports that there were more than 326.4 million people participating in the scheme that year. From 2012 onwards the communiqué reports the joint numbers: for the URPS and the NRPS. In 2014, the total number of participants stood at more than half a billion. Despite the obvious success in respect to the increasing coverage rate and number of beneficiaries (see Figure 2), questions remain about the adequacy of the benefits and the (financial) sustainability of the system.

Figure 2. Number of Insured in Countryside prior to NRPS (2002–2006), under the NRPS (2007–2012), Combined Figures NRPS and URPS (2013–2014)*



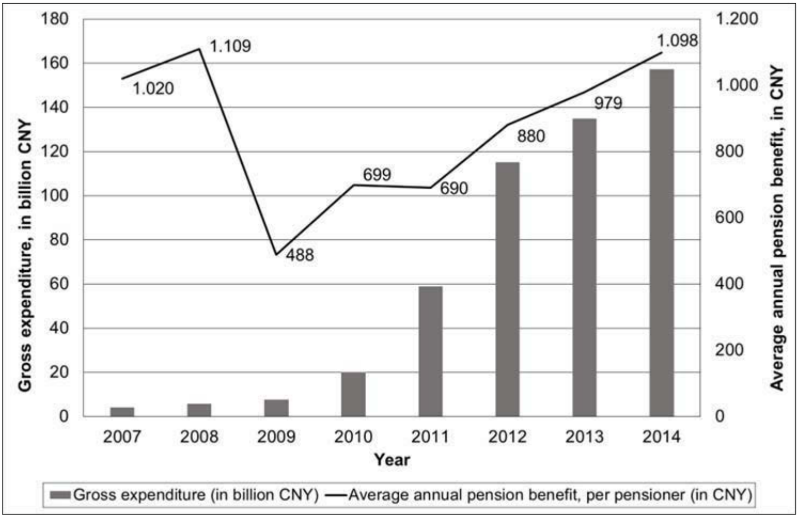

Source: MoHRSS (multiple years).

Note: *Since 2013, the Chinese government has provided just one figure for urban and rural participants in the NRPS and URPS.

## Adequacy

The number of participants in the system, and especially the number of retirees, has increased so rapidly that close observers are already wary of the pace of development and warning of its unsustainability (Anonymous 1 2012; Anonymous 2 2011). Figure 3 shows how the average annual benefits per retiree drop after the year 2008. The fast expansion of the NRPS from mainly affluent areas to poor areas and the number of individuals receiving the minimum level of pensions jumping from 5 million to 16 million within one year help explain the decisive decrease. In the year of the pilot's nationwide launch, the annual average is less than CNY 500 (approx. EUR 40), but increases to CNY 700 in the year 2010 and, finally, increases to nearly CNY 1,100 in 2014. The gross expenditure for the social insurance pensions increased from CNY 4 billion in 2007 to CNY 157 billion in 2014 (Figure 3).

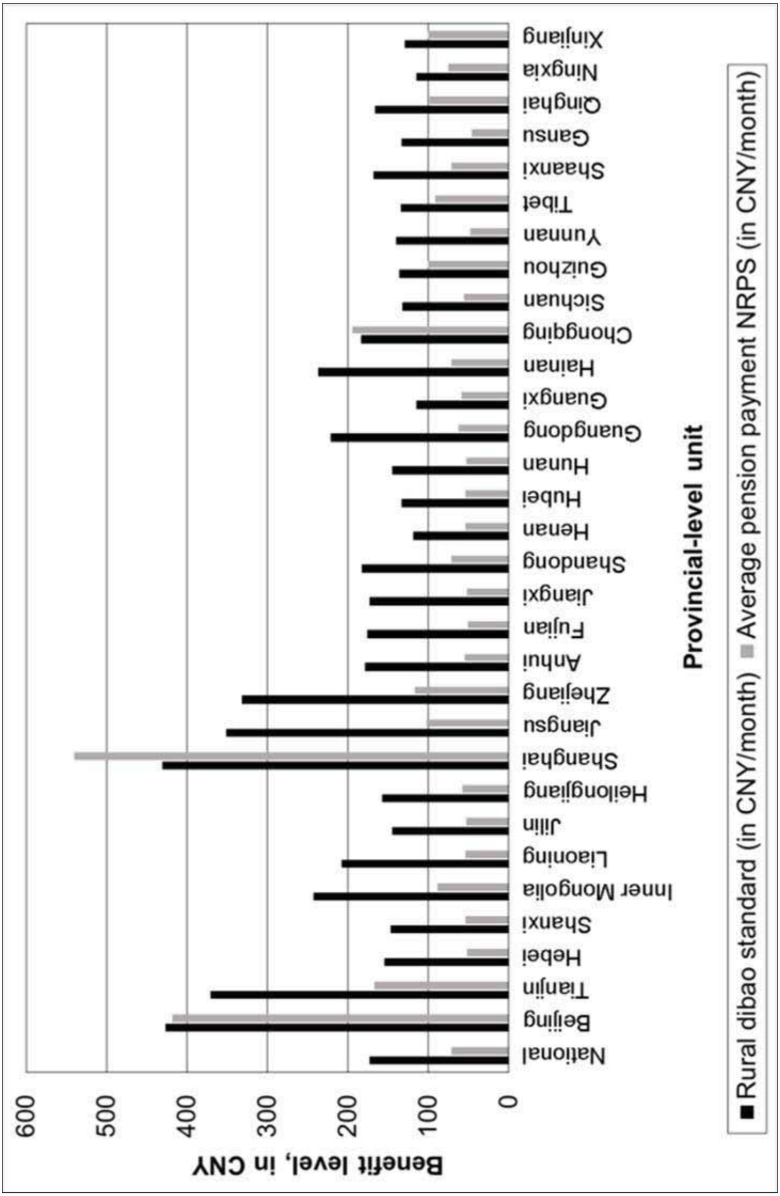
Figure 3. Gross Expenditure and Average Annual Pension Benefit, NRPS, and RPS (2007–2014)




Source: MoHRSS (multiple years).

However, the absolute figures about the benefits for individuals and total expenditure of the new schemes say little without putting them into relation with a number of other key figures to assess how adequate pension levels are. For about the past ten years or so, China has been operating a minimum livelihood guarantee programme in rural areas (rural *dibao*) – comparable to social-assistance schemes in Western, developed countries. Rural *dibao* was implemented nationwide in 2007. Due to the large differences in socio-economic development levels across China, subnational localities define the levels themselves. Comparing the benefits on the provincial level of the rural *dibao* and

Figure 4. Monthly Income from Social Programmes, Provincial-Level Averages (2012)




Sources: *Dibao*: MoCA 2013; NRPSP: MoHRSS 2013.

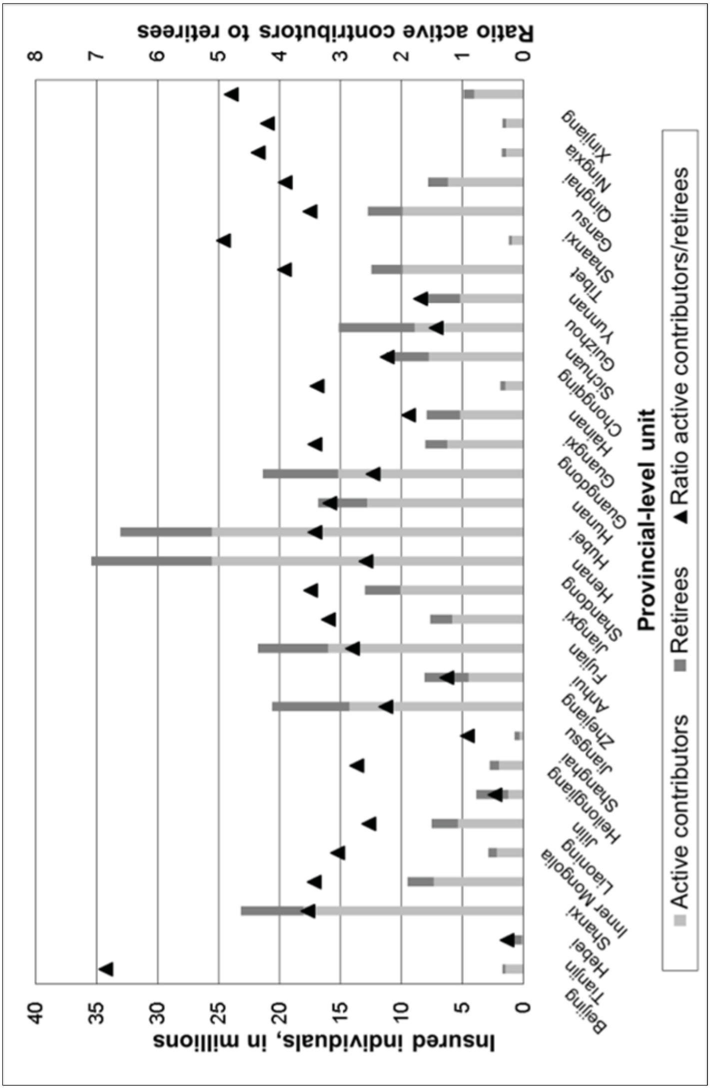
the NRPS in 2011 (Figure 4) provides a differentiated answer to how adequate the pension benefit levels are. Indeed, the pension levels in the NRPS in the most urbanised provincial-level units such as Beijing, Chongqing, and Shanghai are equal to or even higher than rural *dibao*. In most of the remaining entities, NRPS levels are much more modest.

## Financial Sustainability

We measure the financial sustainability of pension programmes in respect of the development of expenditure and revenue prospects for the medium to long term. Especially when looking into the ratio of active contributors to retirees on a nationwide basis, which is below 3:1, the sustainability of the system is put into question. Even though the system is not pay-as-you-go, minimum pensions are largely financed out of local-government revenues, which in turn depend on the conditions of the local economy. If we zoom in on the provincial level, we identify a diversity with respect to the ratio of active contributors to retirees (Figure 5). When excluding the provincial-level municipalities, the ratios range from 5:1 in Tibet, down to less than 1:1 in Jilin. Based on the situation on provincial levels that are currently in charge of devising province-wide frameworks for the NRPS, it becomes obvious that further reform both of the level of administration and of the pooling of rural pensions is necessary. With the rural-to-urban migration of especially younger cohorts, and more importantly interprovincial migration, a pension scheme based on the county level as a basic administrative unit is not a viable solution in the long run. Even for the urban employee pension scheme established in 1995, national-level pooling is still not within reach due to the local opposition. A critical question in the next round of reform will be that of government responsibilities in financing rural pensions.

In 2012 the minimum amount defined by the central government (CNY 55) was relatively low; in 2015 the government increased the level to CNY 75. This can be considered a measure to prevent overspending by local governments, but also a measure to curtail the central government's expenditure levels. In less developed and poorer regions, the central government is committed to paying a share of the subsidies. In richer areas, the local governments can decide themselves whether to increase the minimum benefit and subsidy levels beyond the centrally devised minimum. However, without clearly defined contribution levels from both the insured and the government, it is questionable whether the central government can guarantee that the pension levels are sufficiently high in the different localities.

Figure 5. Ratio of Active Contributors/Retirees NRPS, According to Province (2011)




Source: NBS 2012: 951.

## Conclusion

With the introduction of the NRPS, the Chinese government has taken a clear step away from the one-sided guarantee by which old-age income is provided for only salaried workers. For the first time in history, the Chinese rural population has access to a public old-age pension scheme, the government subsidising and guaranteeing a minimum old-age income. It marks a clear sign that the government aims to fight the marginalisation of the rural population.

How can we explain the establishment of the NRPS? Top-level endorsement of one policy design by the premier and additional earmarked central government transfers are the main factors. Through the process tracing we gained a lot of empirical evidence, in respect of the policy debates, key actors, their strategies, and the instruments used to advance their goals. There are two main, partly overlapping issues: the role of the state in providing financial means for old-age income in rural areas, and the exact design of the respective policy. As for the first, the question of *who pays* has been crucial. For a long time, local governments in particular have been reluctant to support the initiative out of fear of not being able to cover the costs by themselves. They were supported by actors on the central-government level, who opposed the idea of public financing for the fight against old-age poverty, despite the problem of elderly people in the countryside being left behind. With the revision of Constitution in 2004 and the campaign of "Building a New Socialist Countryside," the leadership around Hu Jintao and Wen Jiabao underscored the central government's commitment to establishing and co-financing public social transfer programmes in the countryside. Nonetheless, Wen Jiabao, who was in charge of supervising the initiatives, was reluctant to specify how the funding should be allocated. This leads to the second issue: the design. The MoLSS/MoHRSS and the MoCA advocated for different designs. The MoLSS/MoHRSS supported a social insurance type solution – a modification of the model existing in urban areas for enterprise employees. The design advocated by the MoCA was a non-contributory pension scheme. Wen Jiabao's endorsement of the social insurance solution in 2009 and the provision of earmarked financial transfers from the central government to provinces ended the search for a single policy design and resulted in coverage extension. The highest year-on-year increases in terms of NRPS coverage start only after the year 2009.

The influence of international actors was constant. The Chinese central government actively searched for international best practice and advice to inform its pension reform process. Both the MoLSS/ MoHRSS and the MoCA had international partnerships. These partnerships made a significant contribution to both the number of policy solutions to be discussed and capacity building. The capacity-building efforts were especially crucial to guaranteeing smooth implementation. However, the role of international experts was less decisive in explaining the establishment of the NRPS. The different design solutions brought forward by these experts were already known to the Chinese in the early years of the new millennium. Furthermore, the final design deviates from the international advice and includes features from the scheme for urban employees. Domestic experiments and their respective results triggered ongoing discussions and negotiations between actors on different levels of government concerning the division of tasks and responsibilities, especially regarding the question of who would take on the financial burden. These informed the choice of eventually one design.

Heilmann's model was very apt for the process-tracing exercise. This study shows that experimentation, the interactions between different levels of government, and the compromises each level of government made remain the key characteristics in the Chinese policymaking process. Different from the original model, international actors are present in the different phases of the cycle. This finding opens avenues for future comparative research to ask whether the influence of international actors differs across policy fields. Adding to the general debate of policy diffusion and the role of international financial institutions, the process tracing revealed that bilateral cooperation was an important channel for exchange in the field of pensions.

The impact and success of the implementation of the scheme is currently measured in the number of insured and pension levels for the individuals already benefitting from the public pensions. Over the long term, the success of the scheme needs to be measured against its capacity to provide pension benefits at adequate levels without overburdening the financial resources of the government. Even though the new scheme guarantees basic income security, a number of inbuilt defects remain. First, the scheme creates new boundaries for social mobility – between the informal and formal labour market. Second, it constitutes an increasing financial burden for local governments. Third, questions about equality arise. In 2011, three times the amount of subsidies paid into the residence-based social insurance pension schemes were channelled in the pension funds for urban employees: CNY 77 billion vs. CNY 207 billion (Ministry of Finance 2012: 477). The gap narrowed in 2013 but remains large. According to the end of the year financial overview from the Ministry of Finance, the residence-based social insurance schemes received CNY 123 billion and the pension funds for urban employees received CNY 285 billion in subsidies in the fiscal year 2013 (Ministry of Finance 2014). Against this backdrop and given the merger of the NRPS and the URPS, the ongoing pension reforms in China require that further scholarly attention be paid to how the pension system will develop in the mid- to long term.

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### Introduction



### Research Articles

## Research Article