

Globalization, Development Strategies and Social Welfare for the Rural Sector in China since the 2000s

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April 2015

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ISBN 979-11-86226-25-4 95340

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Globalization, Development Strategies and Social Welfare for the Rural Sector in China since the 2000s*

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Abstract

Through a case study of China, this study investigates the impact of globalization on social welfare to the rural sector. This study provides support to the claim that globalization leads to social welfare expansion. In China, this was not conducted through a compensation mechanism in which volatility in globalization increases the societal demand for government welfare expenditure. This study finds that in countries with potentially huge domestic markets, an alternative mechanism is through the state's change of its development strategy to a domestic consumption-driven one. I found that the volatility of exports during the global economic crises led Beijing to change its development strategies from an export-oriented to a domestic consumption-driven one. With this shift, central leaders gained incentives to extend social welfare provisions to the rural sector in order to increase consumption.

Introduction

Rural populations in China were virtually excluded from social welfare provisions in the 1980s and the 1990s despite phenomenal economic growth. Since the 2000s, however, the Chinese government has developed social health insurance and pension programs for rural populations. Although these programs are much inferior to those for urban populations, it is still a significant change for the welfare of huge rural populations in China. For the first time in the history of the People's Republic of China (PRC), the central government has provided a subsidy for rural health insurance and pensions. In 2011, 832 million people joined rural health insurance programs, recording a 97.5 percent enrollment rate,¹ and 326 million people enrolled in rural pension programs.²

* The author appreciates Jihyeon Jeong and Joo-Youn Jung for helpful comments.



Building upon the globalization literature, this study finds that the volatility in the export markets during global economic crises had impacts on extending social welfare to rural populations in China. Facing the instability of export markets, the Chinese government changed its development strategies from an export-oriented to a domestic consumption-driven one. This impelled the center to take initiatives in building social welfare institutions for the rural populations in order to boost domestic consumption.

This study contributes to the globalization literature by specifying an alternative mechanism in which globalization leads to welfare expansion. Existing studies explain this notion by referring to a compensation mechanism: as globalization increases volatility, it creates societal demands for social welfare protection.³ While the compensation mechanism may work in democratic countries, it may not do so well in non-democratic regimes where politicians tend to be insulated from societal demands. This study finds that in countries with potentially huge domestic markets, an alternative mechanism is through the state's change of development strategies to a domestic consumption-driven one.

This paper is comprised of six sections. Following the introduction, the second section elaborates a theoretical framework. The third section examines how global economic crises engendered changes in the development strategies of China from an export-oriented to a domestic consumption-driven one. The fourth section investigates how this shift of development strategy led to a social welfare extension to the rural sector as a way to boost domestic consumption. The fifth section examines the patterns of development for social health insurance and pensions for rural populations. Finally, the sixth section draws a conclusion.

Theoretical Framework

The impacts of globalization on social welfare are under debate. First, some argue that globalization would lead to the retrenchment of social welfare because capital mobility across borders makes it difficult to tax capital.⁴ Second, some maintain that domestic politics or economies, rather than globalization, determine social welfare provisions.⁵ Third, others claim that globalization would engender a social welfare expansion. In a study of small European states, Kazenstein pioneered in presenting the compensation mechanism through which trade openness led to welfare expansion.⁶ Garrett and Rodrik elaborated the compensation thesis, arguing that globalization increased domestic volatility and thus, created a societal demand for compensatory government expenditure.⁷ Several statistical analyses of the Organization for Economic Cooperation and Development (OECD) countries gave support to the compensation thesis.⁸

Most of these studies only examine developed countries. However, associations between globalization and social welfare could be different between developed and developing countries for several reasons. First, domestic volatility caused by globalization is likely to be greater for developing countries than for developed countries. While developed countries have high levels of intra-industry and intra-firm trade, developing countries depend on a narrow range of commodi-



ties for exports, such as primary goods or low-skill manufactured goods.⁹ Second, in many developing countries, democratic institutions are either incipient or absent. Thus, the state could be insulated from the societal demand for compensatory government spending. Third, due to the scarcity of capital, developing countries are more vulnerable to pressure from footless global capital than are developed countries. Fourth, existing welfare institutions tend to be different between developed and developing countries. In many developing countries, social welfare provisions tend to be confined to the privileged groups, such as civil servants, the military and workers in the formal sector, while leaving a majority of the population uncovered by social welfare protection.

These differences between developed and developing countries have conflicting implications on the effects of globalization on social welfare provisions. High volatility caused by globalization in developing countries could engender a greater societal demand for compensatory government expenditure. However, political institutions in developing countries may fail to transfer such societal demand into social policy making. High vulnerability to pressure from mobile capital in developing countries could lead to the retrenchment of social welfare spending. But as Rudra claims, this does not necessarily exacerbate inequality under the condition that only the privileged enjoy social welfare provisions.¹⁰

An in-depth case study is useful to trace the causal mechanisms through which globalization affects social welfare provisions in developing countries. Through a case study of China, I find that volatility in exports triggered changes in social welfare institutions for the rural sector through a shift in development strategies.¹¹ The Chinese government was particularly sensitive to the instability of exports because this would slow down the economic growth. As Chinese leaders rely on economic performance for their legitimacy, they are keen to maintain high economic growth rates. Facing volatility in the export markets in the 2000s, particularly during the 2008 global crisis, Beijing changed its development strategies from an export-oriented to a domestic consumption-driven one. This shift was possible because China has potentially huge domestic markets.

Existing studies point out that the export-led development strategy adopted in many Asian countries brought about minimal social welfare provisions because the competitiveness of export in developing countries was based upon cheap labor.¹² During the 1980s and the 1990s, China followed its neighboring East Asian countries in pursuing an export-led industrialization strategy based on cheap labor.

I argue that the shift of development strategies from an export-oriented to a domestic consumption-driven one opened the window of opportunities for extending social welfare to the rural populations. First, the search for ways of increasing domestic consumption produced many studies which demonstrated that the primary reasons for low household consumption in China are due to the low growth of disposable household income, high savings and rising inequality. These problems were manifest in the rural sector. The findings suggested that in order to increase consumption, China needs to build social welfare institutions for rural populations. Second, the National Development and Reform Commission (NDRC), a powerful bureaucratic organization ranked above the ministry-level in charge of planning development strategies, came to advocate for developing social welfare for the rural sector in order to increase domestic consumption. The



NDRC's advocacy for extending social welfare to the rural sector carries heavy weight in China, where social policy-making is confined within the state. Third, with the shift to a domestic consumption-driven development strategy, social welfare provisions came to be regarded as compatible with development, rather than being harmful to development.

Alternative explanations fail to provide sufficient answers to the extension of social welfare to the rural sector in China. First, some attribute the development of social welfare institutions to industrialization because industrialization creates the need for social welfare provisions by weakening the traditional forms of welfare provisions, such as family and community. The role of family in providing welfare in rural China has been weakened as many of the young have migrated to urban areas. Moreover, implementation of the one-child policy since the late 1970s increased the burden of the young to take care of the elderly. This explanation, however, has a limitation in that it does not provide mechanisms through which the need for social welfare is translated into actual provisions of social welfare.

Second, one might attribute the development of rural social welfare to the Hu Jintao and Wen Jiabao leadership because they claimed to pursue pro-rural policies, distinguishing them from the preceding Jiang Zemin leadership, who had focused on the development of wealthy coastal regions. However, the leadership factor cannot explain the significant variations in social welfare provisions for the rural sector in the Hu-Wen era. Thus, this study focuses on the structural factors that propelled Chinese leaders to develop social welfare programs for its rural residents.

Global Crises and the Change of Developmental Strategies in China since 1998

China has rapidly been integrated into the world economy ever since opening its door in 1978. China's export, as a percentage of GDP, increased from five percent in 1978 to a peak of 36 percent in 2006 and then declined to 31 percent of GDP in 2011.¹³ This figure was still higher than the 24 percent average among countries with a population over 100 million in 2011.¹⁴ As China became integrated into the world economy, China was exposed to shocks from the global crises. This section examines China's responses to three global shocks, the 1997 Asian financial crisis, the 9.11 incident in 2001 and the 2008 global financial crisis, by focusing on changes in its development strategies.

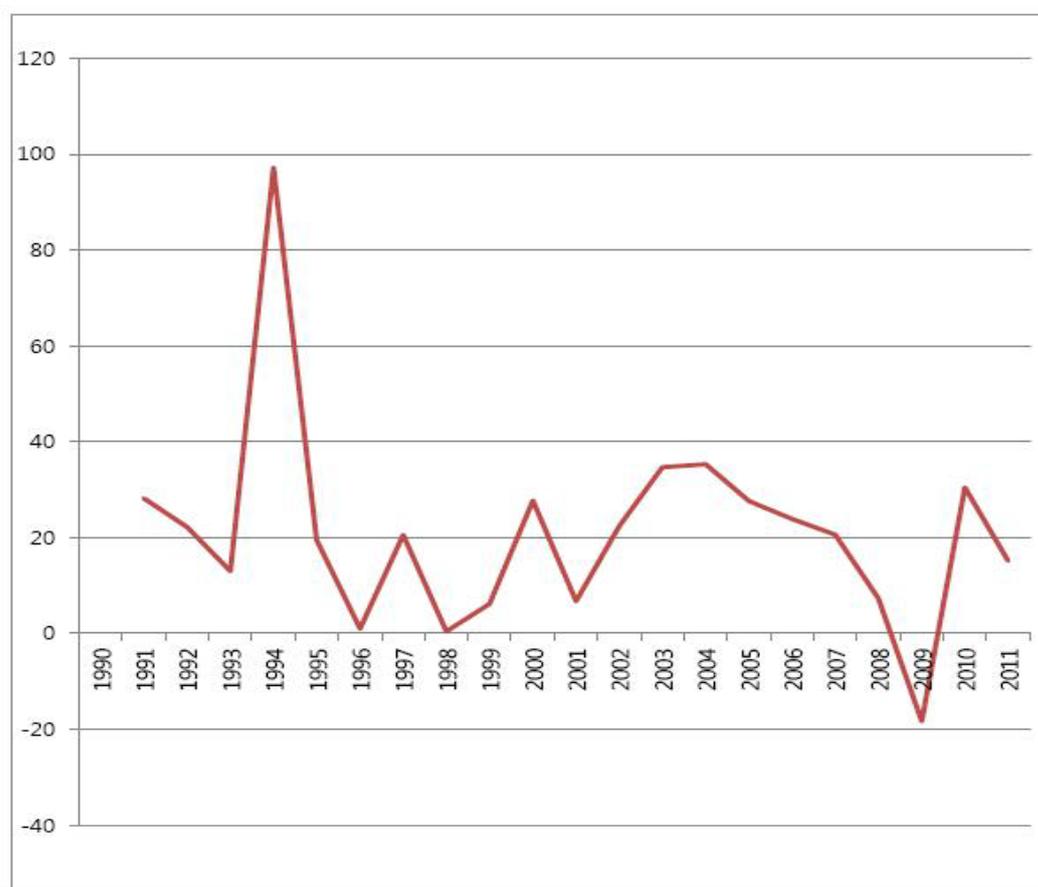
The 1997 Asian Financial Crisis and the Investment-Driven Development Strategy

When the storm of the financial crisis hit many Asian countries hard in 1997 and 1998, China was able to escape from it because China had not opened its capital account and thus was not vulnerable to massive outflows of capital. Nonetheless, as China had close economic relations with other Asian countries, China's economy was not immune from the influence of the crisis. Figure 1 shows that the export growth rate sharply declined to zero in 1998. Figure 2 demonstrates that,



whereas China's export to Asia slumped in 1998, increasing exports to Europe and North America made up for the shortfall.

Figure 1. Export Growth Rates in China, 1991-2011



Source: Author's calculation. Data are from *Zhongguo tongji nianjian 2012* [China Statistical Yearbook in 2012].

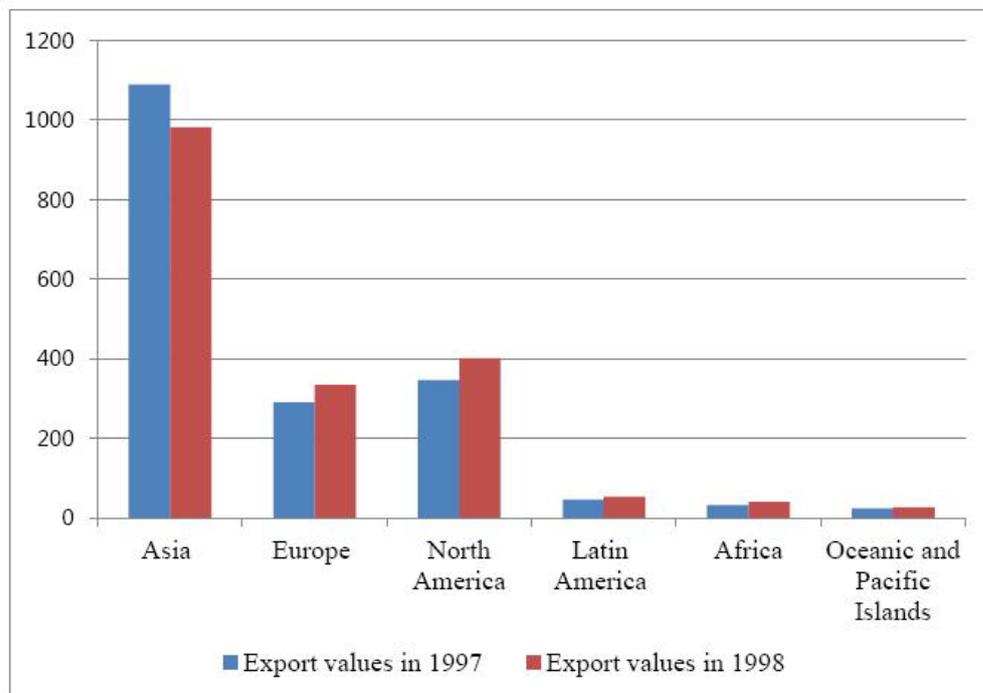
Facing shocks from the Asian financial crisis, Beijing had difficulties in maintaining high growth rates. Because China had already high unemployment rates due to state owned enterprise reforms, Chinese leaders were concerned that the slow economic growth would exacerbate the unemployment problems. Chinese top leaders perceived that high unemployment rates could threaten social stability. Confronting the instability in exports in 1998, Beijing adopted the strategy of boosting investment demand in order to achieve high growth rates.¹⁵ In 1998, the center issued 100 billion yuan of government bonds and utilized them primarily for infrastructure investment.¹⁶

Judging that a massive scale of government bonds had a positive impact on maintaining the high growth rate in 1998, Beijing continued the policy of boosting investment demand for a few years after 1998.¹⁷ Beijing subsequently issued large-scale government bonds: 110 billion yuan in 1999,¹⁸ 100 billion yuan in 2000¹⁹ and 150 billion yuan in 2001. The proportion of government



bonds out of GDP exceeded 20 percent in 2001.²⁰ In short, from 1998 to 2001, Beijing pursued a strategy of boosting investment demand through issuing government bonds.

Figure 2. China's Export Values by Continents in 1997 and 1998 (Unit: 100 million in U.S. dollar)



Source: Author's calculation. Data are from *Zhongguo tongji nianjian 1998* [China Statistical Yearbook in 1998].

The 9.11 Incident in 2001 and the Start of the Domestic Consumption-Driven Development Strategy

A couple of weeks after the 9.11 incident in 2001, the then premier Zhu Rongji predicted that this incident would pose greater challenges to the Chinese economy than those in the 1997 Asian financial crisis. According to him, whereas the impacts of the 1997 crisis were confined to the regions of Asia, the 9.11 incident would engender a world-wide recession by deteriorating the U.S. economy. He estimated that a ten percent decrease of exports in China would slow down the economic growth rates by two percent, which would lead to higher unemployment.²¹

By 2001, it became evident for Chinese leaders that an investment demand-driven strategy through issuing government bonds was not sustainable. Many government officials warned the risk of excessive issue of government bonds. Searching for an alternative strategy, Zhu urged the ministries of the State Council to investigate the extent of citizens' capacity for consumption and the degree of potential for domestic markets.²²

The annual report of the State Council in March 2002 stipulated that the priority should be on increasing household consumption. For this, the report mentioned the following; China



should improve its social welfare for urban residents and increase rural household income.²³ At the annual conference of central economic affairs in December 2002, the then premier Zhu Rongji claimed that Beijing timely appreciated that China could no longer solely rely on investments. Zhu urged to focus on domestic consumption for economic growth in the following years because the role of investment on economic growth was already disproportionately high.²⁴

To sum up, uncertainty in the global export markets after the 9.11 incident combined with the exhaustion of investment-driven development strategy led Beijing to turn its attention to domestic consumption as an engine for economic growth. This change began in the late 2001 and 2002 under the leadership of Jiang Zemin and Zhu Rongji. The leadership of Hu Jintao and Wen Jiabao succeeded the strategy of domestic consumption-driven development. The annual report of the State Council in 2004 mentioned that a low proportion of consumption out of GDP in China was harmful for its economic development.²⁵ In 2006 and 2007, the annual reports of the State Council emphasized that China would maintain the strategy of increasing its domestic consumption demand.²⁶

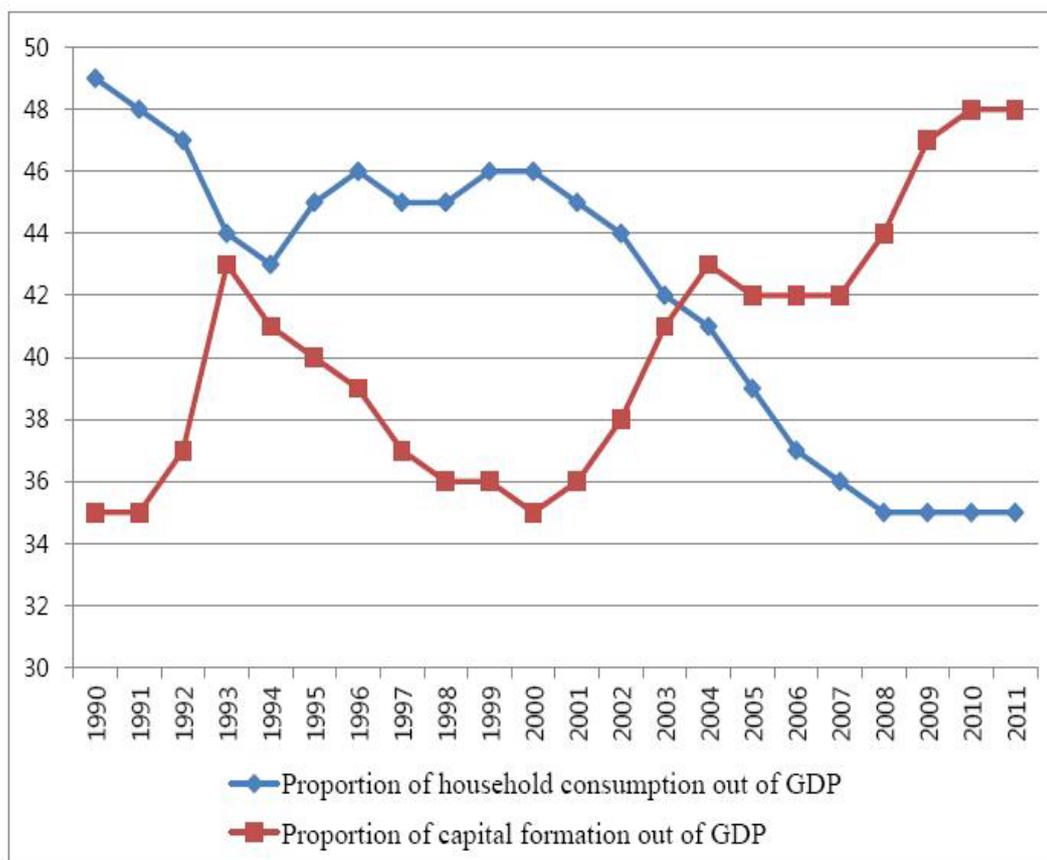
Although China officially adopted the strategy of domestic consumption-driven development since the early 2000s, in reality, Beijing made little progress in increasing domestic consumption by the mid-2000s. The proportion of domestic consumption out of GDP decreased from 46 percent in 2000 to 35 percent in 2008. On the other hand, the proportion of capital formation out of GDP increased from 35 percent in 2000 to 44 percent in 2008 (See figure 3). These outcomes suggest that policies taken to increase consumption at that time, such as abolition of rural taxes, were not sufficient to increase consumption. They also suggest that Beijing did not take active measures to increase consumption because its good performance in exports in the early and mid-2000s lessened the pressure for it. With the entry of the WTO in 2001, China's export, as a percentage of GDP, increased rapidly from 20 percent in 2001 to 36 percent in 2006.²⁷

The 2008 Global Economic Crisis and the Deepening of the Domestic Consumption-Driven Development Strategy

Influenced by the 2008 global economic crisis, China's exports recorded a negative 18 percent growth rate in 2009. This was the first time that China experienced a negative growth rate in exports since the 1990s (See figure 1). Although the decline of China's exports to Asia was offset by increasing exports to Europe and North America during the 1997 Asian crisis, the 2008 global crisis led to the decrease of China's exports to all continents (See figure 4). Moreover, the prospects for the world economy in the following years were gloomy. It appeared that the economies of North America and Europe would not recover soon. Thus, Beijing came to have a strong incentive to increase its domestic consumption, rather than relying on the volatile export market. The annual report of the State Council in March 2009 pronounced that the domestic consumption-driven development would be a long-term strategy.²⁸



Figure 3. Proportions of Household Consumption and Capital Formation out of GDP, 1990-2011

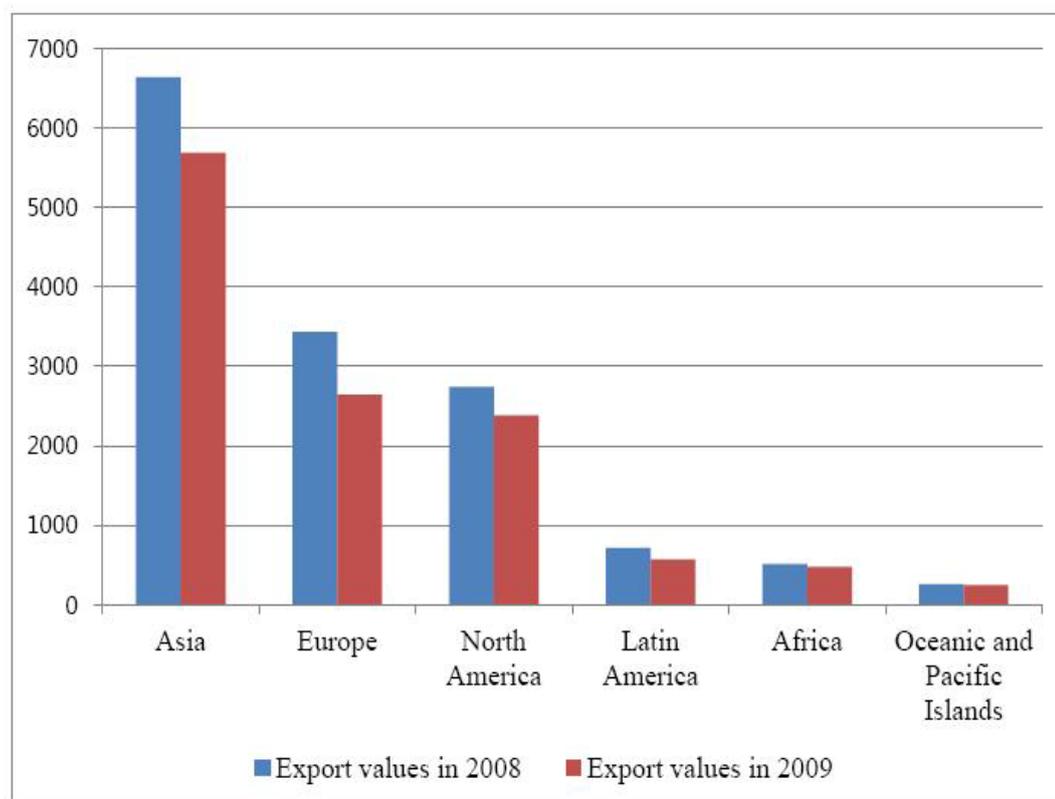


Source: Author's calculation. Data are from *Zhongguo tongji nianjian 2012* [China Statistical Yearbook in 2012].

To sum up, facing the 1997 Asian crisis, the Chinese government resorted to increase its investment demand through issuing government bonds. However, this strategy was not sustainable due to the fact that excessive reliance on government bonds was considered risky. The 9.11 incident in 2001 alerted Chinese leaders about the instability of the export market of developed countries on which China's export was heavily dependent upon. Thus, China began to take on a domestic consumption-driven development strategy from the early 2000s. The sharp decline of China's exports during the 2008 global crisis compelled Beijing to take active measures in order to increase its domestic consumption.



Figure 4. China's Export Values by Continents in 2008 and 2009 (Unit: 100 million in U.S. dollar)



Source: Author's calculation. Data are from *Zhongguo tongji nianjian 2009* [China Statistical Yearbook in 2009].

Domestic Consumption-Driven Development and the Extension of Social Welfare to the Rural Sector

The shift to a domestic consumption-driven development strategy does not necessarily engender a social welfare extension to the rural sector. There are many other ways to increase domestic consumption. At the outset of encouraging domestic consumption in 2001, the then premier Zhu Rongji claimed that social welfare provisions for the urban population were an effective way to increase domestic consumption. However, he did not apply the same logic to the rural sector.²⁹ Zhu believed that China, as a developing country with vast populations, could not afford to provide social welfare to the rural sector. He asserted that the use rights of agricultural lands provided the rural population with means of maintaining a basic level of livelihood.³⁰ Then, how did Beijing change its policy toward social welfare for the rural sector?

First of all, the adoption of the domestic consumption-driven development strategy opened the window of opportunities for China to explore various ways to increase its domestic consumption. In 2002, household consumption was 44 percent of the GDP in China, much lower than the



neighboring Asian countries, Japan (57 percent) and Korea (56 percent), not to mention other countries such as the U.S. (71 percent) and Mexico (74 percent).³¹ Household consumption of GDP in China decreased to 35 percent in 2008 and remained the same by 2011.³² Many studies have been conducted to investigate the reasons for the low household consumption in China. They suggested three main reasons.

First, some argue that the slow growth of household income was a main cause of low household consumption in China.³³ The average growth rates of urban household income and rural household income from 1990 to 2002 were 7.6 percent and 4.3 percent, respectively, lagging behind 9.3 percent of the average GDP growth rate during this time. One of the possible reasons for the low growth of disposable income was the increasing expenditure in healthcare and education.³⁴

Second, some claimed that the high propensity for savings by the Chinese population led to low consumption. Household savings, as a percentage of disposal income, was 25.3 percent in 2001 in China, much higher than other high-saving Asian countries of Japan (12.6 percent) and Korea (7.4 percent). Household saving, as a percentage of disposable income in rural China, increased from 16.5 percent in 1993 to 25.9 percent in 2003, more rapidly than those in urban China from 18.1 percent to 23.1 percent during the same period, although rural household income grew slowly compared to urban household income.³⁵

Many argue that much of the savings in China are precautionary savings in nature, which implies that people save money for risks in life, such as illness, unemployment and old age.³⁶ According to the 6,000 household survey by McKinsey in 2005, households saved 25 percent of income on average in China. With regards to reasons for saving, 50 percent of the respondents replied that they saved for medical expenditures, and 43 percent of the respondents answered they saved for old age.³⁷ The results suggest that the inadequacy of welfare provisions led to high household savings.

Third, some emphasized mounting income inequality as a cause of sluggish domestic consumption. Income inequality was exacerbated in China for the last two decades. The Gini coefficient in China increased from 0.35 in 1990 to 0.48 in 2008.³⁸ Because the marginal propensity of consumption is low for the high income group, the concentration of wealth among them leads to a low level of domestic consumption.³⁹ One of the important sources of inequality in China lies in urban and rural disparity. Urban to rural income ratio rose rapidly from 2.7 in 1978 to 3.3 in 2007 in China, much higher than 1.8 of the world average. Some scholars claim that if one takes into account the differences in social welfare and public goods provisions, urban to rural income ratio in China would increase to five or six.⁴⁰ This suggested that the disparity in social welfare provisions between urban and rural populations seriously exacerbated China's inequality.

To sum up, many studies on domestic consumption reached conclusions that extending social welfare provisions to the rural sector is crucial in order to increase domestic consumption.⁴¹ Yet, research findings are not necessarily translated into actual policy-making. I argue two significant factors for this. First, the NDRC, a powerful government organization, came to advocate for the extension of social welfare to the rural sector. As the NDRC takes the responsibility for making development strategies for the Chinese economy, they focus on the question of how to in-



crease domestic consumption. Their own studies also reached conclusions on the need of social welfare provisions for the rural population.⁴² Since the NDRC is a powerful organization in the Chinese bureaucratic setting, its advocacy increases the chance for translating research findings into policy. Second, as the need for increasing domestic consumption enhances, Chinese leaders are more likely to take advice from these research findings. A sharp decline of exports during the 2008 global crisis instigated Chinese leaders to consider the suggestions from research on domestic consumption more seriously.

Social Health Insurance and Pensions for the Rural Sector

Social health insurance and pensions for rural populations were virtually absent in the 1980s and 1990s, except for a few wealthy localities. Beijing's neglect of social welfare provisions for the rural population in the 1990s was in contrast with its efforts to build social insurance for the urban sector at that time. This disparity can be explained by political leaders' interests. Whereas rural populations hardly took collective actions to demand social welfare provisions, the urban population did so frequently.⁴³ Enjoying the generous social welfare provisions under the planned economy, urban workers took it for granted that they had social rights to receive social welfare.⁴⁴ On the other hand, the rural population did not have such perceptions because they had not received welfare benefits from the state during the Maoist era. The issues of rural unrest in China were confined to the infringement of interests by local governments, such as excessive extraction of quasi-taxes.⁴⁵ Under the condition that the deficiency of social welfare in the rural sector did not threaten regime stability, central leaders hardly felt pressure for improving it.

With the shift to the domestic consumption-driven development strategy, central leaders came to have incentives to extend social welfare provisions to the rural sector in order to increase consumption. Although the shift of development strategies began from the early 2000s, the rapid growth of exports in the early and mid-2000s lessened the pressure to increase domestic consumption. Facing a sharp decline in exports during the 2008 global economic crisis, Beijing began to develop social welfare for the rural sector in order to increase its domestic consumption. This study focuses on two dimensions of government efforts in developing social welfare programs for the rural sector: the setting up of welfare programs and the amount of government subsidy to these programs.

Social Health Insurances for the Rural Sector

History of the community medical scheme (CMS) in the PRC goes back to the Maoist era. In the 1960s, with the political support from Chairman Mao Zedong, the CMS was built in rural China and was financed through a commune welfare fund.⁴⁶ In 1970, 90 percent of the rural residents were covered by the CMS. However, the CMS collapsed during the 1980s for three reasons.⁴⁷ First, with de-collectivization in the early 1980s, the financial basis for the CMS was undermined.⁴⁸



Second, political support to the CMS had declined because it was regarded as the product of the Cultural Revolution.⁴⁹ Third, the CMS did not have supporting groups who would strongly resist against its collapse. The rural populations did not fight to maintain the program because they had not received good quality medical care from the CMS. Since grassroots governments administered the programs, the central bureaucrats did not have a stake in sustaining the program.⁵⁰ With the collapse of CMS in the 1980s, most rural residents had to pay health expenses out of pocket.⁵¹ In addition, as the prices of health services increased rapidly during the reform period, medical expenditures placed heavy financial burdens on rural residents.⁵²

In 2002, Beijing decided to launch a new community medical scheme (NCMS) for the rural sector under the Jiang Zemin leadership. According to Liu and Lao, the study, sponsored by the Asian Development Bank and the NDRC in 2001, played an important role by associating the problem of lacking health insurance in rural China with the problem of poverty. They found that three percent of the rural population fell below the poverty line due to medical expenditures. This meant that among the people below the poverty line, 44 percent became poor due to medical expenditures.⁵³ In 2001, Zhang Wenkang, the then minister of Health, reported this finding to Jiang Zemin, the then General Secretary of the Chinese Communist Party. After reading this report, Jiang told Zhang: “I am totally shocked by what you said about the rural situations. Are you sure that family bankruptcies due to medical expenses accounted for a third of the rural poverty?!”⁵⁴ Since development and poverty reduction, rather than health, were national priorities in China, understanding the association between poverty and medical expenditures led Chinese leaders to appreciate the need for building social health insurance for the rural sector.

There were some differences between the NCMS with the old CMS. First, whereas the local government and rural residents took whole responsibility of financing the old CMS, the central government began to contribute subsidies to the NCMS. Second, the central government began to play a more active role in regulating the NCMS, such as setting up broad guidelines. The county government was responsible for managing the NCMS within the broad guidelines of the central government.

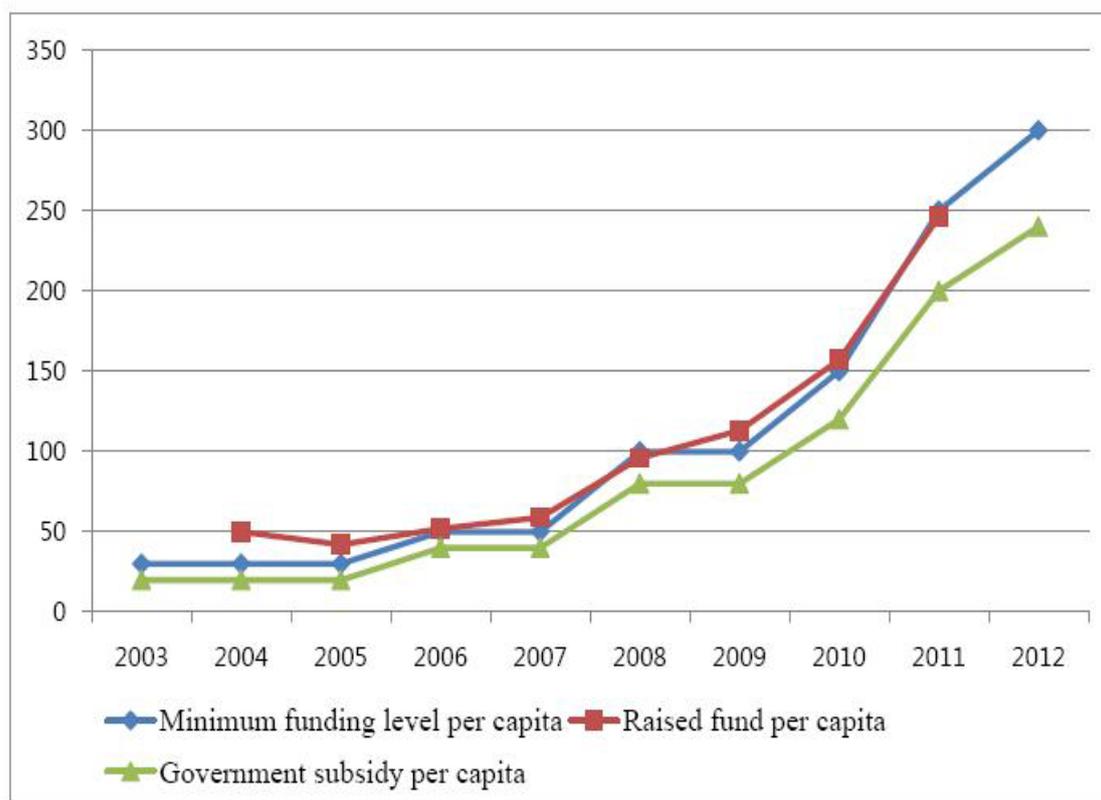
Government subsidy to the NCMS was provided as a matching fund for each enrollee. The central government had the authority in determining the minimum level of funding per enrollee. County governments could increase the funding levels either by increasing the local governments' subsidy or premiums from rural residents. In 2003, the minimum requirement of the annual contribution from rural residents was 10 yuan per person, matched by subsidies of 10 yuan from the local governments (20 yuan in the eastern provinces), and 10 yuan from the central government in the poor central and western provinces. In 2006, the minimum of total funding per enrollee increased to 50 yuan, including 40 yuan of government subsidy.⁵⁵ A low level of funding of the NCMS sharply contrasted with the health insurance for urban employees. The amount of funding per enrollee in health insurance for urban employees in 2007 was 1,229 yuan,⁵⁶ whereas that in the NCMS was 59 yuan.⁵⁷ Because there is no cross-subsidization between urban and rural health insurance programs, the huge gap in funding has led to an enormous difference in benefits. Considering that the annual health expenditure per capita for rural residents was 349 yuan in 2007,⁵⁸



the NCMS funding of 59 yuan per enrollee would cover 17 percent of health expenses on average. By the mid-2000s, the low reimbursement rate of NCMS signified that the NCMS had limited effects on relieving the financial burden of rural residents in health expenses. Rural residents were still forced to pay a large proportion of health expenses out of pocket.

Thus, raising the funding level of the NCMS was crucial for achieving its primary goal of relieving the financial burdens of medical expenditure. Although local governments could raise the funding level of the NCMS by increasing their subsidies, they hardly did so, except for a few wealthy regions. Figure 5 illustrates the minimum funding level per capita required by the center and the raised fund per capita on average across regions from 2003 to 2011. These two lines are almost identical, indicating that most regions adopted the minimum funding level set by the center. Local government officials appeared to have little interest in improving the social welfare for rural residents beyond the level required by the center. This is probably due to the fact that the upper level of the government determines their career paths primarily based on economic performance.⁵⁹

Figure 5. Per Capita Minimum Funding Level, Raised Fund, Government Subsidy of New Community Medical Schemes, 2003-2012



Source: Data on minimum funding level per capita and government subsidy per capita are from Xinhuashe 2009a; Xinhuashe 2009c; Xinhuashe 2010; Xinhuashe 2012. Data on raised fund per capital are from Weishengbu [Ministry of Health] 2012; *Zhongguo weisheng tongji nianjian 2010* [China Health Statistical Yearbook in 2010].



As most local governments followed the minimum funding level of the NCMS set by the center, the role of the center is critical for improving the finance of the NCMS. Beijing does not have any formula to change the minimum funding level of the NCMS. The minimum level remained low in the mid-2000s even after the Hu Jintao and Wen Jiabao leadership succeeded the Jiang Zemin leadership in 2002 (See figure 5). In 2006, the central government spent 4.3 billion yuan as a subsidy to the NCMS, which amounted to merely 0.43 percent of total central government expenditure.⁶⁰

The minimum funding level of NCMS began to increase rapidly from the late 2000s. It increased from 100 yuan in 2009 to 150 yuan in 2010. It further increased to 250 yuan in 2011 and to 300 yuan in 2012. These increases were largely made through raising the government subsidy. In 2012, the government subsidy rose to 240 yuan, contributing to 80 percent of the minimum funding level (See figure 5). With the rise of the funding level, reimbursement rates for hospitalization expenses within the coverage of the NCMS increased from 48 percent in 2008 to 70 percent in 2011.⁶¹

What brought about the rapid increase of the government subsidy to the NCMS since the late 2000s but not during the mid-2000s? This cannot be attributed to the leadership because the Hu-Wen leadership had governed China since late 2002. Neither can the fiscal capacity explain it. The annual average growth rate of fiscal revenues from 2003 to 2007 was 22 percent, higher than that from 2008 to 2011 by three percent.⁶² Alternatively, it was the shock leading to exports in the 2008 global crisis that provided central leaders with the incentives to increase the subsidy to the NCMS in order to increase domestic consumption.

The Building of New Rural Pension Programs

During the Maoist era, collective farming provided a basis to support the elderly. As collective farming was dismantled in the early 1980s, Beijing attempted to build a rural pension system and delegated the work to the Ministry of Civil Affairs (MCA).⁶³ In 1991, the MCA decided to build a nationwide rural pension program at the county level. It was based upon voluntary participation, financed primarily from individual premiums supported by a collective subsidy. All of the premiums and subsidies were flown to individual accounts. Enrollees chose the level of premiums among ten grades, ranging from two yuan to 20 yuan monthly. Most enrollees chose the lowest level of premium. With a few exceptions of wealthy regions, most collectives did not provide a subsidy.⁶⁴ Only bank deposits and national bonds were allowed to invest the accumulated contributions. In 1998, 80 million people participated in the rural pension programs and received 3.5 yuan of pension per month on average.⁶⁵ This level was too low to provide financial protection for the elderly.

With the outbreak of the 1997 Asian financial crisis, Chinese leaders, particularly the then premier Zhu Rongji, became concerned about the financial problems of rural pension schemes, such as the misuse of pension funds and bad management.⁶⁶ The Ministry of Finance and the People's Bank of China casted doubt on the sustainability of the rural pension schemes.⁶⁷ The



Ministry of Agriculture proposed the halt of rural pension schemes on the ground that they increased the burden of farmers.⁶⁸ In 1999, Beijing decided for rectification and the cease of expanding rural pension schemes. With this policy, the number of participants declined to less than 60 million people by 2001 and remained stagnant by 2008.⁶⁹

The change of leadership to Hu and Wen in 2002, who proclaimed to have pro-rural policies, did not bring about an immediate policy change to reconstruct the rural pension schemes. It was not until 2009 that the Hu and Wen leadership promulgated to launch the new rural pension schemes. By 2012, all counties established new rural pension programs. Similar to the old rural pension schemes, the new ones are managed by the county government and are based upon voluntary participation with the choice of the premium level, ranging from 100 to 500 yuan per year. The new schemes, however, were distinct from the old ones. While the old pension programs had individual accounts only, the new ones combine individual accounts with the basic pension financed by the government. For inland provinces, the center provides full subsidy to the basic pension. For coastal provinces, the central and local governments equally divide the financial burden of subsidizing the basic pension. For all enrollees, the local governments provide a matching fund for individual contributions by no less than 30 yuan per year. The center has the authority to set the minimum level of the basic pension, deciding it as 55 yuan monthly in 2009, which was close to the poverty line in rural China. Those who were over 60 years-old by 2009 received 55 yuan per month as basic pension insofar as their children joined new rural pension programs.⁷⁰ 660 yuan of basic pension annually was merely 11 percent of the average annual rural household income of 5,919 yuan in 2010. This was much lower compared with the basic pension for urban employees, which recorded 20 percent of the average urban household income. Due to the fact that the central government subsidy to the new rural pension took only 0.6 percent of total central revenues, there is leeway to increase it.⁷¹ Increasing the government subsidy to the rural pension programs would solve the problem of low participation among the young. According to the report from the National Audit Office of the PRC, only 36 percent of people below 44 years old participated in the new rural pension programs.⁷²

What motivated the central leaders to build new rural pension programs? Rapid aging of the Chinese society⁷³ and the decline of utility of land and family protection⁷⁴ enhanced the need for building new rural pension programs. However, since these problems had existed since the last decade, they could not explain the timing of the start of the program. These factors appeared to work as a background for building new rural pension programs, not as causal factors. I argue that the 2008 global economic shocks and the pursuit of a domestic consumption-driven development strategy played an important role in building the new rural pension programs. The State Council announced that building the new rural pension programs is crucial for boosting domestic demand by improving people's expectations.⁷⁵ The mouthpiece of the Chinese Communist Party School expressed the same opinion.⁷⁶ Chinese leaders came to understand that in order to increase the consumption of the rural population, it is essential for the state to provide safety nets to them.



Hitherto, we examine that the center has developed social health insurance and pension programs for the rural sector in order to increase domestic consumption. Then, do these welfare programs turn out to be useful for achieving the center's goal? Empirical studies provide positive answers to this question. A study on 50 counties of Hubei provinces in 2009 and 2010 found that participation in the new rural pensions increased consumption of rural households.⁷⁷ According to the study analyzing the survey data on 5,728 rural households in 23 provinces covering years from 2003 to 2006, participation in the NCMS increased household consumption by 5.6 percent, which amounted to 149 yuan per year. This amount exceeded the annual NCMS funding levels in these years – 30 yuan in 2003 and 50 yuan in 2006.⁷⁸ Similarly, another study found that participation in NCMS decreased household savings by 12 to 15 percent.⁷⁹

Conclusion

Beijing took initiatives in developing social welfare for the rural sector since the late 2000s by increasing its subsidy to NCMS and launching new rural pension programs. I argue that the volatility of exports during the global economic crises led Beijing to change its development strategies from an export-oriented to a domestic consumption-driven one, and the need to increase domestic consumption led them to develop social welfare to the rural sector in order to increase consumption.

This study provides support to the claim that globalization leads to social welfare expansion. In China, this did not occur through the compensation mechanism in which losers of globalization demand for higher government welfare expenditure. Rather, globalization brought about social welfare expansion, as the increasing volatility of exports led political leaders to adopt a domestic consumption-driven development strategy.

Economic development, rather than the concern of welfare per se, is a driving force for extending social welfare provisions to rural China, as Holliday claims to be the case in other Asian countries.⁸⁰ But unlike Holliday's argument, that the state's priority on economic growth leads to minimal provision of social welfare, its impacts on social welfare provisions are significantly different depending on development strategies. Under the export-led development strategy, Holliday's claim is relevant. With the shift to the domestic-consumption development strategy, however, developing social welfare institutions for the rural sector becomes compatible to economic development. ■



Endnotes

¹ Weishengbu [Ministry of Health] 2012.

² Zhongguo xinwenwang 2012.

³ Kazenstein 1985; Rodrik 1998; Garrett 2001.

⁴ Rudra 2008.

⁵ Pierson 1996; Iversen 2005.

⁶ Kazenstein 1985.

⁷ Rodrik 1997; Rodrik 1998; Garrett 2001.

⁸ Hicks and Zorn 2005; Burgoon 2001; Brady, Seeleib-Kaiser, and Beckfield 2005.

⁹ Garret and Nickerson 2005.

¹⁰ Rudra 2008.

¹¹ Kim (2007) rightly distinguishes the concepts of volatility from openness.

¹² Deyo 1992.

¹³ Author's calculation based on the data from *Zhongguo tongji nianjian 2012* [China Statistical Yearbook in 2012].

¹⁴ The smaller the countries, the more they are dependent on exports. Among countries with a population less than 10 million, exports, as a percentage of GDP, on average were 55 percent. Among countries with a population between 10 million to 100 million, exports, as a percentage of GDP, on average were 38 percent. The author's calculation was based on the data from the World Bank Indicator.

¹⁵ Xinhuashe 2001.

¹⁶ Zhu Rongji 2011a, 173-87.

¹⁷ Xinhuashe 2008a.

¹⁸ Zhu Rongji 2011a, 388-89.

¹⁹ Xinhuashe 2008b.

²⁰ Zhu Rongji 2011b, 270-85.

²¹ Zhu Rongji 2011b, 258-64.

²² Zhu Rongji 2011b, 270-85.

²³ Xinhuashe 2006a.

²⁴ Zhu Rongji 2011b, 445-55.



- ²⁵ Xinhuashe 2006b.
- ²⁶ Xinhuashe 2009a; Xinhuashe 2009b.
- ²⁷ Author's calculation based on the data from *Zhongguo tongji nianjian 2012* [China Statistical Yearbook in 2012].
- ²⁸ Xinhuashe 2009d.
- ²⁹ Zhu Rongji 2011b, 270-85.
- ³⁰ Zhu Rongji 2011a, Speech in May 26, 2000.
- ³¹ Data on China are from *Zhongguo tongji nianjian 2012* [China Statistical Yearbook in 2012]. Data on other countries are from Lim, Spence, and Hausmann 2006, 10.
- ³² *Zhongguo tongji nianjian 2012* [China Statistical Yearbook in 2012].
- ³³ Aziz and Cui 2007; Lardy 2012; *Guojia fazhan he gaige weiyuanhui hongguan jingji yanjiuyuan ketizu* [Research Team at the Macro Economy Research Institute in the National Development and Reform Commission] eds. 2004.
- ³⁴ *Guojia fazhan he gaige weiyuanhui hongguan jingji yanjiuyuan ketizu* [Research Team at the Macro Economy Research Institute in the National Development and Reform Commission] eds. 2004.
- ³⁵ Lim, Spence, and Hausmann 2006, 10-11.
- ³⁶ Zhu et al. 2008; Chamon and Prasad 2010; Lim, Spence, and Hausmann 2006; Han 2008.
- ³⁷ Wu 2007.
- ³⁸ Han 2010a. Gini coefficients measure the degree of inequality, scaling from zero (most equal) to one (most unequal). Gini coefficients over 0.4 are often interpreted as a high level of inequality.
- ³⁹ Tao 2007.
- ⁴⁰ Wang et al. 2011, 2201.
- ⁴¹ A study on IMF estimated that in China, a one percent of GDP increase in public expenditure on social welfare would produce an increase of the household consumption by 1.25 percentage points of GDP. See Baldacci et al. 2010. Also see Tao 2007; Li, Song, and Yang 2009; Chuan, Ding, and Cong 2006; Han 2010b; Tu 2012.
- ⁴² *Guojia fazhan he gaige weiyuanhui hongguan jingji yanjiuyuan ketizu* [Research Team at the Macro Economy Research Institute in the National Development and Reform Commission] eds. Every year from 2002 to 2010; Zhu et al. 2008; Zhu et al. 2009; Zhu et al. 2011; Wang 2011; Chen 2009.
- ⁴³ Lee 2007; Frazier 2004; Hurst and O'Brien 2002.
- ⁴⁴ Lee 2007



- ⁴⁵ Bernstein and Lu 2003; O'Brien and Li 1995; O'Brien and Li 2006.
- ⁴⁶ For research on the CMS, see Feng, Tang, Bloom, Segall and Gu 1995.
- ⁴⁷ In a few townships, the CMS survived in the 1980s. For an in-depth study on such cases, see Huang 1988.
- ⁴⁸ Feng, Tang, Bloom, Segall, and Gu 1995.
- ⁴⁹ Liu, Hsiao, Li, Liu, and Ren 1995.
- ⁵⁰ Duckett 2011.
- ⁵¹ There were a few attempts to re-build the CMS at the local level in the 1980s and 1990s. See Bloom and Tang 1999; Carrin et al. 1999.
- ⁵² Gustafsson and Li 2004.
- ⁵³ Liu and Rao 2006.
- ⁵⁴ *Ibid.*, 84.
- ⁵⁵ Xinhuashe 2009a.
- ⁵⁶ *Zhongguo laodong tongji nianjian 2008* [China Labor Statistical Yearbook in 2008].
- ⁵⁷ *Zhongguo weisheng tongji nianjian 2010* [China Health Statistical Yearbook in 2010].
- ⁵⁸ *Ibid.*
- ⁵⁹ For cadre management system in China, see Edin 2003; Liu and Tao 2007.
- ⁶⁰ The amount of central subsidy is from Xinhuashe 2009b. The amount of central government expenditure in 2006 was 999 billion yuan. This datum is from *Zhongguo tongji nianjian 2012* [China Statistical Yearbook in 2012]. I calculated the proportion of the central subsidy to the NCMS out of central government revenues.
- ⁶¹ Li, Lu, Sun, and Shuai 2012.
- ⁶² Author's calculation. Data from *Zhongguo tongji nianjian 2012* [China Statistical Yearbook in 2012].
- ⁶³ Shen and Williamson 2010.
- ⁶⁴ According to Cai, Giles, O'Keefe, and Wang (2012, 88-9), 98.5 percent of collective subsidies were concentrated in the four coastal provinces (Guangdong, Shandong, Zhejiang, Jiangsu) and Beijing.
- ⁶⁵ Xie 2010.
- ⁶⁶ A report from the Asian Development Bank claimed that they found little evidence on the seriousness of financial problems of the rural pension scheme in their field research in Yantai in Shandong. See Leisering, Sen, and Hussain 2002.



⁶⁷ Shi 2006.

⁶⁸ Zhang and Su 2011.

⁶⁹ Cai, Giles, O'Keefe, and Wang 2012.

⁷⁰ *Ibid.*

⁷¹ Wu 2012.

⁷² Tan 2012.

⁷³ According to the sixth census of China in 2010, 179 million people were over 60 years old, which is 13 percent of the total population; this figure increased from 10 percent in 2000. See Yang 2012.

⁷⁴ According to Li (2007), only 5.7 percent of the rural household income was from property, including rent fees for agricultural land. The decline of family protection in rural China was partly due to the increasing rural to urban migration and partly due to the one-child policy.

⁷⁵ Reuters 2009.

⁷⁶ *Xuexi shibao* [Study Times] 2009.

⁷⁷ Liu 2012.

⁷⁸ Bai, Li, and Wu 2012.

⁷⁹ Gao 2010.

⁸⁰ Holliday 2000; Holliday 2005.



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