Journal of Asian Public Policy
Vol. 4, No. 1, March 2011, 42–60

Routledge
Taylor & Francis Group

The contesting quest for old-age security: institutional politics in China's pension reforms

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The overhaul of the existing pension institutions in China poses a serious governance challenge. This article argues that the ways in which the state responds to social problems are necessarily mediated by the political institutions in favour of continued bargaining between different government bureaucracies. Social policy outcomes are often subject to the contestation of diverse policy ideas and interest conflicts among the actors. Using the example of pension reforms in urban and rural China, we analyse how political institutions facilitate or constrain the diverse policy initiatives by competing bureaucratic ministries, thereby influencing the reform process. The main finding is that the inherent conflicts, compounded by the diversity of policy development at regional level, have considerably precluded coherence in the governance efforts of the central government. The distinct institutional politics revealed by the pension reforms is set to have profound implications for the future development of Chinese social policy.

Keywords: pension reform; institutional politics; social policy; China

Introduction

Social policy development in China has gained significant momentum over recent decades. In urban and rural sectors alike, policymakers have been striving to establish new systems, or to restructure old ones, in view of the increasing social questions relating to the economic reforms which have taken place since 1978. In all these efforts, the reform of the country's diverse pension systems stands out as an issue of major importance. The central government has launched a series of pension reforms since the mid-1980s in an attempt to tackle the problems of mounting financial burdens of the state-owned enterprises (SOEs), as well as the foreseeable population ageing as a result of the one-child policy. In the Chinese context of pension reforms, therefore, the historical legacies of socialism have a crucial bearing on the reform paths chosen by the policymakers. The reform process of the last decades has witnessed fundamental institutional reconfiguration of public–private mix in terms of welfare responsibility among the state, the society and the individuals.

This article seeks to examine the institutional politics of both urban and rural pension reforms in China, in an attempt to analyse the policy ideas and interests of the bureaucracy regarding the institutional forms of both pension systems. The main contention of this study is that the making of China's pension reforms is essentially shaped by a system of institutionalized bureaucratic politics with contesting ministerial perspectives and interests. Such an institutional logic will ultimately prove to be detrimental to any attempt at coherent

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ISSN 1751-6234 print/ISSN 1751-6242 online

DOI: 10.1080/17516234.2011.574960
http://www.informaworld.com

governance in establishing a viable pension system in urban and rural areas, since policy coordination among the parties involved is strenuous and time-consuming. Furthermore, the enforcement of policies may encounter resistance from local stakeholders (as in the case of urban pension reform), whereas policy decisions may be delayed due to contending ideas among key bureaucratic actors as to the assignment of welfare responsibilities (as in the rural case).

The remainder of this article is organized as follows. The section 'An institutionalist study of the Chinese pension policy' sets out the theoretical framework relating to the characteristics of China's political institutions, followed in section 'The institutional politics of urban pension reform' by a description of the bureaucratic politics involved in urban pension reform in China. The penultimate section places focus on the policymaking process involved in the reform of rural pensions. The final section concludes the findings and discusses the potential insights that an institutionalist perspective can offer to understand the issues of governance in Chinese pension policy.

An institutionalist study of the Chinese pension policy

To date, most studies concentrating on urban and rural pension reforms tend to explain the overall development as a result of the state's response to the growing need for old-age security in the context of population ageing, migration and SOE reforms (Smyth 1999, 2000, West 1999, Chow and Xu 2001, Huang 2003, Whiteford 2003). In other studies, the tendency has often been to focus on current reforms with strong policy orientations (Lin 1997, World Bank 1997). Although it is clear that the majority of these studies have contributed to our understanding of the ongoing pension reforms in China, they are almost exclusively centred on policy analysis, thereby falling short of any appropriate account of the institutional settings and political processes that have ultimately led to these outcomes.

Numerous studies have referred to societal or international sources of pension reforms; for example, scholars have documented the societal pressures by disgruntled laid-off workers or pensioners upset about the ignorance of their entitlements during the pension reforms or the privatization of their enterprises (Hurst and O'Brien 2002, Frazier 2004a, 2004b, Gallagher 2005, Chen 2006, Lee 2007). The resultant mobilization of discontented welfare recipients has begun to pose a serious threat to a regime which is still eager to take any necessary precautionary measures to maintain social stability. It is also suggested in another stream of comparative studies that, in their responses to the domestic sources of political activation, the state might also consider the possibility of emulating some of the systems arising from the reform experiences of other foreign countries. Significant emphasis has been placed on the diffusion of pension ideas stemming from the radical privatization of pensions in Latin America, Asia and eastern Europe, particularly those involving neighbouring countries (such as Chile or Singapore), or from the well-known international organizations, such as the World Bank and the International Monetary Fund (Madrid 2003, Weyland 2006, Orenstein 2008). It is therefore apparent that this whole area has become an emerging global phenomenon which has fundamentally permeated national boundaries and gained significant leverage over domestic pension politics.

On the whole, the prior works have succeeded in highlighting certain factors that are important prerequisites to a better understanding of Chinese pension reform within both domestic and international contexts; and yet, the various viewpoints have continued to demonstrate their inability to provide a clear illustration of the Chinese experience, essentially for two reasons. First, although societal pressure is undeniably a background against which the state enforces its welfare reforms, attributing causal importance to this issue alone would again imply a responsive state whose internal institutional dynamics remain opaque. Second, despite the worldwide dominance of neo-liberal policy ideas of international organizations with regard to the pension privatization, the ways in which new ideas are interpreted and contested are essentially subject to institutional filters, that is, how key actors frame the policies within specific institutional settings which define the rules of game and the power relationships (Campbell 1998, 2002, Lieberman 2002, Béland and Yu 2004, Béland 2005). In short, if we are to enrich our knowledge of the pension reforms, particularly in the case of China, where the state retains a certain degree of autonomy against societal pressure and international influence, greater detail will be necessary on the prevailing dynamics within the country's political institutions.

Some scholars have employed institutionalist perspectives in their attempts to account for the pension institutions and politics in China (Béland and Yu 2004, Frazier 2004a, 2010, Shi 2006). Their general idea is to embed pension reforms within a broader institutional framework, thereby demonstrating the ways in which existing pension institutions can shape the ongoing reform processes by facilitating or constraining the ideas and interests of the actors involved. Pension reform in China is thus a policy process, evolving over time, and largely influenced by the interplay between institutions and actors. Given the institutionalist insight in explaining the development of Chinese pension policy demonstrated in these works, however, they tend to be one-sided, concentrating either on urban pension reform or on its rural counterpart. Thus, there is a distinct lack of any integral approach encompassing both realms, which this article seeks to offer.[1]

There is widespread recognition within comparative social policy research of the impact that political institutions have on the shaping of social policy development (DiMaggio and Powell 1991, Hall and Taylor 1996, Immergut 1998). In the various explanations of the macro-political phenomenon, the institutionalist school stresses the importance of the institutional settings in shaping the ideas and interests of the political actors involved, thereby giving rise to certain patterns of policy outcomes. Policymaking is conceived in this respect as a path-dependent, reciprocal process within which initial institutional-building creates specific interest groups and normative identities that tend to constrain subsequent policy development (Skocpol 1985, 1992, Pierson 1993, 2000). Central to the institutional analysis is thus the identification of the ways in which institutions accommodate the political capacities and power resources of key actors, as well as how they influence policy formation. The dispersion of policymaking authority tends to reduce the extent of interest coalitions and undermine the strategic unity of political actors. Welfare institutions with complex groups of actors are more likely to create an institutional logic which is staunchly resistant to the pressure of policy change.

In this light, the Chinese political system is notable for its multilevel bureaucratic organization designed for vertical and horizontal policy coordination. As an authoritarian state governed by the communist party, the political process is mainly influenced by the interaction of various bureaucratic organs and the command of party leaders. Despite its highly authoritarian nature, however, the operation of Chinese bureaucratic politics is susceptible to competition, if not conflict, over policy issues among the different organs.[2] Within such a fragmented authoritarian system, policymaking requires the coordination of resources scattered among the different political organs. Dispersion of power among multiple actors and levels of government increases the number of veto points, and the decision-making process is characterized by incessant consensus-building among relevant officials.

The Chinese pension policy is precisely such a realm with inherently controversial issues and complex groups of actors. The Ministry of Human Resources and Social Security (MHRSS; a merger of previously the Ministry of Labour (MoL) and Social Security and the Ministry of Personnel) is responsible for pension administration for state enterprise employees, civil servants and employees of social organizations, as well as the rural pension insurance. The jurisdiction of the Ministry of Civil Affairs (MoCA) is concerned with social assistance schemes in urban and rural areas and other relief programmes. Due to the affinity in administrative jurisdiction, both the MHRSS and the MoCA have much in common when it comes to raising public responsibility in urban and rural old-age security. On the other side of the pension policy, one can find influential ministerial actors such as the Ministry of Finance (MoF) or even the People's Bank of China (PBC), who are in charge of the financial supervision of social and commercial insurance. In addition, those commissions subordinate to the State Council (SC) are often involved in pension policy, such as the Insurance Regulatory Commission (IRC), the State Development Planning Commission (SDP) and the State Commission for Restructuring Economic Systems (SCRES – later merged with the SDP, in 2003, to become the National Development and Reform Commission).[3] The MoF, PBC and those commissions emphasize economic efficiency and financial discipline, thereby prone to put brakes on progressive social policy on fiscal grounds. In this context, although the MHRSS is the main body responsible for urban and rural pensions, it has no authority to make any final proposals, but instead depends on consultation and cooperation with the pertinent ministries/commissions.

In addition, there is one crucial distinction between the institutional politics of urban and rural pension policies. As a long-established policy field constituting a major element of enterprise welfare within the socialist state, the reform issues relating to urban pensions were confronted within given constraints, such as the existing pay-as-you-go (PAYG) financing arrangements and the fragmented regulatory structures. Given the political priority afforded to the reform of urban pensions as a crucial factor to the success of SOE restructuring in the 1990s, accommodating these institutional factors has become a governance challenge for the central government to ferret out adequate policy ideas while simultaneously coordinating all the contradictory interests. Rural pension policy is, by contrast, a latecomer with few institutional preconditions that might conceivably limit the central government's range of policy choices, because virtually very little has been done in this area in the past. Paradoxically, however, this institutional vacuum might prove to be a very fragile ground for any later endeavours to establish a public rural pension system primarily thwarted by the marginal significance of this realm compared to its urban counterpart. The major governance challenge in the institution-building of rural pension policy in the 1990s (and thereafter) thus consists of the need to reach some general consensus among the rival policy ideas of the bureaucratic actors involved towards the nature of the rural pension institutions.

Given the position of the state bureaucrats at both the central and local levels as pivotal advocates of policy ideas, as well as interest incumbents in the social and pension policymaking, a more detailed examination of the institutional dynamics is well overdue. It is this institutional logic underpinning the politics of social protection which this article sets out to examine. The next two sections will analyse the institutional politics of urban and rural pension reforms in an attempt to highlight this feature.

The institutional politics of urban pension reform

China's urban pension reform has been closely coupled with the restructuring of the socialist welfare arrangements within the SOE, which, during the period of the 'planned economy', provided employees with all-encompassing and generous benefits. Given the increasing market competition since the 1980s, it became clear that the SOEs could no longer finance these benefits solely out of their own pockets. In attempting to achieve their reform goal of a shift from 'enterprise protection' to 'social protection', the central government was aware that, if unchanged, the fragmented enterprise pension systems would impede any substantial reform progress (Whiteford 2003). By the mid-1980s, the central government had already undertaken tentative experiments with pilot schemes in certain localities (Song and Chu 1997, West 1999, Lee 2000, Smyth 2000, Chow and Xu 2001). In 1985, all cities were subsequently encouraged to set up pooled pension funds. This was followed in 1986 by the new contract workers' scheme which obliged both enterprises and contract employees to pay contributions to a funding pool. However, as these measures dealt only with contract employees, it became necessary for the scheme to include other types of workers to broaden the funding pool. Another major objective was to diversify the financial burden associated with pension entitlements across SOEs by means of social pooling supplemented by individual accounts fed solely by employee contributions. These issues were crucial to the pension reforms of the 1990s.

The reform course was constrained by the logic of existing political institutions with a patchwork of administrative bodies for different categories of pension systems (Wang 1995, James 2002, Béland and Yu 2004). With their limited administrative capacity, aggravated by the fragmentation which notoriously prevailed at the levels of both administration and provision, the state's ability to steer the pension reform process had become fundamentally flawed. Since any attempts to overhaul the current urban pension system would touch on the issue of SOE reforms – the cornerstone of the Chinese market reform with the highest political priority – the MHRSS would have difficulty in achieving any policy goals without the cooperation of other parallel administrative bodies. Furthermore, given the PAYG financing principle of the urban pensions, attempts to introduce partial funding through individual accounts would equally encounter questions relating to exactly what their contents were, and how they would work to supplement the PAYG. These entrenched institutional factors have had crucial influences on the development of the urban pension reform since the 1990s.

Social pooling versus individual account

In 1991, the SC decided to introduce a new pension system for state-sector employees. A three-pillar pension system was envisaged for urban enterprise employees consisting of a state pension scheme, a supplementary enterprise scheme and a personal savings plan. All SOEs were to set up contributory pension funds for their employees, with other types of enterprises subsequently following suit, and the state, SOEs and individual employees sharing the burden of the total pension contributions. In addition, bigger enterprises in sound financial conditions could establish their own supplementary pension schemes while encouraging employees to join the programmes according to their own financial capacity. Although the decision in 1991 was a milestone which ushered in the series of consecutive pension reforms, it was in fact more of a declaration of reform principles, with their content remaining unclear. The main problem was in the uncertainty relating to the prospect of the transition from an enterprise-based PAYG pension system to a mixed-pillar system. This ambiguity left room for a subsequent clash of policy ideas among ministries with overlapping authority, notably the then MoL and the then SCRES, with the latter engaging in a process of lively debate with the former over the proposed composition of the three-pillar pension system (Gong 2003, Gao 2006).

In order to explore further directions for development, both the MoL and the SCRES encouraged the launching of pilot schemes by the local governments of several provinces (Nanchang, Shenzhen, Fujian and Hainan). Initially, the MoL proposed a defined-benefit scheme consisting of two elements, a social pension in combination with a supplementary earnings-related pension.[4] Through this approach, the MoL stressed the necessity of a defined-benefit scheme which would retain the real value of the pensions for individual beneficiaries within the system (MoL 1994). For the MoL, the establishment of individual accounts would not necessarily lead to any alleged improvement in financial burden for the SOEs, but it would definitely result in gloomy prospects for the pension benefits of workers. As the major guardian of the urban pension insurance system, the MoL believed that a partial transition with a strong element of defined-benefit state pensions would best fit the status quo. Individual accounts should play a limited role, if at all necessary.

By contrast, the SCRES emphasized self-reliance on the part of the workers, stressing the need for more efficiency and less equity, which was in line with the direction of the ongoing SOE transformation to modern enterprises. In order to achieve this goal, the SCRES advocated a defined-contribution pension system with the combination of social pooling and individual accounts, in the hope that the latter would eventually supplement the former to bear a substantial part of the old-age security burden (SCRES 1995). The SCRES also cited the Shanghai scheme as an example under local leadership, which had already won much recognition through its emulation of the Chilean model with an emphasis on the establishment of individual accounts (Song and Zhang 1997, Chen *et al.* 2000). Individual accounts, if contended, could arouse greater enthusiasm among workers because of their simplicity, transparency and total portability, ultimately reducing the burden on both the state and the enterprises. Table 1 summarizes the contending stances and relevant ministerial interests of the two key policy entrepreneurs towards the role of individual accounts in urban pension reform.

Table 1. The debate over the development of the urban pension policy during the1995 reform.

Ministries involved	Normative ideas	Ministerial interests	Major arguments	Policy proposals
MoL	The pivotal role of the state and the enterprises as providers of urban old-age security	The widening of administrative jurisdiction while garnering financial resources for urban pension insurance	Social pooling should prevail to retain the real pension benefits of the workers	Social pensions and premium pensions are the major pillars, while individual accounts supplement the former
SCRES	Self-reliance of the urban workers. Less responsibilities of the state and the enterprises	The widening of administrative jurisdiction in the overall SOE reform	Individual accounts can contribute to market efficiency and pension system transparency	Individual accounts become the basic pension system for new workers. Social pooling is only responsible for current and retired workers not covered by individual accounts

Source: Compiled by the author.

Since the SC had already envisaged the incorporation of individual accounts in its 1991 document, the combination principle of the SCRES appeared to be appealing. Yet, even at this stage, controversy persisted among the different ministries and local governments with regard to the precise contents of the individual accounts, and how the combination might work within the existing state pension system. In addition to the disagreement over the principle underpinning the system, the dispute also addressed several operational problems, among them not least the growth in contribution evasion; that is, SOEs deliberately under-reported their total payroll or the number of employees to avoid making the necessary mandatory contributions. The SCRES contended that the avoidance of payroll contributions by SOEs was mainly attributable to the heavy burden of the enterprise-based pensions. Invoking the 1991 SC document, the SCRES argued that individual saving accounts could serve as an incentive for individuals and their employers to make contributions because of its inherent link between contributions and benefits. In such a way, the individual account could set in motion partial funding of the overall pension insurance scheme that would ultimately alleviate the burden on these enterprises (SCRES 1995, Song *et al.* 1998).

By contrast, the MoL continued to adhere to its initial doctrine, proposing the separation of the individual accounts as an additional pension plan. The MoL contended that the evasion problem was the result of the poor performance of the SOEs, as opposed to any burden of social pooling. Accordingly, improvements in management efficiency would be of greater importance to SOEs than any emphasis on individual accounts (MoL 1994). Furthermore, given the immature nature of the Chinese market, the litany of advantages of the individual accounts would exaggerate the future returns of the accumulated funds, which could subsequently lead to a reduction in pension benefits. For the MoL, the arguments put forward by the SCRES on the superiority of individual accounts seemed to rest upon dubious grounds that could hardly substantiate the financial foundation of urban pensions.

After several months of disputes, in 1994, the stance of the central government was gradually leaning towards the view of the SCRES, conceiving its ideas as more compatible with principles of the ongoing SOE reform. The then vice premier, Zhu Rongji, confirmed the combination principle of the SCRES, leading to a further SC Circular in 1995 which aimed to expand the new three-tier pension scheme to employees in the non-state sectors. The SC stipulated that the scheme was to be designated as a combination of social pooling among SOEs and non-state firms, as well as personal accounts for all individual workers (*shehui tongchou, geren zhanghu*). Nevertheless, the division between the SCRES and the MoL would eventually prove to have further unforeseen consequences, because both camps had rallied the support of local governments which had gone on to implement divergent schemes. Thus, the SC could do little else but to allow the local governments to choose between the two proposed plans.[5] Although this decision sought to provide local governments with a certain amount of leeway in their local implementation, it would inevitably result in disrupting the overall attempt to unify the already fragmented system (World Bank 1997, p. 17, Huang 2008, pp. 176–178). The central government soon turned its attention to this question and attempted to address an unresolved issue regarding the coordination between the risk-pooling fund and individual accounts (Yu 2007). Considerable effort had been concentrated on higher administrative units and the integration of pooled accounts with the funding of individual accounts ever since the mid-1990s. This had proven to be an extremely difficult task, since it ultimately involved even more actors across different pension schemes and administrative units (provinces, prefectures). In this implementation

phase, blunt conflicts of interest between central ministries and local government agencies were to dominate the dynamics of the reform politics.

The integration of pension institutions and the funding of individual accounts

In 1997, the authority of Jiang Zemin and Zhu Rongji continued their reform plan to tackle the mounting financial difficulties of the SOEs resulting from urban unemployment. A new SC Document addressed the main objective of unifying all pension schemes into a multi-tiered pension system while redistributing the pension burden both between enterprises and between enterprises and employees.[6] The 1997 reform also planned to establish a unified basic pension insurance to replace all pilot programmes in each province by the end of the century, an endeavour which would inevitably touch upon the problem of administration (Frazier 2004a, p. 50). Given the enormous disparity within and between the regions, the SC purported to spread the risks and costs among SOEs and non-state firms across regions with different financial strengths. It was envisaged that at provincial level, the development of pooled accounts would integrate the fragmented pooling administration which, until then, had been located at either county or respective ministerial level.

This move triggered conflicts of interest between local pools in better financial condition and others with heavy retiree burdens. A prime example was the division between local pension schemes and sector-based enterprise schemes of 11 ministries, which had become one of the major reform issues in the late 1990s. As a legacy of the pre-reform era, the enterprise schemes of certain ministries, including transportation, railroads and banking, had been operating since 1951, evolving into a combination of state pensions and supplementary occupational pensions based on individual enterprises in selected industries. By contrast, the local SOE schemes were a mixture of state pensions and local supplementary pensions based on county administration (Chow and Xu 2001, pp. 49–50, Zheng 2002, p. 101). Sector-based enterprise schemes generally offered higher pension benefits to their employees at lower contribution rates than local pensions. The gap in benefit entitlements placed local schemes, despite their poor financial shape, under pressure to keep their pension benefits in line with those of the sector-based enterprise schemes. Local governments therefore had a strong incentive to push through reforms which incorporated these sector-based enterprise schemes under local administration in order to improve their financial condition (Cai 1998, Chow and Xu 2001, pp. 49–50, Zheng 2002, p. 101).

However, this plan met with resistance from the incumbent ministers who argued that the merger decision would be detrimental to the management of production in the respective sectors.[7] The various ministers pointed to the advantage of consolidated sector-based enterprise schemes as a good example for a future national pooling programme; their reluctance was, however, also due to the fact that the sector-based enterprise schemes had lower financial burdens and still had surplus accumulated funds. Nevertheless, since the overall direction of pension reform was geared towards institutional unification, the SC decided to delegate the responsibility for the merger task to the Ministry of Labour and Social Security (MoLSS; previously MoL) and the MoF.

Thereafter, the SC urged local governments to ensure timely pension payments along with the integration of local and sector-based schemes under provincial administration, in an effort to overcome the fragmented fund administration (Chow and Xu 2001, p. 49, Zheng 2002, p. 100). Its aim was to establish a social pool covering all urban enterprises at provincial level to strengthen fund management, consolidate fund redistribution and guarantee pension payments. The central government placed itself under obligation to subsidize the implementation of these measures for any local governments with financial difficulty. In July 1998, the MoLSS set up working groups together with the MoF to supervise the transfer of the administration. Nonetheless, the difficulties in implementing the unification persisted throughout 1998, since only a few provinces had established any unified provincial pools by the end of 1997. Even in these areas, the central government had to learn that managers of the sector-based enterprise schemes had taken advantage of the transfer opportunity to increase the benefits to their own retirees before handing over the fund administration to the provincial government (Frazier 2004a, p. 56). In an effort to lubricate the local transition process, the SC first allowed local governments to establish a provincially unified adjustment mechanism, to be followed by a provincially unified pension system by the end of 1998. Yet, even after the 1997 reform, enormous variations persisted in regional practices. Although nine measures had been specified by the SC and the MoLSS to guarantee the delivery of pension benefits (summarized in Table 2), only two of these actually came into force on schedule, with local transposition lagging far behind the central government target.

In addition to the hesitant process of institutional integration at the provincial level, many provinces also failed to flesh out the combination of social pooling and individual accounts due to the cumbersome burden of numerous retirees. Unable to finance the pension benefits solely by means of revenue from social pools and payroll taxes, local administration transferred the funds that had initially been accumulated in individual accounts to plug the gap in pension payments. Even so, in 1998, as many as 21 provinces reported deficits in their pension payments to retirees due to either mismanagement of pension funds or the failure of local enterprises to pay their contributions. An investigation by the MoLSS revealed a staggering amount of deferred benefit payments, of up to 8.7 billion Yuan, with as many as 3.56 million retirees not in regular receipt of their pensions (Huang 2008, p. 194). In other words, individual accounts were effectively empty (i.e. contributions collected have been directed to current pension payments), and the alleged partially funded three-tier pension system remained financed through the PAYG method. This deficit in implementation reflected the well-known 'double payment' transition cost, when a country needs to establish individual accounts within a pension system financed through PAYG, where the current workforce generation pays for the old-age benefits of retirees while simultaneously accumulating their own future pensions.

Given the complicated nature of institutional incongruence, and the contradictions in interests among different regions, these problems alerted the central government not to proceed with its reform agenda too hastily. The SC therefore slowed down its reform pace, deciding to conduct experimental projects aimed at tackling regional implementation problems. The most notable of these was the pilot scheme launched in the Liaoning province in December 2000 (Zheng 2002, p. 91, Wang 2006, Yu 2007). As a 'rustbelt' industrial area with a high concentration of former SOEs, this province in northeast China had borne the brunt of the reforms, and therefore had a disproportionately high number of laid-off SOE workers and retirees. In addition to adjusting the pension formula and expanding the pension coverage, the new pilot programme addressed two other key aspects, the consolidation of the social pool at the provincial level and the effective full funding of the 'notional' individual accounts. To achieve these goals, the programme stipulated a rule of separate funding and administration of social pools and individual accounts at provincial level, with enterprise contributions flowing to the former and workers' contributions to the latter (Wang 2006, Zheng 2006, Salditt *et al.* 2007, p. 18). Following the lead of Liaoning, similar pilot programmes were introduced in Jilin in 2004 and in Heilongjiang in 2005, followed by further eight provinces in 2006.

Table 2. The integration of sector-based enterprise schemes and implementation of other relevant measures at the end of the 1990s.

Schemes/measures	SC timetable	MoLSS timetable	Policy outcomes 1998	1999	2000
Stated objective					
Guaranteed pension payments	From June 1998	From June 1998	95.20%	97.60%	99.30%
Specific measures					
Legislation on participation	As early as possible	End of 1998	Not promulgated until 22 January 1999		
Expansion of coverage	End of 2000	As early as possible	61.60%	65.20%	67.20%
Enforcement of compliance with contributions	As early as possible	As early as possible	90.24%	88.00%	90.54%
Abolition of sector-based schemes	Immediately	Immediately	Completed in August 1998; but certain sector-based schemes in financial difficulty temporarily maintained under self-administration		
Provincial pooling (redistribution fund)	End of 1998	End of 1998	Established in less than 27 provinces	Established in 29 provinces	Established in all provinces
Full transactions	As early as possible	September 1998	Only partial transactions in 396 of the total 2849 counties on 31 May 2000		
Socialized delivery of benefits	No deadline	As early as possible	35%	47%	92%
Enforcement of budgetary governance	Beginning of 1998	As early as possible	Completed at the end of 1998		
Containment of early retirement	Immediately	Immediately	Up to one-third of applicants for early retirement in some localities in 2000		

Sources: Leisering and Gong (2002, pp. 29–30) and Gong (2003, p. 205).

The pension reforms introduced in the new millennium were generally aimed at strengthening the reform path set in motion since the late 1990s – the establishment of a multi-tiered pension system under integrated administration – while the financial operation of the system also concentrated on the separation of individual accounts from social pooling. At the same time, the central government strengthened incentives for workers to contribute to the pension schemes by raising the annuity by 1% for those who had made continuous contributions for 15 years (Wang 2006, Zheng 2006, Salditt *et al.* 2007, p. 18). In order to assist in the long-term financial sustainability of urban pensions, in 2000, the SC established a National Social Security Fund to finance future social security expenditure, with the hope that future pension liabilities would eventually be totally covered.

Although the country's leaders demonstrated stern resolution in enforcing the urban pension reforms, conflicts of both interests and ideas between central ministries, as well as between central and local governments, continued to play important roles in influencing the policy process. In the meantime, with pilot schemes under way, the reform momentum was further constrained by the decentralized political structure; indeed, much of the success of the policy had to depend on the local transposition (Frazier 2004a, 2010). For example, only Liaoning has thus far succeeded in accumulating sufficient funding for the individual accounts, thanks to the strong support of the central government which had provided 75% of the overall expenditures needed to fill the individual accounts. Other provinces were struggling to achieve this goal, as subsidies from the central government failed to reach the same level as in the case of Liaoning.[8] Apart from some wealthy coastal regions, other provinces which followed suit faced a similar problem: regional competition over the financial subsidy from the central government often crucially influenced the prospect of respective local schemes.

As a consequence, a considerable gap still exists among the regions regarding the implementation of the central government's policy guidelines. In particular, the provinces and municipalities have gained responsibility for many policy issues, including social protection, over the past decade. This complexity is evident in the government's failure to stipulate penalties for non-compliance (Chow and Xu 2001, Béland and Yu 2004, Cai 2004, Frazier 2004a, 2010). Local labour bureaus often found it difficult to oblige enterprises to make contributions, especially those already struggling for survival. Furthermore, in many places, most of the contributions paid into the individual pension accounts remained susceptible to administrative mismanagement, with the contributions collected having been directed to current pension payments as opposed to being accumulated in separate investment funds (Zhao and Xu 2002, Wang 2006, p. 108). Finding a way to tackle these problems within an institutional framework characterized by diverse groups of actors remains a considerable challenge to governance in the ongoing urban pension reform.

The institutional politics of rural pension reform

Prior to 1978, care for the elderly had been the sole responsibility of the family in rural China because the state was loath to introduce any old-age pension system[9]. The economic reforms since 1978 have, however, brought about fundamental changes, including the decollectivization of the rural economy and an ageing population, all of which brings into question the viability of the traditional arrangements for rural old-age security. Against this backdrop, the Seventh Five-Year Plan (1986–1990) marked the beginning of the state's initiative in this domain, through its recognition of the need to establish a rural pension system. Nevertheless, policymaking was still subject to the institutional logic of the state administration. As an emerging field, rural pension policy had yet to go through its struggle for institutional contour and political significance. To rally support for its policy initiative, the MoCA emphasized the policy's compatibility with the overarching economic reform goals, such as the promotion of market reforms or social stability. However, institutionally fragmented authority still provided opportunities for various actors to influence the policy direction, rendering the overall policy development unstable for over a decade.

The SC delegated in 1987 the implementation of social security experiments in rural areas to the MoCA, which regarded it as essential for the diversity in economic and financial situations in the rural areas to be taken into consideration (Cui 1988). This view has dominated the policy direction throughout the 1990s. Reflecting on what had gone before, the MoCA suggested a number of features for the new rural pension system: (1) the terms of eligibility should be in line with conditions of local peasants transferring from farming work; (2) the benefit standards should be appropriate to the economic capacity of both the village collective and the villagers; (3) financial responsibility should be shared between the collective and the individual beneficiaries, with the state offering proper aid if necessary; and (4) the system should be managed by specialized institutions under appropriate supervision (MoCA 1986).

In April 1991, the MoCA launched preliminary pilot pension schemes in Weihai and Yantai, in Shandong Province, and encouraged other localities to follow suit. The major aim behind the regulations for this pilot scheme was the inclusion of all residents with rural residential status between the ages of 20 and 60 years, although participation in the scheme was voluntary (MoCA 1992). The main source of funding was to be from contributions by individual participants and, in the case of economic betterment, subsidies from employers or village collectives. Yet, despite efforts to expand the scheme throughout the rural regions, its overall progress was far from satisfactory (MoCA 1995). Especially in less well-off regions, the farmers had little incentive to join local pension schemes if the village collectives provided no financial support. Besides, due to the experimental nature of the policy, local governments had a certain amount of leeway to implement pilot schemes according to local circumstances, which led to problems of power abuse such as officials compelling farmers to join the schemes or the misappropriation of accumulated funds for other administrative purposes. Such mismanagement gave rise to some scepticism regarding the sustainability of rural pensions.

The dilemma between social insurance and private commercial insurance

At this stage, disputes began to surface in the political arena between two rival bureaucratic camps with regard to the role of the state in the rural pension policy (Leisering and Gong 2002, 29ff, Gong 2003, Shi 2006). Officials from the MoF, IRC and PBC began to question the viability of current rural pension schemes and the necessity of a public rural pension system. For them, the traditional means of subsistence (land, family) would provide sufficient old-age security in the rural sector, since the declining agricultural returns and reduction in family size would not necessarily lead to the disappearance of the family support function. They contended that even if the state had to assume responsibility, it should pursue a multi-pillar approach based on family support, community care and commercial life insurance, supplemented by public pension schemes. They therefore demonstrated preference for a more restricted role for the state as a regulator in this policy issue.

On the other hand, the original policy entrepreneurs, the MoCA and the MoLSS, advocated much more active state involvement in rural old-age security.[10] With the function of land and family declining, both ministries displayed distrust towards the overall role

Table 3. The debate over the development of the rural pension policy in the 1990s.

Ministries involved	Normative ideas	Ministerial interests	Major arguments	Policy implications
MoLSS, MoCA	Rural old-age security has become a social question	The widening of administrative jurisdiction while garnering financial resources	Rural pensions can promote rural reform and social stability	The state should play a pivotal role as a provider of rural old-age security
MoF, IRC, PBC	Land and family suffice for rural old-age security	The widening of administrative jurisdiction and containment of the social security fiscal burden on the public	Mismanagement of local pension pilot schemes has jeopardized financial and social stability	Family and private insurance should be given priority in rural old-age security

Source: Compiled by the author.

of commercial insurance in old-age security, maintaining that the immature market structure of China would potentially undermine the function of private insurance (Zhang 1999a, 1999b). They therefore viewed public pension schemes as the only safety net for the heavy burden left by the traditional caregivers. Table 3 shows the debate between the two bureaucratic camps which has crucially dominated the rural pension policy process. It is important to note that, in addition to conflicting ideas, the two bureaucratic camps also had strong incentives to wield their influences on the development of the rural pension policy. Getting one's policy proposals adopted by the top leaders would imply winning more jurisdictions over this relatively new policy realm.

Initially the idea of more public responsibility in rural old-age security appealed to the top leaders, but the failure of the MoCA to ensure appropriate implementation of the policy severely dented the ministry's credibility, rendering the opposing camp an opportunity to reverse the development track. Meanwhile, the outbreak of the Asian financial crisis in 1997 gave the rural pension policy an unexpected twist. Fearing that a similar crisis could wreck the ongoing economic reforms, the central government leaned towards a conservative bias against any policy in favour of more public responsibility. The then deputy premier Zhu Rongji adopted a particularly outspoken attitude, claiming that the messy development of the insurance industry was likely to lead to calamitous financial disaster. Zhu also pointed to the related risks to the public rural pension schemes (MoLSS 2001, p. 1).

Upon Zhu's demand, an internal special commission was set up in late 1997 to review commercial insurance and other similar schemes, such as the rural pension scheme of the MoCA. The commission's final report claimed to have identified several risks inherent in the rural pension schemes and proposed the transition from public rural pension schemes to private commercial insurance, on the ground that it was still too early for the state to take any affirmative action in the realm of rural old-age security (Leisering and Gong 2002, p. 31, Gong 2003). Strengthened by this report, along with their preoccupation with financial and social stability, the top leaders gave vent to their deep scepticism of the disarray of the MoCA pension schemes, taking it as evidence that the overall condition of the rural areas was as yet insufficient to warrant the widespread introduction of social insurance

programmes (MoLSS 2001, p. 1). In 1998, the SC decided to transfer the entire authority for the rural pension policy from the MoCA to the new MoLSS, in an attempt to integrate all social insurance affairs under one single administrative umbrella. In July 1999, the SC further demanded an immediate rectification of the public rural pension scheme in most areas, which implied an immediate halt to the public pension scheme expansion and an overhaul of the administration of pension funds (*zhengdun guifan*). Thereafter, the already established pension schemes in many rural areas were dismantled (Table 4).[11]

Since then, only some regions with robust economic growth have kept their schemes in operation. There has been consistent failure among the various government organs to reach any general consensus on the proposals by the MoLSS, either to implement the pension schemes only in rural areas that were able to demonstrate sufficient financial condition or to commercialize the entire rural pension insurance system (Leisering and Gong 2002, p. 33, Zhao 2002). To break this policy immobilism, new rural pension insurance schemes were launched in several localities since 2003, based on the principle of 'wide coverage and low benefit' (*guangfugai, dishuiping*), which placed greater financial responsibility on the part of both central and local governments. It was not until September 2009, when the SC issued a 'Guiding Opinion on the Pilot of Developing New Type of Rural Social Pension Insurance', that the overall policy contour has finally taken shape.[12] The new document summarized the experiences of the new rural pension schemes in some localities, and stressed the role of both local and central governments in financing the new scheme. Whereas individual accounts remained the core institutional feature, various tiers of the governments (central, provincial, municipal or county levels) have increased their proportions of financial subsidies on top of the individual contributions (Shen and Williamson 2010). By means of the multilevel, joint financial responsibilities, as well as the separation of fund collection and administration, the latest rural pension reform sought to correct the mistakes of the old schemes prevalent before 2000.

Table 4. Development of the MoCA rural pension scheme since 1992.

Year	Total no. of insured persons (millions)	Total no. of pensioners (millions)	Contributions collected (billion Yuan)	Expenditure on pensions (billion Yuan)	Accumulated funds (billion Yuan)
1992	26.00	–	–	–	0.80
1995	51.42	0.27	3.67	0.10	5.95
1996	65.94	0.32	4.41	0.18	9.95
1997	82.80	0.55	4.22	0.33	14.03
1998	80.25	–	3.14	0.54	16.62
2000	61.72	0.98	1.39	0.41	19.55
2001	59.95	1.08	1.71	0.52	21.61
2002	54.62	1.23	2.52	0.53	23.32
2003	54.28	1.98	3.60	1.50	25.93
2004	53.78	2.05	–	–	28.50
2005	54.42	3.02	–	2.10	31.00
2006	53.74	3.55	–	3.00	35.40
2007	51.71	3.92	–	4.00	41.20
2008	55.95	5.12	–	5.68	49.90
2009	86.91	15.56	–	7.60	68.10

Sources: Labour and Social Security Statistical Bulletin of the Ministry of Labour and Social Security, various years (post-1997), available at http://www.molss.gov.cn/index_tongji.htm; Labour and Social Security Statistical Bulletin of the Ministry of Human Resources and Social Security, various years (post-2008), available at http://w1.mohrss.gov.cn/gb/zwxx/node_5436.htm; and Civil Affairs Development Statistical Bulletin of the Ministry of Civil Affairs, various years (pre-1997), available at http://www.mca.gov.cn/wjylzx/index.asp.

The development of the rural pension policy demonstrates the institutional logic of weak political significance, interwoven jurisdictions and contradictory ministerial preferences and perspectives. In the decades since its inception, contesting approaches towards rural old-age security have continuously precluded coherent efforts to establish any social insurance scheme in this area. Even during the preparation for the new policy document issued in 2009, the task force in the SC responsible for the new rural pension insurance had to collect several times the opinions from the local governments and consult with 13 ministries or committees involved in the policy issue before making the final decision.[13] Concessions on the part of the central government to grant more subsidies to local rural pensions have greatly strengthened the willingness of the local governments to cooperate. In addition, wide discretion of the latter in the design and implementation of local schemes has led to considerable regional disparities in terms of the subsidies granted by various echelons of the local governments. Thus, while the new rural pension policy certainly earmarks an essential progress, it poses a potential governance challenge for the central government in view of the eventual nationwide institutional streamlining in the future.

Conclusions

This article has sought to highlight that, in China's closed political system, major influences on social policy emanate from within the state. The exploration of such institutional impact on the policymaking process can contribute to a better account of its outcomes. This is particularly the case in both urban and rural pension policies, where the intersection of administrative functions among various organs is particularly pronounced. Several central government organs and local government agencies with distinctive policy ideas or interests are often found to be at loggerheads with each other, and institutional politics is entrenched within a fragmented authority which ultimately results in protracted policy processes due to the requirement to achieve some general consensus. Such inherently contentious political dynamics have led to continued political confrontation in the quest for old-age security in China.

In this vein, this article has sought to analyse the trajectories of institutional politics as highlighted in the analysis of conflicting policy ideas and interests during the reforms of both pension policy realms. The urban pension was a pivotal element of the reform of the country's SOEs, which explains why the central government was at great pains to enforce its policy reforms. The attempts to introduce a three-tiered pension system, flanked by the integration of different pension systems and administrative unification at provincial level, sought to overcome the institutionally entrapped stalemate. Although central regulations were adopted in the 1990s, the process of implementation has been bogged down in the problems of fragmented authority at central government level and non-compliance by local government agencies. A large part of the pilot schemes conducted in the new millennium precisely aimed to tackle these governance gridlocks again, and indeed, certain progress was achieved in terms of financial consolidation and administrative streamlining.

The institutional politics of rural pension reform has been even more turbulent due to its relatively marginal significance from the outset. While the MoCA initially succeeded in linking its rural pension schemes with the dominant agenda of market reform, subsequent implementation failures at local level exposed the whole policy initiative to manoeuvres by other opponent ministries to undo the MoCA's overall efforts. With the mismanagement of rural pension schemes coinciding with the onset of the Asian financial crisis, the stance of the MoF and the IRC against the state's responsibility in rural old-age security gradually gained the upper hand, leading to the bumpy development of the rural pension policy in the following years. Only after arduous experimentation of some localities with new pilot schemes, along with incessant bargaining among the ministries within the central government, that the rural pension policy has resumed its momentum in the new millennium.

This analysis of China's pension reforms through the institutionalist lens should offer some valuable pointers for scholars with an interest in all issues of governance in China's bid to establish a sustainable system of social security. Given the likelihood of bureaucratic conflicts inherent within institutional fragmentation which may crucially stymie the policy progress, an important future research implication is to assess how institutional politics of this kind may impact on the development of various social policy realms.[14] Such challenges include the ways in which efforts by the central government to monitor institutional integration may be undermined by the contradictory interests of central and local stakeholders within the institutional framework of fragmented administration. Therefore, recognition of the different institutional arrangements relating to social policy in China can provide a more precise way of gauging whether the historic choices of the socialist welfare institutions will continue to frame policy development in the quest for social security among the competing key actors. The fundamental challenge which lies ahead for Chinese social policy is in the need to determine whether policy reforms can break through the institutionally ingrained bottleneck. This study suggests an ambivalent prospect.

Notes

1. A growing body of literature has indeed dealt with both policy domains (see Wang 2006, Salditt *et al.* 2007). It is, nevertheless, clear that insufficient effort has been placed into the provision of any theoretical explanations. One notable exception is the study of Gong (2003).
2. Political scientists term this characteristic as 'fragmented authoritarianism', indicating that vested bureaucratic interests are often involved in Chinese politics. See Lampton (1987), Lieberthal and Lampton (1992) and Lieberthal (2004).
3. Noteworthy is the fact that not all the organs wield equal influences in the urban pension policy. While the IRC is a regulatory agency set up in November 1998 under the SC, with basically a minor role to play in the urban pension policy debate in the 1990s, SDP and SCRES were powerful constituent units of the SC with a much greater say in the policymaking.
4. This information was provided by a researcher of a central government research institute in Beijing in July 2008. Also see Gao (2006) and Gong (2003).
5. Both plans encompassed individual accounts and social pooling, albeit with different combinations. Plan I, based on the ideas of the SCRES, emphasized individual accounts, whereas Plan II, based on the ideas of the MoL, added more of the social pooling component than Plan I. The two plans also suggested a set of provisional arrangements for current employees not covered by the new scheme. In addition, both plans suggested the introduction of an automatic adjustment mechanism for pensions in payment in accordance with the rise in the local average wage rate; see World Bank (1997, pp. 17–18).
6. The SC document reduced the income replacement rate of pension benefits from 80% to below 60%, slashing the contribution burden of enterprises but increasing employees' shares. Each enterprise should not contribute more than 20% of its total wage bill in social pension funding, while individual workers had to pay 11% of their wages into the personal accounts. See Leisering and Gong (2002, pp. 26–28).
7. This information was provided by an analyst of a policy research institute in Beijing in August 2008.
8. This information was provided by an analyst of a policy research institute in Beijing in September 2009. Refer also to the work of Lu (2008), which attributed the relative success of the Liaoning province to the sophisticated skills of the charismatic Liaoning leader, Bo Xilai, to garner the support of the central government.

9. Analysis in this part is based on a previous study by Shi (2006), supplemented with updated information on the policy development up to the reform of 2009.
10. This information was provided by an MoLSS official during an interview with the author in Beijing in September 2004.
11. This view was expressed by an official of the Beijing Bureau of Labour and Social Security during an interview with the author in June 2005.
12. The description is based on the document issued by the SC in September 2009 (http://www.gov.cn/zwgk/2009-09/04/content_1409216.htm).
13. This information was provided by an MHRSS official during an interview with the author in Beijing in September 2009.
14. Apart from this study, other research has also pointed out similar governance problems related to urban health insurance reforms (e.g. Duckett 2001, 2003) and urban pension reform (e.g. Frazier 2010).

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Journal of Asian Public Policy
Vol. 4, No. 1, March 2011, 61–75

Routledge
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Old-age insurance for rural–urban migrant workers in China

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The lack of social security coverage of rural–urban migrant workers poses a great social problem to the urbanization process in China. This study deals with social security issue of migrant workers based on a survey conducted in 10 cities in 2009 using valid questionnaires returned from 3848 migrant workers. The following conclusions are drawn: (1) 38.3% rural–urban migrant workers believe old-age insurance is the most needed social security; (2) transferability of old-age insurance is the feature that matters the most to rural–urban migrant workers; (3) 58.3% rural–urban migrant workers think the highest acceptable premium rate is 4%; (4) education level, age and income are the major factors that influence rural–urban migrant workers' willingness to get covered by old-age insurance; and (5) on the whole, only 4.2% migrant rural–urban workers already covered by old-age insurance surrendered their insurance because of 2008 global financial crisis.

Keywords: rural-urban migrant; old-age insurance; transferability

1. Introduction

Rural–urban migrant workers are a special social group that has emerged after China's reform and opening-up and is growing stronger and stronger with the industrialization and urbanization process in China. In spite of rural registration, migrant workers normally engage in non-agricultural work and some even have a long-term employment in urban areas, making them an important element in industrial workers (Zheng and Wong 2007). By the end of 2008, China counted 225.42 million rural–urban migrant workers, among which 140.41 million were migrants working off their home counties. But only 24.16 million of them were covered by township basic old-age insurance. If the number of migrants working off their home counties is used as the base, the old-age insurance coverage of migrant workers is about 17.3%, medical insurance coverage is nearly 30.4%, work injury insurance coverage is 35.2% and unemployment insurance coverage is 11%.[1] If the total number of migrant workers is used in the computation, the coverage of these social insurances will be even lower. Migrant workers have made great contributions to the urbanization and industrialization in China. However, due to their underprivileged position and the traditional rural–urban duality, migrant workers do not enjoy adequate social protection (Li 2003, Cai 2004).

The current policies of basic old-age insurance for urban employees require that all the workers (including migrant workers) employed by urban and township enterprises should be covered. However, in practical implementation, the migrant worker insurance coverage is low because the current policies are not quite adaptable to migrant workers, who are known to earn a low income and are highly migratory (Han 2006).

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ISSN 1751-6234 print/ISSN 1751-6242 online

DOI: 10.1080/17516234.2011.574961
http://www.informaworld.com