

Globalizing the Chinese Social Assistance Program: The Authoritarianism That Listens?

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Abstract

Can an authoritarian regime, lacking institutionalized channels of representation, listen to its subjects in a similar way a democracy does? To answer this question, this study examines China's welfare change in the past decades, which has been characterized by the government's effort toward a balanced distribution of benefits across social sectors. Curiously, however, such a move has occurred without significant political change that would lead to the shift of power distribution among these sectors, a condition presumably critical for welfare redistribution. What, then, has persuaded the government to redistribute welfare benefits towards politically disadvantaged social sectors such as the urban and rural poor through institutionalized manner that would tie their own hands for long-term commitment? This study offers an endogenous model to highlight the importance of the structural change introduced by the interaction of China's economic integration and its geopolitical constraints in inducing the authoritarian ruler to listen to the demand of its subjects. It also sheds new lights on our understanding of the nature of Chinese regime and its transition.

Keywords: *China, social assistance, authoritarianism, globalization, systemic vulnerability*

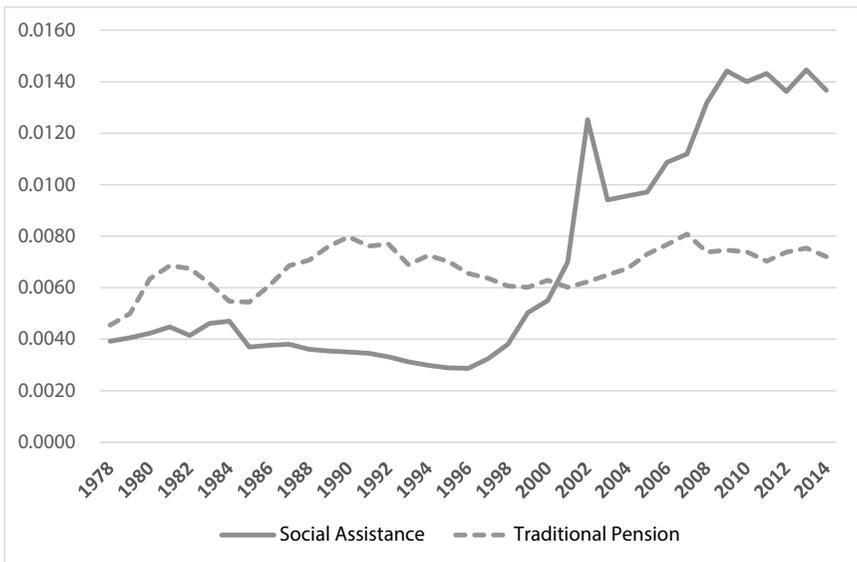
1. Introduction

Authoritarian regimes are not known for listening to their subjects, particularly to those politically marginalized social groups. When the situation gets sour and they have to pay attention, authoritarian rulers commonly resort to two instruments in their toolbox of political control: repression and bribe. Whenever force becomes too costly, cash benefits would buy off the dissatisfied population at rough times.

It is against this common perception that China's recent development of welfare protection for the poorest seems puzzling to the conventional understanding of authoritarian regimes. The figure below shows the changing trend of the social assistance program targeting the very poor in urban and rural areas and the traditional pension program for retired government employees at both the central and local levels. Whereas the spending level for the latter group have fluctuated over time, it remains largely constant compared to that for the poorest, who see their benefits increase drastically from the late 1990s.

This is indeed surprising, particularly given that the political structure in China has remained largely unchanged. Why, therefore, would an authoritarian state compensate the politically powerless in the absence of institutionalized channel of representation? Political stability is an easy answer and it is indeed a critical factor to compel most authoritarian rulers to be careful in mistreating its subjects. Yet, the steady increase of the spending level on the poorest since the late 1990s in contrast to the unimpressive change in pension spending is at odds with the fact that these retired government employees are politically powerful in defending their interests. We cannot assume that this group of individuals would be indifferent seeing their government transfer the money

Figure 1 Government Spending on Social Protection (% of Government Expenditures), 1978-2014



Source: *China Statistical Yearbook*, various years; *China Civil Affairs' Statistical Yearbook*, various years.

to their politically inferior counterparts while ignoring their own well-being against market fluctuation and inflation.

Furthermore, as will be discussed in detail later, is that the program is evolving along with a remarkable process of institutionalization – in spite of various problems and shortcomings associated with the program, the institutional foundation has been well established to cover almost the entire population and overcome the urban-rural divide. This poses another question: Why would an authoritarian regime, instead of using cash benefits, make long-term commitment to compensating the poor through institutionalized measures that would apparently tie their own hands?

In revealing the mechanism of institutional origin and change of China's social assistance program, I attempt to offer a theoretical model that emphasizes the interaction of global and local dynamics, through which the government is induced to utilize institutional instruments to protect the poorest social sectors for its own political survival. Specifically, I argue that economic integration produces an equalization effect on the wage differentials and risk perceptions among different sectors and social groups. As wage and risk gaps get narrowed, the demands for welfare protection across different sectors as well as their ability to exert political pressures on the ruler become increasingly similar, which induce the ruler to listen to the demand of every social sector. I suggest that this is a structural condition introduced by globalization that has produced a world-wide welfare transformation that, as *Economist* (2012) aptly claims, even turns the East Asian tigers into marsupial.

Precisely because of the authoritarian nature of the regime that tends to offer lip service to the sectors outside of its core constituency, the political elites are particularly motivated to tie their own hands through institutionalizing welfare protection in order to ensure that an effective welfare system can supplement their efforts of building a competitive economy. On the other hand, the enabling effect of economic integration cannot be realized without the suitable local conditions that make political leaders particularly vulnerable and therefore more motivated to expand their political base through institutionalized protection. In short, the genuine commitment to protecting popular sectors through well-functioning institutions must be understood by examining the interaction of global and local dynamics: the regime vulnerability makes a competitive economy critical for a ruler's political survival; global competition and integration, on the other hand, makes it impossible to ignore any sector in order to survive economic competition.

In the following sections, I will first review the literature of welfare state, and then lay out an endogenous social protection model to explain the welfare-global nexus. A detailed account of the development of China's social assistance program will be used to test this model. In the conclusion part, I

will discuss the implications of the findings and will particularly reflect on the conventional understanding of the Chinese state and regime survival.

2. Theoretical Debates and Evidence

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

The current literature has been dominated by two opposite hypotheses: the efficiency vs. compensation hypotheses. The former argues that welfare state systems are inherently incompatible with globalization because competition for export markets and for "footloose capital" exerts downward pressure on labour costs, wages, payroll taxes, and import and export taxes, which reduces the basis for traditional social security contributions (e.g. Wildasin, 1988). A great deal of speculation has been derived from this assumption, and ultimately led to the popular "race to the bottom" prophecy that predicts the reduction of welfare protection and the erosion of social agenda as a result of globalization.

The efficiency argument is countered by the compensation hypothesis, which has two variants. The first one is what I call the "power-based compensation" model, which emphasizes the mediating role of electoral institutions between international economic pressures and domestic political outcomes (Garrett, 1998). Influenced by the power resources theory (Esping-Anderson, 1990), this model suggests that the key determinant of welfare expansion is the strength of leftist parties and unions that are critical in ensuring labour-market institutions to be effective in negotiating between government and labour. The second variation of the compensation hypothesis is what I call the "trade-based compensation" model, which sees welfare play an important role of social insurance against the market volatility generated by trade openness. According to this model, higher unemployment and lower real wages during economic downturns force governments to increase welfare expenditures in order to prevent the escalation of discontent over increasing poverty and declining standards of living (Rodrik, 1997, 1998; Cameron, 1978; Ruggie, 1982). The result is a "race to the top" of welfare compensation induced by globalization.

In the context of developing countries, the three models collectively suggest a pessimistic future of welfare development. Whereas the efficiency model attributes the "race to the neoliberal bottom" to the enormous fiscal constraints these countries face (Garrett, 2001; Kaufman and Segura-Ubiergo,

2001) and their lack of the luxury of borrowing on capital markets (Wibbel, 2006), the power-based compensation model believes that the left-labour movement in developing countries is too weak to fight against capitalists, either due to low skill endowments and the high level of labour surplus (Rudra, 2002) or to the underdeveloped democratic institutions, which further aggravate collective action problems among workers (Wibbel and Arce, 2003).

In the trade-based compensation model, the direct link between trade exposure and welfare expansion seems fragile given the serious fiscal constraints in these countries. In addition, as many authors have suggested, this model remains to be a black box in specifying the mechanism linking trade exposure and welfare compensation and therefore fails to explain why many developing countries are unable to provide such institutions even though their trade exposure is strong (Mares, 2005; Adsera and Boix, 2002; Huber and Stephens, 2001; Iversen and Cusack, 2000).

In China's context, social assistance, as a nascent program, has not yet drawn sufficient academic attention. In a limited number of studies, the focus is instead on explaining what has prevented the system from developing and on identifying the problems and obstacles of the system. The common assumption underpinning these studies is that social assistance programs aiming to help the poor are not compatible with the authoritarian nature of the Chinese state (Zhang, 2010; Leung, 2006). Others emphasize the lack of resources or funding for rural areas that can be the outcome of both fiscal constraints and political bias (Duojuicairang, 2001). However, the data in Figure 1 above suggests that China's welfare development is neither a race to the bottom nor a race to the top. If anything, the government spending on social welfare is nothing but linear. Prior to the late 1990s, the spending on the two categories moves in different directions. Since the late 1990s, while both spending is moving up, the social assistance spending is much faster than the spending on pensions. If the government spending can be taken as an indicator of government's responses to different social sectors' demand, the changing distribution of the welfare benefits as shown in the figure is suggestive. Yet the current theoretic models do not seem adequate to offer a convincing explanation.

3. Endogenous Protection Theory and East Asian Welfare Change

3.1. Globalization's Equalization Effect

In this study, I offer an endogenous protection theory to explain the welfare-globalization nexus. The theory has three components. The first is the equalization effect of economic integration. The starting point is the basic logic of "factor price equalization" theorem in the Heckscher-Ohlin-Samuelson

model (Stolper and Samuelson, 1941; Feenstra, 2003: 31-63), which posits that trade openness helps reduce the price of factors, such as labour and skill endowed in different economies, and therefore changes the industrial structure towards a balanced one among different sectors. In developing countries, since low skilled labour is abundant and the demand for them increases, the industrial structure will change in favour of this sector's comparative advantage and increases its wages. Since social insurance is meant to compensate those who have the most stakes to lose and are more willing to pay for the premium, the link between skills and risks (Iversen and Soskice, 2001) suggests that trade openness narrows the risk gap among workers with different skills and, as a result, equalizes the demand for welfare protection.

To support this argument, it is useful to cite the studies that discuss how the Chinese public has so far been accepting of the Chinese regime and why strong "push factor" has been missing (e.g. Whyte, 2010; Wright, 2010). As Whyte (2010) demonstrates in his survey data, in spite of the increased inequality, the relatively disadvantaged social groups such as farmers hold most favorable views about China's change primarily because these groups are much better off than under Mao as the fundamental principle of equity and distributive justice prevails.

At the same time globalization changes the preferences of social groups with regards to state protection, it also induces governments to adjust the welfare system at the supply side. Governments now have fewer incentives to maintain traditional welfare benefits due to fiscal constraints. At the same time, along with the retrenchment pressures on traditional welfare programs, competitive pressures also induce governments to expand social safety net programs such as minimum wage guarantees, social assistance, and health care to the previously marginalized social groups and sectors that have become increasingly critical for improving human capital infrastructure and maintaining a robust economy. In doing so, states are remodelling their role from "welfare state" to "competition state", in which welfare effort is refocused toward a more Schumpeterian "competitor" or "work-fare" state (Jessop, 1993; Cerney, 1995; Zysman, 1996).

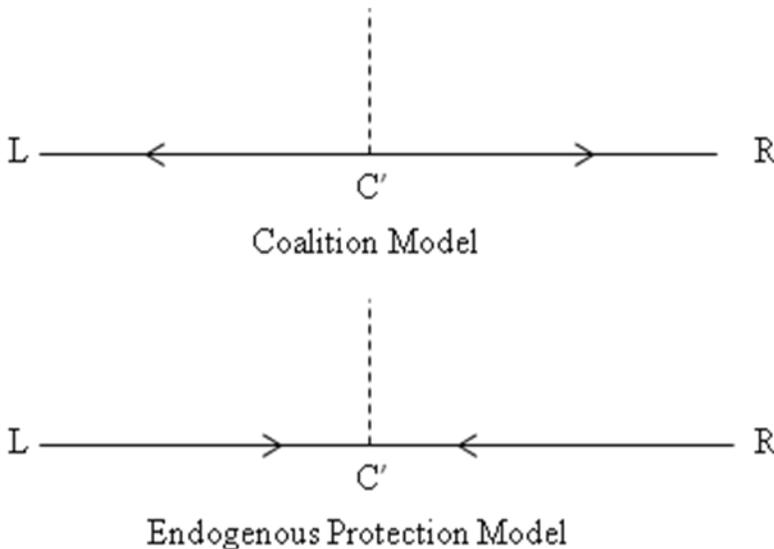
3.2. Endogenous Model of Political Support

The above argument, however, is not straightforward to the existing literature that, in understanding political function of compensation, tends to assume that politicians rely on a fixed coalition to make welfare policies at the expense of other social groups. Underlying this approach is the assumption of labour homogeneity, which sees labour as an anonymous commodity that can be aggregated into a single, undifferentiated factor against capital (Iversen, 2005). In both the power-based compensation model and the efficiency

model, a zero-sum game plays out between labour unions and capitalists. In the trade-based compensation model, it is exporters and mobile factors against the import-competitors and non-mobile sectors. In reality, however, we often observe that politicians compensate certain social groups, for example, losers of trade openness, who are excluded from their coalition (Pahre, 2008). This puzzle is solved in the endogenous protection literature (Stigler, 1971; Hillman, 1982; Becker, 1983; Grossman and Helpmann, 1994), which suggests that public policies are often the outcomes of politicians' balancing of contending interests against one another.

More specifically, the endogenous protection model suggests that politicians, in response to global economic pressures, weigh the marginal support between social groups with conflict interests in order to maximize social welfare and political support (Grossman and Helpman, 1994). Politicians compensate social groups only partially, reducing the harm to any one group by spreading it around (Pahre, 2008; also see Hiscox, 2001). The difference between this endogenous political support model and the conventional coalition model can be illustrated in Figure 2, in a simplified style. Assume that a society consists of two major social groups – Left, indicating labour and low-skilled workers, and Right, indicating capital and high-skilled workers. In the coalition model, politicians who seek to maintain their political power look for the most powerful political coalition – either pro-Left or pro-Right – as their political base. As a result, politicians

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



will make policies that fully compensate this coalition at the expense of another, which moves the policy outcome further away from the equilibrium compensation point, denoted as C' , where political support can be maximized. In the endogenous protection model, by contrast, politicians compensate partially each social group, but compensate more groups. The outcome is the policy that moves toward the equilibrium compensation policy point C' .

In developing countries' particular context, the endogenous model becomes particularly salient once these countries have moved away from their previous protective economy to a competitive one. The previously generous yet skewed welfare distribution in favour of a small group of skilled workers in urban formal sectors (Wibbels and Alquist, 2011), which held a strategic position in political coalition for industrialization and political support (Little *et al.*, 1970; Bates, 1982), becomes increasingly unsustainable.

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

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

The caveat of the arguments developed so far, however, is that they provide a structural explanation of the trend underpinning the welfare transformation across the developing world but are not adequate to explain the variations among countries. Institutional diversity cannot be fully explained by global structural factors, as Steinmo (2010) correctly argues. Why politicians in certain countries are more motivated for this move to the middle and willing to restructure their welfare system than others requires further explanation. After all, a balanced welfare distribution with moderate levels of spending seems to be an elusive task to most governments, which either fight for the status quo and refuse to expand welfare coverage or expand welfare benefits to the point that the economy may get overburdened.

To specify the local dynamics, I resort to the new development in comparative politics. Against the common assumptions that authoritarian regimes have no incentives to build effective institutions, the new studies suggest that institutions, rather than window-dressing, are in fact commonly used by and have played an important role in most authoritarian regimes. The effectiveness of these institutions vary greatly. But scholars have provided

sound theories to explain that institutions matter as much to the authoritarian governance as to a democratic one for a good reason: they provide a mechanism of transparency and commitment for power sharing and serve to co-opt opposition for regime survival (e.g. Svobik, 2012; Boix and Svobik, 2013; Gandhi, 2008; Gandhi and Przeworski 2007; Magaloni 2006). In other words, institutions in non-democratic regimes provide an arena within which incumbents and potential opponents can forge policy compromises.

These findings shed new lights to help move beyond the conventional theories that focus almost exclusively on crisis as the incentive for authoritarian welfare provision. Instead, these findings suggest that more efforts should be put on the understanding of how normal politics operates and works in non-democratic regimes. In this sense, the rigid dichotomy between democracies and a diverse group of non-democracies needs to be played down.

Still, these rational choice-based findings are inadequate to explain specific cases such as East Asian countries that apparently perform much better than most other developing countries, regardless of their regime type, in utilizing institutions to not only survive but also transit. To make the model more historically-informed and geographically sensitive, I go back to the literature of East Asian development and find more cases to strengthen my model of local dynamics.

What is most striking about East Asian societies is not their economic growth miracles but their strong institutions underpinning the growth. In the past, although these societies' economic growth has been labelled as "inclusive" or "shared" growth (Campos and Root, 1996; Cook, 1996; Kwon, 2009), their previous welfare regimes were often known as "welfare laggard" or "residual welfare state". In the past few decades, however, these countries have been actively searching for a sustainable and robust welfare system aiming to reinforce the inclusiveness of their economy and they seem, again, capable of doing so. That leaves one to wonder about the local dynamics of welfare transformation in this region and what lessons, if any, these countries can offer to the rest of the developing world.

In explaining these societies' capacity to respond to global markets using robust policies and institutions, the conventional wisdom tends to emphasize these states' strong "autonomy" against the resistance from powerful social groups in policy-making and implementation. However, this explanation fails to specify the constraints on elite preferences and therefore fails to explain what makes it difficult for politicians to preserve power through clientelist connections to the private sector and what encourages them to build new institutions for economic transformation.

To address this problem, the literature of elite constraints focuses on the leaders' strong sense of insecurity from both within and outside of their

national border, which presses politicians to build a broad coalition and emphasize the provision of broad collective goods rather than channelling largesse to key constituencies. Three factors are commonly considered to be important in producing insecurity for political elites: 1) severe external security threats that consume a substantial amount of revenues; 2) overpopulation, that through mass unrest, demands for a broad coalition; 3) the lack of natural resources for easy cash to buy off popular sectors. The accumulation of this line of literature is the “systemic vulnerability” model developed by Doner and his colleagues’ (Doner *et al.*, 2005). While the previous studies along this line of thinking tend to emphasize these factors in a disjointed manner, Doner *et al.* (2005) emphasize the simultaneous interplay of three separate constraints which would be powerful enough – making it both a necessary and sufficient condition – for not only the origin of developmental states but also for their capacity of institutional upgrading when the situation requires – such as moving up along the ladder of comparative advantage from labour intensive manufacturing to a value-added one. Missing any of these three factors would render a state “intermediate” (Evans, 1995) at best – Philippines, Thailand, Malaysia, and Indonesia, for example – which may be capable of building institutions for economic development but not of upgrading them when needed.

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

The model, therefore, is disconnected from the global dynamics introduced by economic integration. The remedy, I argue, is to incorporate this model into the endogenous protection model and to allow the global and local dynamics to interact in order to explain national variations. Geopolitical constraints provide exceptionally strong motivations from within to press political leaders to take a hard approach to deal with economic growth by simultaneously dealing with the social issues that affect the sustainability of the economy. Without local dynamics, the external pressures may not be sufficient to reach the full effect. Politicians would be much less likely to make full commitment to institutional upgrading and complementarity when

needed. Global economic integration, on the other hand, adds an additional layer of uncertainty and vulnerability on governments and press them to adjust their policies and institutions constantly, in exactly the same way the systemic vulnerability model specifies. Global dynamics, however, do not simply produce vulnerability. By offering international markets, global integration also gives the governments the opportunities to overcome the vulnerability.

To sum up, East Asian countries' remarkable institutional development in the past decades cannot be simply the outcome of their geopolitical constraints. It is economic integration that has set up a framework in which peculiar local dynamics in this region exert their influence and made institutional complementarity between economic and welfare ones possible.

The implications of this model are two-fold. First, the revised endogenous model is a dynamic one. It helps explain why East Asian societies were capable of changing their fate after the 1960s but not earlier and why their major institutional upgrading took place in a few particular historical movements, even though their geopolitical features have remained constant. Second, East Asian countries' experiences, though remarkable, are not exceptional to the rest of the world. Their specific geopolitical features may be particularly inductive to institutional upgrading. The global dynamics, however, are universal and other countries can take advantage of economic integration to find their own path to prosperity in a less ideal geopolitical context. Sporadic successes have occurred throughout the world with or without similar geo-political constraints – Chile, Rwanda, Botswana, to name a few. The recent welfare transformation in many developing countries such as Southeast Asia and Latin America, which have traditionally been labelled as “intermediate states”, suggests that a move to the middle is taking place in a much larger scope today as globalization becomes intensified, even though the pace and magnitude of change varies across countries.

It is under such a backdrop that China's welfare transformation can be better understood. China shares similar geopolitical dynamics with its East Asian neighbours, even though its national peculiarities certainly produce specific institutional arrangements different from its East Asian neighbours. Yet, again, local peculiarities only exert their influence within the structural environment defined by globalization.

4. Institutionalization of Social Assistance in China

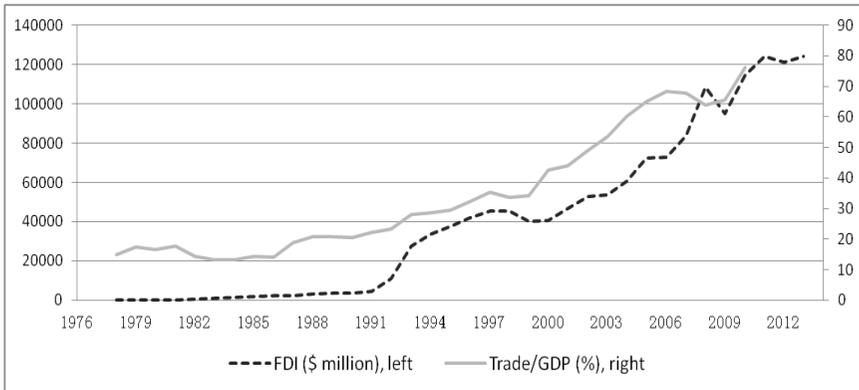
The welfare system in post-Mao China has undergone significant changes in the past decades. That transformation is closely associated with China's integration into the world economy (Shou, 2013). Welfare restructuring in China has been characterized by both the expansion of traditional welfare benefits – particularly social security and health care – and the creation of the

new social assistance programs for the urban and rural poor. In this study, I will focus on social assistance programs and, through this case, examine the interaction of global and local dynamics that induces welfare institutional change. In what follows, I will break down the process of institutionalization into four phases: 1) from 1993 to 1997; 2) from 1997 to 2003; 3) from 2003 to 2007; 4) since 2007, and will demonstrate that these four phases are closely associated with China's economic integration.

4.1. 1993-1997: Local Experiments of Urban Social Assistance Reform

Along with more than a decade of economic reforms that successfully transformed the rural economy, China's urban economic reform remained slow. The key obstacle was the state-owned enterprises (SOEs) that were embedded into the hierarchical state bureaucracy. SOEs functioned as a proxy of welfare state to their employees with generous welfare benefits and rigid labour protection, which seriously hindered the competition of SOEs. The model was proved unsustainable as illustrated by the economic difficulties experienced by the urban residents in the late 1980s, which, in part, fuelled the anger that eventually led to the Tiananmen protest in 1989 and contributed to the clash between reformers and conservative forces in dealing with it. In spite of the cold political climate in the following years, coastal provinces continued to push their door open to foreign trade and investment and their economies continued to boom. The breakthrough came in 1992 after Deng Xiaoping toured Southern China and called for further reform and openness. As a result, the year 1993 witnessed a series of economic reforms. As Figure 3 illustrates, China's trade openness level increased significantly and steadily after 1992. But the most important feature of China's openness is its inflow of foreign direct investment (FDI). FDI's volume jumped from \$35 million in 1991 to \$110 million, a growth rate of 152%. In 1993, the volume further increased to \$275 million, making China the second largest FDI recipient country next to the United States.

Along with the inflow of FDI was the domestic economic restructuring, with the key component being the separation of government functions from enterprise management. To compete with the private sector in attracting FDI, SOEs must end their over-protected labour system and generous welfare benefits. Once the separation of state functions and enterprise management took place and firm managers were given autonomy to hire and fire their employees, the year 1993 quickly witnessed a surge of so-called layoff workers from the urban formal sectors. These individuals kept their formal ties with their firms and might still enjoy certain allowances but their living conditions dramatically deteriorated after the previous welfare benefits were

Figure 3 Trade Openness and FDI in China, 1978-2012

Note: Trade openness is measured by trade volume (the sum of imports and exports) as a share of GDP.

Source: Trade openness from Penn World Tables (PWT) 7.1 (current price: 2005 base year); FDI from UNCTAD, *Foreign Direct Investment database*.

significantly cut. Urban poverty and instability became a new challenge to the government.

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

Most importantly, the relief programs were not institutionalized but instead characterized by arbitrariness and uncertainty. For instance, the benefits were handed out on a temporary basis, often taking place during holidays or when disasters strike. In addition, the management of the relief programs was highly decentralized. Local governments determined the level of benefits and the administrative units that handled the fund were grassroots

governments such as township governments in rural areas and neighbourhood committees in urban areas. The eligibility criteria of beneficiaries were determined to a very large extent by grassroots officials who handed out the fund. The finance of the relief fund was also decentralized, primarily shouldered by local governments or rural collectives.

Since the late 1980s, urban reforms began to produce layoff workers. Restructuring of the social relief program was called for so as to deal with a rapidly growing population under poverty. Because of the decentralized nature of the previous relief program, the pressure was particularly acute for the local governments who were responsible for taking care of this group of individuals. It is, therefore, not surprising that the most economically advanced and open region, Shanghai, took the lead in local experiment. From late 1992, the Shanghai government began discussing the strategy of dealing with the problem of urban poverty. A series of discussions and policies eventually led to the establishment of a minimum subsistence support line for urban residents, effective from June 1993 (Duoji Cairang, 2001: 98-99). A few months later, another coastal city, Xiaomen, Fujian, took a similar measure. These local initiatives quickly drew attention from the Ministry of Civil Affairs (MCA), which was responsible for the relief program. Concerned about the feasibility of promoting a nationwide program, the ministry took a cautious approach and decided to conduct a pilot program in multiple cities in 1994. By the end of 1996, the minimum living standard guarantee program (MLSG, or *dibao* in Chinese), taking various forms across regions, was established in 90 cities across 21 out of 30 provincial units. At the same time, some provinces also conducted experiments in a rural social assistance program. By 1996, 256 country-level governments have conducted the experiment (Zhang, 2010: 62).

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

4.2. 1998-2003: Institutionalization of Urban Social Assistance Program

By 1997, the reform of SOEs that started in 1994 had proved unsuccessful, as a majority of SOEs continued running in the red. In September 1997, the Communist Party in its 15th national congress meeting called for the adjustment and improvement in the ownership structure and explore the multiple forms of public ownership. A comprehensive reform was launched and privatization of SOEs swept the country. The laid-off workers reached a peak of over 6 million in 1997. Urban poverty became increasingly challenging, calling for further reform of social policies. The broader context of this round of reform, however, was the Asian financial crisis that started from June, 1997, a few months prior to the congress meeting. The financial crisis not only added to the hardship on the Chinese economy, as FDI and export volume were reduced, but also fundamentally changed the government's understanding of its previous development strategies. The government realized that comprehensive reforms must take place across the board and institutional complementarity is necessary for the success. The crisis particularly underscored the need for more institutionalized social assistance policies and programs for people facing the risk of unemployment and poverty. As a result, along with the SOEs, many other areas such as finance, rural economy, and social policies, including social security, public health, and education, were then included in the reform package.

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

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

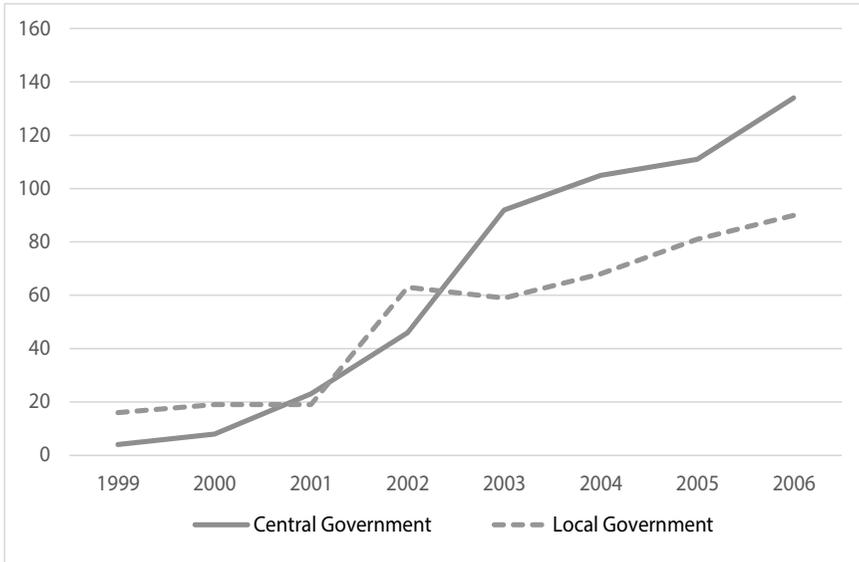
counties in the nation establish *dibao* by the end of 1999, which was achieved by September 1999.

The system, however, had obvious flaws. Its decentralized and fragmented nature made the standards of coverage highly uneven across regions and difficult to implement. The lack of financial support from the central government discouraged local governments from implementing the policies. Despite the institution having been set in place, only about one fifth, or fewer, of the individuals under the poverty line were estimated to be actually covered by the program at the end of 1999; the benefit level tended to be too low to help the recipient to make ends meet, and regional disparity was severe (Leung, 2006).

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

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

Despite the progress, the central government’s financial commitment was still far from sufficient. The financial burdens jeopardized local governments’ incentives to implement the policy. The goal of “covering everyone in need” was still not fulfilled, leaving a significant amount of individuals without assistance. From 2001, the central government strengthened its effort of implementation. First, local governments now were required to set up their regulations and policies. By the end of 2003, all provincial units except Jilin, Shanxi, and Guangxi had set up detailed regulations. Second, the central government drastically increased its financial responsibility, as shown in Figure 4. Compared to the meagre 0.4 and 0.8 billion in 1999 and 2000 respectively, the central government’s subsidies increased to 2.3 billion in 2001, an increase of 187%. Its share in total expenditure increased dramatically too. By 2003, the share of the central government’s subsidies in

Figure 4 The Expenditures on Social Assistance, 1999-2006 (100 million yuan)

Source: *China Civil Affairs' Statistical Yearbook*, various years.

the total expenditure exceeded 60%. The increase in the central government's financial commitment encouraged local governments, particularly the provincial governments, to increase their efforts as well, which significantly reduced the burden that previously was primarily on the lower level of governments, particularly at the county level.

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

Due to both the improved financial situation and pressure from the central government, local governments increased the number of personnel and facilities of the social assistance program at various levels of government. The mechanism of supervision and monitoring was also improved. At a broader level, the concepts of social assistance and of social safety net gained strong attention from media and scholars, producing a positive atmosphere to promote the implementation of the program. Various social organizations, domestic and international alike, began to participate in the effort.

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

4.3. 2004-2006: Overcoming the Urban-Rural Divide

The progress, however, was far more significant than the number of recipients and the amount of cash received by the poor. The more significant part of the reform was the comprehensiveness of the reform that, simultaneously, established targeted assistance programs to help the recipients of MLSG in various areas such as employment, housing, health care, education, and transportation. After a number of years of local experiments, the Ministry of Civil Affairs proposed in 2004 an overarching goal of social assistance system by 2010: to establish a nationwide social assistance system with MLSG and disaster relief as the foundation and targeted programs as the supplement. In doing so, however, the challenge would be far greater than establishing *dibao* alone for it requires not just money but also the concerted efforts of various government branches at various levels as well as the determination of the central government to make it happen. In the next few years, the Ministry of Civil Affairs issued a number of regulations, some of which were co-issued with other ministries such as Finance, Construction, Health, and Labour and Social Security. This suggests that the central government was fully committed to the system.

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

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

The challenge in building rural *dibao*, however, was more complicated than the distraction from urban *dibao*. Up to the fall of 2004, the central government insisted that most rural areas did not have the capacity to build *dibao* due to financial difficulties. However, the same concern of financial constraints had always been a focal point in the debate over urban *dibao* throughout the entire process but eventually did not hinder the reform. The sheer size of the rural poor certainly made the government more reluctant to implement the program in rural areas than in the urban areas. But that concern does not explain the enthusiasm of both the Ministry of Civil Affairs and some local governments in experimenting rural *dibao* prior to 1997. The fundamental reason to explain the slow process of institutionalization of rural *dibao* was at the ideational level. The deep-seated bias against agriculture and rural residents underpinned the previous development strategy, which, in the past decades, excluded the rural residents from state protection but instead forced them to be entirely dependent on rural collectives. As the urgency of building rural *dibao* was not great enough for the government to take it seriously prior to 2004, the effort could be easily distracted by urban *dibao*.

The biases against agriculture and rural residents, however, began to change around the early 2000s when rural problems became overwhelming. Along with the decay of rural governance, rural infrastructure was severely outdated and damaged, and social conflicts followed (Shou, 2015; Bernstein and Lu, 2003; Unger, 2002). Income growth in rural areas slowed down in the late 1990s, contributing to the skyrocketing urban-rural income gap. In 2005, the gap for disposable income was 3.22:1, compared to 1.74:1 in 1974, an 85% increase in two decades, according to data published by the national statistics bureau. Along with the rising income gap were a series of problems facing future prosperity: slow urbanization, imbalanced economy heavily

relying on cheap labour and distorted currency, and, ultimately, the associated vulnerability of the economy to the global market. It became apparent that the growth model embraced by the country in the past two decades, which was built upon the sacrifice of agriculture and rural residents, would be unsustainable.

In the midst of a strong sense of crisis and vulnerability, new reforms took place to change the rural tax system, which was responsible for most of the rural unrest in the 1990s. In a decision taken at the Chinese Communist Party (CCP) annual conference in late 1998, “reducing peasant burden” became one of the priorities to deal with. From 2000, the pilot reform was launched in Anhui province. The key component was to simplify the mechanism of rural extraction and convert all the fees, which were often decided arbitrarily by local officials, to taxes so as to improve transparency. In March 2003, the state council decided to make the reform a nationwide effort. However, in early 2004, the government made a surprising announcement to repeal agricultural taxes all together within five years, which was in fact achieved by the end of 2005.

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

The rural *dibao*, naturally, became part of this sweeping package of reform and must be understood within this context. A series of government documents from 2004 indicated an increasing emphasis on rural poverty and a fundamental change in the understanding of rural social assistance within the government. For example, in his state report during the annual national congress meeting in March 2004, Premier Zhu Rongji did not even mention rural *dibao*, but instead continued to use “social relief” and “five guarantees” to discuss rural poverty. At the end of the year, he stated that rural *dibao* could be implemented in the coastal areas but the rest of the country should be cautious due to the lack of financial capacity in doing so. In the next year’s annual congress meeting, however, his report encouraged the rural areas to try out the program, which was further strengthened in the Communist Party’s annual congress meeting at the end of the year. A year later, the party congress made a decision, issued in October 2006, stipulating to implement rural *dibao* nationwide gradually. Two months later, however, the CCP central conference on rural work stipulated to establish rural *dibao* nationwide from 2007.

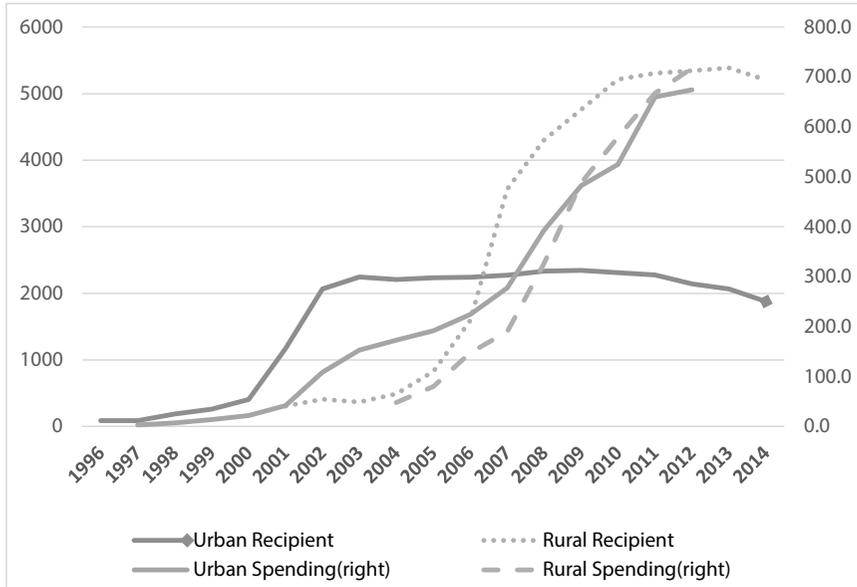
At the same time when the central government was contemplating the rural problems, the same ideational change took place in the society as well. The public debate was intensified on the fiscal feasibility of universal *dibao*, with a specific focus on whether to implement it in the rural areas. The underlying concern, certainly, was about the role of the rural sector within the framework of economic restructuring. The debate involved not only the domestic experts but also international organizations such as the Asian Development Bank's Chinese agency. The nationwide debate during this period helped the central government clarify its understanding of the reform and eventually form a consensus by the end of 2006 (Zhang, 2010; Zheng, 2006; Zheng, 2007).

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

By summer 2007, after the remaining seven provinces joined the program, all provincial units established their rural *dibao*. The number of individuals covered by the program increased by 30% compared to that at the end of 2006 (Zhang, 2010). However, the system remained fragmented due to the criteria used by local governments. Regional disparity and low level of benefits remained an issue. In some less developed regions, the principle of "covering everyone in need" was still not fully fulfilled. In July 2007, the State Council issued a notification that clarified the criteria for coverage and level of benefits, and demanded the provincial governments to increase their financial share. Since then, the focus has been to narrow the gap between urban and rural *dibao* and integrate the two systems into a universal scheme of welfare protection beyond social assistance.

In fall 2007, the CCP in its 17th congress meeting announced a comprehensive and integrated social welfare system, with social security, social assistance, and social relief as the foundation; basic pension, medical care, and *dibao* as key components; charity and private insurance as the supplement. From then on, the official language no longer separates "urban" and "rural" in referring to nationwide social welfare programs. Primary efforts have been given to improving the quality of rural *dibao* in terms of coverage and level of benefits. Assisted by the concerted efforts by the multiple levels of governments in both financial and institutional commitment, progress has been significant in the following years. Figure 1 has shown the significant increase of social assistance expenditure in a broader measure in both rural and urban areas since 2007. Figure 5 further shows the growing trend of *dibao* in urban and rural areas since 2003. The number of recipients of urban *dibao* has been stable since the early 2000s at about 22 million, while rural recipients increased significantly from 2007 and reached a stable level of 53

Figure 5 Recipients (left, 10 thousand) and Expenditures (right, 100 million yuan) of MLSG, 1996-2014



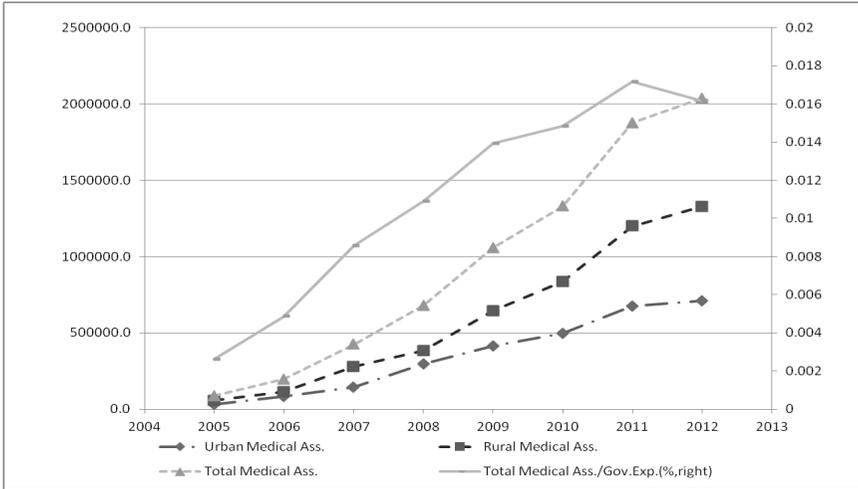
Note: The rural and urban spending since 2013 has been combined into one category.

Source: *China Civil Affairs' Statistical Yearbook*, various years.

million after 2010. The expenditures on both rural and urban *dibao* increased significantly after 2007, and the gap was narrowed. After 2009, the spending on rural areas surpassed that of urban areas.

Although the reform in 2007 laid a solid institutional foundation for China's social assistance in order to defend its economy against market fluctuation, the system was far from ideal. Studies have shown that the coverage remains incomplete. The benefits remain low. The central government's financial commitment was not sufficient. The 2008 world financial crisis produced a chilly impact on China's manufacturing export, which had a strong presence in rural areas. That promoted the central government to further increase its subsidies in rural *dibao*. In 2009, the central government's financial commitment for the first time surpassed that of the local government, jumping from the previous year's 42% of total government subsidies to 63%, helping to further reduce the urban-rural gap.

Along with *dibao*, targeted social assistance programs such as education and medical care have also been institutionalized and consolidated. To illustrate, Figure 6 shows the increase of medical assistance subsidies which

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

Source: *China Civil Affairs' Statistical Yearbook*, various years.

started from 2004. Although its share in government expenditures remains rather small, the pace of increase, particularly for rural areas after 2008, is impressive.

5. Conclusion: Rethinking the Nature of Chinese Regime

China's social assistance program has made a significant progress in the past three decades. As demonstrated in the above analyses, two things stand out in this process. First is the extension of the social assistance benefits to the vast majority of the rural poor. The second is the institutionalization of the program that lays a solid foundation for future improvement and for developing other welfare programs. Given the daunting challenge of the urban-rural divide that has constantly troubled China's reform in the past decades, this progress is particularly impressive.

In an authoritarian regime such as China, this progress does not sound straightforward to understand, for it is against the nature of authoritarianism to extend the benefits to the poor outside of its core coalitions, particularly given that the sheer size of the rural poor in China is intimidating for any authoritarian ruler to handle. Even though it is not uncommon as a strategy for authoritarianism to share economic benefits with the powerless while continually excluding them from power-sharing (Naughton, 2007), buying-off does not sound an accurate description of the dynamics underpinning China's

social assistance program that is characterized by solid institutions and the government's commitment to its long-term development.

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

The analysis in this chapter has illustrated that the process of institutionalizing China's new social assistance system was intimately associated with China's integration into the world economy. In every critical juncture of China's economic transition, such as in 1993, 1997, and 2002, the institutional change of the program can be seen as a direct response of the government to the pressures introduced by China's integration. On the other hand, the response would not have been successful had the politicians lacked strong motivation. Often times, the effort was made not simply by the government itself but also by the entire society as well. Only when the pressures from both the global and domestic levels are strong enough to produce a consensus about the urgency for change, would the politicians be willing to pay attention to what their subjects demand for. Ultimately, it has been the interaction of the competitive pressures from global markets and its vulnerability to its domestic pressures that induced the authoritarian ruler to listen.

Many implications can be derived from this study. A particular concern for this author is the future of the Chinese regime. If this authoritarian regime is capable of listening, how do we compare it to many others and how do we predict its future? Again, my answers to these questions are guided by my understanding of the experiences of East Asian countries in the past decades. One thing that characterizes these countries is their authoritarian origin and legacies. Yet an equally impressive trait of these societies is their shared growth model and broad coalition mechanism underpinning wealth redistribution. Surprisingly, however, it is not common to reconcile these seemingly contradictory traits in the conventional theories of democracy and authoritarianism.

Contrary to common views that authoritarian regimes were built by utterly unconstrained and ungenerous ruling elites, we have found that China's rulers, as well as its East Asian neighbours during their own authoritarian times, are active in building impressive new institutional capacities for delivering

welfare benefits to popular sectors. The question therefore is to what extent does the East Asian experiences fit in the existing theoretical framework and deserve the label of “authoritarian regime”? Could it be, in fact, a wrong question to ask in the first place whether China’s authoritarian regime can listen? The conventional labelling of China as an authoritarian regime is built upon a profound yet misleading assumption that an authoritarian regime has no incentives to provide public goods, much less through institutionalized channels. Yet, when it comes to public goods provision and normal politics in which elites deal with various social groups, it may not be about regimes *per se* but about elite preferences that determine state capacity and, ultimately, good governance, which is embodied in effective institutions for long-term development.

In this sense, I concur with what Doner *et al.* (2005) have argued: “We should not expect democracy to necessarily yield more capable and more generous states. Nor should we assume that constraints on elite actions are confined to democracies. The values of democracy are undeniable but lay in other places.” In terms of governance and public goods provision, it is determined by something else which China and East Asian countries have well possessed and skilfully exploited.

Then, it comes to the question of regime survival or authoritarian resilience. The answer, in fact, is all about institutional upgrading: to what extent the political elites are capable of developing new institutions in order to keep diverse social interests in balance. That capacity has been the hallmark of East Asian countries well before some of them fully embraced democracy. And it played a critical role in assisting these countries in their democratic transition with much less bloodshed than most other countries have experienced. The more important and meaningful question, therefore, is not how long the Chinese regime can hold its power but in which way it recedes. Does China possess the same capacity of institutional upgrading for a relatively smooth transition as some of its neighbours did? Too much uncertainty at the moment to permit a quick answer. Yet, as far as this study has revealed, there have been quite strong incentives within the Chinese state to seek institutional remedies for the various problems it faces. It is for sure that the threat of revolution and social unrest may not have brought democracy so far. The inclusiveness at times becomes elusive. The imbalance of power distribution within the ruling elites may threaten the effectiveness of institutions (Boix and Svobik, 2013). But a historical perspective does suggest that institutional inclusion plays an extremely critical role in explaining the rise and fall of nations (Olson, 1982; Acemoglu and Robinson, 2001 and 2012) and has had a profound impact on Chinese society in the past decades. And still, the impetus for it remains strong today (e.g. Teets, 2014; Stern, 2013; Lorentzen, 2013;

Chen, 2012; Stern and O'Brien, 2011). That judgment, if holds true, can help predict a, more or less, promising future for China's transition.

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