

**BUILDING A WELFARE STATE: A CASE STUDY OF RURAL MIGRANT  
MEDICAL INSURANCE IN URBAN CHINA**

by

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## **DEDICATION**

For Kaj, so he does not have to write a dissertation of his own.

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## ABSTRACT

My dissertation explores the expansion of social insurance, specifically medical insurance, for migrants, who are neither urban nor rural residents, in urban China. I investigate the factors that account for the expansion of medical insurance to this group in some localities but not others.

Building upon the literature on social welfare and the logic of social welfare provision in authoritarian states, I argue that the recent adoption of urban migrant medical insurance is primarily a state centered story about leaders' political and fiscal incentives. Migrant medical insurance programs have been adopted as a result of three factors: policy legacy, political structure, and political and fiscal incentives. Using an inductive approach to derive theory from case studies in Shanghai and Guangzhou, I argue that policy legacies matter because past policies of the command economy, the *danwei* system and the *hukou* system have created a social welfare system based on employer contributions where there are two options for expanding social welfare to migrant workers, *hukou* conversion and ad hoc social program expansion. Moreover, the political structure, characterized by bureaucratic negotiation between central and local governments, has created a space for variation in local policy and promoted competition between local governments. However, these first two variables are static across all localities. While they explain the broad context of social insurance expansion in China, they cannot alone explain the variation at the local level. In this regard, I argue that the cadre evaluation system and the fiscal system have created political and fiscal incentives

that motivated the expansion of medical insurance to migrants as a development and revenue raising strategy.

I hypothesize that local governments have used medical insurance as a way to attract skilled labor to develop their local economies because government officials have been evaluated on their ability to generate economic growth. Additionally, fiscal deficit, *not* fiscal surplus, has been a key factor in social policy expansion because overstretched local governments can use migrant insurance funds as extrabudgetary revenue to meet current fiscal commitments. These hypotheses are tested in a dataset of 285 prefecture-level and provincial-level cities.

## **CHAPTER 1**

### **INTRODUCTION**

What are the factors driving the expansion of social programs in developing countries? What accounts for local variation in social policy implementation within a country?

My dissertation explores the expansion of medical insurance for migrants, who are neither urban nor rural residents, in urban China. I focus on the health care system for the following reasons. Firstly, health care affects the whole population, regardless of age, employment status or gender. Secondly, while social welfare entitlements such as unemployment insurance, education, and pensions are important, health care is particularly integral to sustained economic development because health care can build human capital, affect individual life opportunities, and affect our normal functioning as free and independent individuals (Deaton 2003; Alleyne 2000; Daniels 2007). Thirdly, although it is widely acknowledged that poverty causes poor health, poor health can cause income inequality and poverty by disrupting people's ability to work and throwing families into debt. Finally, access to quality health care has become a cause for social unrest in China as patients are routinely denied care if they cannot pay for it in advance (Wall Street Journal 2005, 2006; NY Times 2006; Economist 2008).

My research expands our current understanding of the development of welfare states in five ways. First, by conducting an analysis of China's social welfare system, I am expanding our understanding of social policy in both developing countries and

authoritarian regimes. One of the most significant achievements of the modern state is the ability to protect citizens from poverty in the event of sickness, old age and unemployment through a social welfare system. While we know a great deal about the causes and effects of social policies in developed countries, especially in democratic regimes, our understanding of social protection in developing countries, especially in authoritarian regimes, is limited. Given that more than 82% of the world's population lives in developing countries (World Bank 2012), this is a vitally important area of research.

Second, since social welfare theory is premised on democratic regimes, societal pressures are perceived as vitally important for the development of social welfare programs (Korpi 1983; Esping Andersen 1990; Stephens 1979; Therborn 1984; Garrett 1998). However, in my investigation, I find that demands from social groups are not necessary for the development of social programs in authoritarian regimes. Instead, the political logic of the state is the main driver of the development of these programs. Political and fiscal incentives of local leaders drive the implementation of medical insurance programs for migrant workers. Moreover, democratization and external shocks are not essential for social policy expansion. In China, I find that social policy is expanding to outside groups without political liberalization and with limited social pressures.

Third, examining the literature on authoritarian regimes, coopting social groups through social benefits is the most common explanation for the provision of social welfare in authoritarian regimes (Wintrobe 2000; Gandhi and Przeworski 2007; Acemoglu and Robinson 2006; Boix 2003; Olson 1993; Bueno de Mesquita et al 2003;

Svolik 2012). Yet this is an incomplete explanation in the Chinese context with regards to migrant workers. This literature assumes that the authoritarian state is a unitary actor. Instead, in China's case, the state is made up of different actors with different policy preferences and incentives. Further, public goods and private goods are not clearly separated in this case. In authoritarian regimes, public goods can be private goods. In China, social insurance programs, commonly viewed as public goods, can be a source of private goods because this extrabudgetary revenue can be accrued to government officials within the system. Thus, this research augments our current understanding of authoritarian regimes and public goods provision.

Fourth, my analysis of the local variation in policy expansion in China allows us to understand the linkages between economic development and social policy (Wilensky 1975; Flora & Alber 1981; Cameron 1978; Katzenstein 1985; Collier & Messick 1975; Adsera & Boix 2002; Haggard & Kaufman 2008). In my case studies, I find that two Chinese cities, which had similar levels of economic growth and development, differed in their provision of medical insurance to migrants. Thus, I hypothesize that economic factors alone do not explain the development of social welfare programs in China. Instead of economic growth being the driver of social programs, I argue that social programs have been used as a means to accelerate economic development. Chinese local governments have used social policies, as a way to attract much needed skilled labor to develop their local economies because government officials have been evaluated on their ability to generate economic growth. Moreover, fiscal deficit, *not* fiscal surplus, is a key factor in social policy expansion because overstretched local governments have used migrant insurance funds as extrabudgetary revenue to meet current fiscal commitments.

Finally, many quantitative studies in the welfare literature have been conducted (Castles 1993; Flora and Alber 1981; Coughlin 1979; Jackman 1975; Collier and Messick 1975; Hewitt 1977; Myles 1984; Cutright 1965; Wilensky 1975; Schneider 1982; Haggard and Kaufman 2008; Mares 2003; Weyland 2005). However, most of these studies are flawed because they undertake cross-country comparisons but do not sufficiently control for differences between systems. It is necessary to control for the diversity in political, economic, and social structures between countries, but large measurement problems prevent these studies from doing so. Since there is significant variation in urban migrant medical insurance adoption within China, this project can study the factors that drive social policy expansion, while keeping these structures constant because the cities under examination operate under the same political, economic and social system.

### **Data and Methods**

To understand the current policy preferences and options, I conduct a historical analysis of China's social policy, covering China's transition from a command to a market economy, and focusing on the evolution and endurance of the *danwei* system and the *hukou* system. To understand the variation in policy adoption by local governments, I inductively derive my argument and hypotheses by conducting two city case studies and testing them in a multi-city data analysis.

My analysis uses these case studies, an original dataset on city migrant medical insurance, and interviews. For my cases, I select two cases: Shanghai as the leader case and Guangzhou as the laggard case. For my city dataset, I collect and code urban migrant medical insurance policies from 1997-2010 for all 285 prefecture-level and provincial



level cities. My data, gathered during eighteen months of fieldwork in Beijing, Shanghai and Guangzhou in 2009-2010, includes data from local policy documents, media reports, plus provincial and city statistical yearbooks. My interviews with migrant workers, health care professionals, NGOs, firm managers, local officials and scholars on migrants' social insurance and health policy are used to highlight the key issues and arguments in my analysis. Additional information on my methodologies and data are available at the end of this dissertation.

### **The Puzzle of Social Policy in China**

Since China began its transition to a market economy in the late 1970s, it has experienced increasing pressure to transform its welfare system. Since the 1990s, it has introduced social protection programs at a speed that is unprecedented internationally. These include: pension and health insurance programs for urban and rural populations; unemployment, occupational injury and maternity insurance for urban formal sector workers; and a national social assistance scheme which now covers around 70 million people (World Bank 2012). During the last two decades, China has put in place a social welfare system that took OECD countries close to half a century to build, and many other developing countries have yet to develop.

Between 1990 and 2007, China set up three types of medical insurance, Urban Employee Medical Insurance (UEMI), Urban Resident Medical Insurance (URMI), and the New Rural Medical Cooperative (NRMC). In 2009, China committed to spending an additional ¥850 billion (about US\$125 billion) in the ensuing 3 years, with the goal of providing affordable and equitable basic health care for all by 2020. By 2011, these three medical insurance programs covered around 92% of its population (Yip et al 2012). In

August 2012, China's National Audit Office declared that the country's social security system was "basically" in place (Economist 2012).

These reforms culminated into the Social Insurance Law of 2010. The law came into effect in July 2011. The law guarantees the provision of pension, medical, occupational injury, unemployment and maternity benefits. It also increases the portability of these insurance programs between localities. Additionally, the law places stronger obligations on urban employers to enroll migrants in urban employee insurance schemes.

### ***Comparing China with Other Countries***

China's socialist social policy shared distinctive features of Soviet and Eastern European states, where social policy was not based on the accommodation of the labor and the left, but rather the interests of labor and peasantry were subordinated to the political, economic and organizational logic of the command economy (Haggard and Kaufman 2008). However, unlike those countries, China had a much lower level of industrialization and urbanization and has not yet caught up. By 1990, 80% of Russia's labor was engaged in non-agricultural sectors as compared with 40% in China (UN 2002). By 2000, the Eastern European and Russian urbanization rates were close to 70% (UN 2002). In 2011, China's urbanization rate was 50%, and 37% of its labor force was still engaged in agricultural production (China Statistical Yearbook 2012). As a result, China's social welfare state never achieved the wide and deep coverage of Russia and Eastern Europe, where citizens were incorporated into a dense network of social entitlements, and where scaling back benefits could pose serious political risks (Frazier 2010, Haggard and Kaufman 2008). Moreover, as a consequence of the potential fiscal

crises imposed by welfare expenditures, governments in Eastern Europe and other former Soviet states tended to undertake radical reforms, such as pension privatization. China, in contrast, transferred the welfare function previously performed by enterprises to local governments and set up a social insurance system, but it did not engage in privatization (Croll 1999; Frazier 2010). While the 1990s were largely considered a period of welfare retrenchment, where the *danwei* based social welfare system collapsed, this retrenchment did not last long as waves of urban labor unrest forced the Chinese government to quickly implement a series of government managed labor insurance programs in the urban areas. Thus, China did not permanently transition to a retrenched post-socialist welfare regime. Additionally, social policy reforms in Eastern European and Russia took place under democratization. In contrast, China remains under the single party rule of the Chinese Communist Party, and there are few signs of political democratization.

In East Asia, formerly lean welfare regimes are expanding but this expansion has largely been attributed to external shocks and democratization. Prior to the 1997 crisis, East Asia's welfare states were premised on two sets of ideas: "welfare developmentalism" where social policy was viewed principally as an instrument for economic growth, and "Confucian familism," which only required a limited role for the government because the family was the main source of welfare provision (Peng and Wong 2010). The weakness of this type of social protection system, based on a growth-focused state system combined with a heavy reliance on family support networks, was painfully exposed during the regional economic crisis of 1997-98 when a large segment of the population came under economic hardship. After the crisis, East Asian countries started expanding their social welfare systems rapidly (Cook 2009). In contrast, China

survived the regional crisis relatively unscathed, but it has also been rapidly expanding its social welfare system.

Moreover, researchers argue that governments in Japan, Korea, and Taiwan were compelled to enlarge social welfare provision throughout the postwar period because of bottom up democratic political pressure (Peng and Wong 2010). In Japan, in order to maintain its political dominance, the governing Liberal Democratic Party (LDP) needed to facilitate both growth and a relatively equitable income distribution in cities and the countryside (Calder 1986). Similarly, democratic reform and the political incentives of electoral competition prompted the universalization of formerly limited social insurance schemes, such as healthcare, in both Korea and Taiwan (Wong 2004). The introduction of new opposition parties prompted these governments to expand social welfare to win electoral support. Again, China, is different because no opposition party exists. Moreover, social pressure for social welfare among migrants is limited (see Chapter 3).

In Latin America, three variables are important to social policy, industrialization under populist regimes (Argentina), democratization (Chile, Uruguay), and the presence of a powerful left party or coalition (Costa Rica). Economic development and pressure group politics are offered as the key explanation for these social security regimes (Mesa-Lago 1978; Malloy 1979). Extensions of social security protection are not always a response to direct pressure from organized groups but the state's attempts to coopt potential threats or power bases to the regime (Mesa--Lago 1978; Spalding 1977). For example, Argentina, under a military junta in 1943, initiated pensions, public health, social assistance, housing financing and unemployment insurance to coopt labor (Huber and Bogliaccini 2010). Moreover, while the 1945 Law of Professional Associations

limited the independence of labor unions and their rights to strike in Argentina, this law also assured labor union bargaining rights and recognized monopoly unions in each industrial sector, thereby enhancing the power of the left (Collier and Collier 1992). Leftist governments are associated with generous social benefits and the expansion of social coverage (Pribbles 2011). In tandem with economic development, given the debt crisis experienced by many Latin American countries, researchers also attribute the reforms of social welfare regimes to World Bank influence (Huber and Stephens 2001; Teichman 2001). In China's case, while urban workers were given substantial benefits during its command economy phase, and still receive the best social benefits today, Chinese labor never had the kind of political leverage that existed in Latin American countries. Again, democratization as a pathway for social welfare expansion is not relevant in China.

### ***China and Migrants***

China is building and deepening its welfare system in the absence of democratization and external shocks with limited social pressures. Moreover, China is expanding medical insurance to migrant workers, a population that is least likely to mount a challenge to the regime. Why?

China's migrant problem can be traced back to its *hukou* (household registration) system, which was first implemented in the 1950s to restrict rural migration into cities. Rural population pressures, given the shortage of arable land, and urban demand for cheap labor, stemming from market reforms in the 1980s, have led to the relaxation of the *hukou* system (Mallee 2003). As a result, large migrant communities have formed in

urban areas. Currently, there are 220 million rural migrants residing in Chinese cities (Peng 2011). China is experiencing the largest migration in human history.

While large-scale urbanization is nothing unusual in the history of the world, the experiences of other countries suggest that urban ills and rapid urbanization go hand in hand. If the urban sector cannot absorb the additional labor, urban unemployment rises and urban slums form leading to increases in crime rates, traffic congestion, and pollution. The number of migrants in China has doubled in the last ten years. In the 11<sup>th</sup> Five Year Plan for 2006-2010, the Chinese government had expected the level of urbanization to increase from 43% to 47% by 2010. In 2012, the urbanization rate was 50%. If current trends hold, the urban population will grow from 665 million to 926 million by 2025 and hit 1 billion by 2030 (Peng 2011), which translates to an additional 335 million people in the next 20 years. Of the new urban residents, 240-260 million will be rural migrants (Peng 2011). Thus, by 2025, the migrant population is expected to grow to 460-480 million.

Until recently, the migration pattern in China has been largely circular, where migrants move between their place of origin and host city. Surveys on migrants' intention to stay in their host city ranged from 14% to 64% (Fan 2011). The large range in responses is mostly reflective of the different questions used to inquire about the settlement issue in different surveys. For example, Cai and Xu (2009) show that 77% of migrants want to continue to work in their city but only 19% desire to live there during their old age. It seems that over time, the intention of migrants to settle in their host city has increased. For example, based on similar surveys in Fujian conducted in 2002 and 2006, Zhu and Chen (2010) find that migrants' intention to stay in their host city had

increased from 21% to 36%. In a 2008 Beijing study, Fan (2011) finds similar results, having worked in Beijing for an average of 6.9 years, around 38% of migrants would stay in the city permanently.

Recent studies highlight that the new generation of migrants, those born in the 1980s and 1990s, which make up 60% of the migrant population, is more educated than earlier migrants and has little farming experience and thus has less intention to return to the countryside (Murphy 2002; Fan 2008). These people are between a rock and a hard place because on the one hand, returning to the country is not realistic because they cannot farm, but on the other hand, staying in the city is not realistic either because living costs are too high.” (不会种地，回到农村对我来说已不现实，我在这座城市生活了多年，有了很深的感情，但城市商品房太贵，想要扎根下来同样不现实).<sup>1</sup> Overall, as this young generation of migrants increases in size, urban governments will need to start addressing this population’s desire to stay in the host city despite many barriers and difficulties.

While the *hukou* system no longer precludes migration, it still plays an important role in determining claims on public resources (Solinger 1999a; Solinger 1999b; Solinger 2006; Zhang 2002; Zhu 2007; Zhang 2008). Even though migrant laborers contribute to economic development and pay consumption taxes equal to that of the local work force, health care is usually not extended to migrants. While cities are better situated to provide health care to migrants, many choose not to do so. Instead, many cities with large migrant populations enjoy the benefits of cheap labor without taking the responsibility to

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<sup>1</sup> [http://sn.ifeng.com/zixun/shendudiaocha/detail\\_2012\\_11/13/424855\\_0.shtml](http://sn.ifeng.com/zixun/shendudiaocha/detail_2012_11/13/424855_0.shtml);  
<http://baike.baidu.com/view/2967908.htm>

provide health services to them. Due to the deterioration of the rural health care system and because migrants do not pay taxes in their home provinces, local governments at migrants' home provinces also lack the financial resources to provide adequate health care to migrants.

Given rapid urbanization and migrants' second-class status in urban areas, the Chinese government faces an enormous challenge in trying to integrate migrants into urban society. Migrants' health problems were described as a national priority at the Communist Party Congress in Beijing in March 2002, where it was acknowledged that unless their problems were addressed, they could present a threat to public health, sustained economic growth, and social stability. City governments were urged to determine migrants' needs and ensure that they had rights equal to those of the local population, particularly in terms of access to health care (China Daily 2006). In May 2006, the Ministry of Human Resources and Social Security ordered prefecture and large/medium cities to cover migrants under regular urban employee medical insurance or a separate urban medical insurance scheme that would have "a low contribution rate that covers major illness with financing from employer contributions to be used while migrants are in the city (低费率、保大病、保当期、以用人单位缴费为主)." The response of local governments to this order has been varied. While some cities have been early adopters in incorporating migrants into their social insurance schemes as early as 1997, some cities have yet to cover migrants under any insurance scheme despite this central government order. For example, in 2002, Shanghai pioneered a medical insurance program for migrants that include free vaccinations for children and low cost maternity care. In contrast, Guangzhou, did not adopt medical insurance for migrants



until 2009. Given that both cities are wealthy and growing quickly, pure economic factors do not explain the difference in their policies toward the same population. Given this scenario, why have some Chinese cities chosen to provide medical insurance to their migrant population, a politically inconsequential group? What accounts for the local variation?

### **Social Welfare Theories**

In the social welfare literature, three theoretical approaches are used to explain the emergence, expansion (retrenchment) and variation among welfare states. They are the logic of industrialism (a variant of modernization theory), power resource theory, and state centered theory. Although recent scholarship on developing countries has made amendments to these approaches, they remain the dominant explanations of social policy. These three approaches differ in their view of convergence versus divergence among welfare states and the salient factors that explain the origin, expansion and retrenchment of welfare programs. I examine each approach to see what types of observable implications are relevant in the Chinese context to explain the incorporation of migrants into the current medical insurance system.

#### ***Logic of Industrialism***

Based on modernization theory, the logic of industrialism theory assumes that “economic growth is the ultimate cause of welfare state development” (Wilensky 1975, 24). Social changes stemming from economic development will lead to the creation of welfare states. As countries develop economically, industrialization and urbanization will bring about similar experiences across different populations. Regardless of ideologies and political regimes, once people move from an agrarian to an industrial

society, they can no longer rely on their own resources and local communities to cope with social contingencies such as sickness, injuries, and unemployment (Skocpol & Amenta 1986). As a result, social groups make demands on the state for social programs. With fiscal surplus stemming from economic growth, states are able to respond to these social needs by implementing social programs. Thus, while economic development engenders social problems, the same growth creates the necessary resource surplus to deal with these issues (Quadagno 1987).

In this approach, urbanization and government resources are preconditions for the emergence of welfare policies. Over time, all states converge to similar social welfare policies and spending through economic development. While few scholars dispute the importance of economic surplus in the development of welfare states, this approach does not consider the effect of uneven development within a country. In China, economic development and fiscal surplus exist, but economic growth is not evenly distributed. While the central government has a fiscal surplus, many local governments are deep in fiscal debt. Moreover, since social welfare is mostly provided at the local level without adequate central government transfers, local governments are not providing social welfare as a result of economic surplus.

Moreover, this theory posits that economic and demographic variables such as GDP, urbanization rates, and the percentage of the population over 65, are strong predictors of the timing and level of public spending of welfare regimes. While this theory fares well in large, cross-sectional, multi-national studies using broad social expenditure categories and policy areas from the 1940-1960s, it fails in longitudinal and more nuanced studies of social policies (Skocpol & Amenta 1986). Using levels of

industrialization, this theory fails to predict the timing of the adoption of social programs (Flora & Alber 1981; Collier & Messick 1975). Studies on OECD countries conclude that countries' public expenditures have diverged rather than converged since the 1960s, and neither economic level nor growth can account for the divergence (Collier & Messick 1975). Moreover, recent studies that look at both OECD and non-OECD countries find a very weak correlation between economic development and social spending (Adsera and Boix 2002; Mares 2005). Additionally, Collier and Messick's study (1975) find that less developed countries with little economic surplus and a young workforce have initiated social welfare programs. In China's case, its social welfare program can be traced back to 1951, when the first labor insurance regulation was introduced to cover industrial workers in state owned and collectively owned enterprises (Tang and Ngan 2001, Dixon 1981). Having just been through a civil war, China at the time, was poor, rural and undeveloped, but it did implement pension, medical and occupational injury insurance with relatively generous welfare benefits that included subsidized housing, healthcare and transport for industrial workers. Thus, economic factors do not provide a complete explanation in China and in many other developing countries.

Recently, globalization has become a new area of inquiry in the logic of industrialism school of thought, especially in the study of developing countries. Besides domestic factors, external economic factors have been found to affect the development of social programs. Depending on the country's factor endowment, free trade can distribute gains and losses to capital-intensive and labor-intensive sectors; thus, to encourage trade liberalization, states need to provide social protection to losing sectors (Alt et al 1996). In studies by Cameron (1978) and Katzenstein (1985), they find that small open

economies with strong labor unions tend to provide a variety of social protections including unemployment benefits, health insurance, job training and employment subsidies to firms. Rodrik (1998) and Quinn (1997) also find that exposure to trade and capital mobility is associated with more welfare spending and bigger government in both OECD and developing countries.

Several studies have argued that large aggregate shocks experienced by Asian economies during the 1997 Asian financial crisis have contributed to the increase in public spending (Wong 1994; Cook 2009; Haggard and Kaufman 2008). As mentioned previously, the Asian financial crisis created losers that the previous minimalist systems could not address. In contrast, with its massive foreign reserves, China survived the 1997 Asian financial crisis relatively unscathed. Even faced with the 2008 US financial crisis and the 2012 Eurozone sovereignty debt crisis, the Chinese economy grew by 7.4% in 2012 (BBC 2012). However, in the absence of being adversely affected by these exogenous economic shocks, China is expanding its social welfare programs. Thus, the simple explanation that globalization and exogenous economic shocks create losers that need to be compensated with social benefits does not explain social policy in China.

### ***Power Resources***

While economic development is important for the development of welfare states, it takes politics to turn resources into policy. The single modernization approach cannot adequately explain the variation among welfare nations, and empirical evidence suggests that convergence is not occurring. Furthermore, a major gap in the logic of industrialism thesis is its inability to specify the mechanism by which benefit programs get enacted. The power resource approach does not dispute the importance of economic surplus to

welfare state development. Power resource theorists attribute the development of welfare states to the political power of different groups in society. Both industrialization and deindustrialization are explanations for the development of welfare states *not* because of the economic surplus generated from these processes but because sectoral shifts in occupational structure create large numbers of losers whose grievances can only be addressed through governmental expansion of social programs (Iversen and Cusack 2000).

Rather than looking at comparative welfare regimes as converging to a single state model, power resource theorists stress the divergent nature of welfare states. In Esping-Andersen's (1990) three worlds of welfare capitalism, he describes three distinct welfare types, liberal, corporatist, and social democratic. Liberal regimes in the US and UK provide means tested assistance with modest universal transfers emphasizing individual self-reliance and the primacy of the market. Corporatist regimes in Germany provide social insurance tied to occupational status based on historical legacies of corporatism. Social democratic regimes in Scandinavia provide universal welfare based on the principle of equality. In all three welfare regime types, the political strength of the working class is essential for the development of social programs (Korpi 1983; Esping-Anderson 1990; Stephens 1979). Empirically, researchers have found that the scope of welfare programs and the level of social program spending are highly correlated with the strength of labor (Therborn 1984; Garrett 1998). In the Chinese case, labor's needs are subservient to the development objectives of the communist state. While politically important workers, those working for state owned enterprises (SOE) and the public sector,

were rewarded with access to social welfare through their employers, and labor demands were not necessary for social policy enactment in China.

A recent emphasis in the literature that studies the power struggle between different classes in society is cross class alliances. In Peter Baldwin's (1990) examination of the historical origins of social insurance programs in five European nations, he notes that Denmark and Sweden enacted universal, tax financed social policies before the social democratic parties enjoyed an overwhelming political advantage. Moreover, the strongest promoters of universal programs were political parties representing both farmers and the middle class, and they supported these programs because they were able to shift the tax burden to a broader population. Hence cross class alliances are key to social program expansion. However, cross class alliances do not apply in China because it is an authoritarian state where social groups lack the political resources and access to the government. More importantly, social organizations, those not registered with the state, are not permitted in China (Saich 2000).

Borrowing insights from the varieties of capitalism literature, recent research in this field has concentrated on employer preferences towards social policy. Instead of assuming that employers are naturally opposed to social policy, researchers have demonstrated that employers' organizations have sometimes initiated social benefit programs (Quadagno 1987, Swenson 2004, Mares 2003, Hall and Sockice 2001; Thelen 2001). Social protection can have a capacity building rather than a redistributive effect in an economy. Estevez-Abe et al (1999) contend that social protection can help economic actors overcome market failures in skill formation. Since people are less likely to invest in specific skills if the risk of unemployment is high, employers who rely on specific

skills need to insure workers against the potential risk of unemployment. However, employers' promises are not credible, thus governmental policies are crucial. Therefore, the preferences of employers, once thought to be uniformly opposed to social legislation, can be critical in explaining how similar states evolve to have different welfare policies. Thus, the required skill profile, firm size, and sector can be predictive of a firm's preferences (Mares 2003; Estevez-Abe et al 1999; Swenson 1999; Thelen 2001).

Since social protection can tie workers to a workplace and create employee dependency on firms, the types of skills needed in an economy can be a main determinant on the type of social protection that will emerge (Mares 2001). In an economy where firm specific skills are needed, employment protection will be preferred because both firms and workers want guarantees that trained workers will remain at the firm for a long time. In an economy where industry skills are needed, unemployment protection will be preferred because workers can seek employment within industry and will be protected during spells of unemployment. In an economy where general skills are needed, low unemployment or employment protection will be preferred because workers will have a big incentive to invest in general skills which are portable as opposed to firm specific and industry specific skills because they do not have any guarantees that their investment will pay off. So, in economies where a combination of firm and industry specific skills are required, a strong alliance between skilled workers and their employers in favor of social protection is likely to emerge (Mares 2001). In contrast, firms will have no interest in lobbying for any form of social protection when they require workers with general skills (Mares 2001).

Additionally, in Swenson's (1991) study of Denmark and Sweden, he argues that large export-oriented firms support a highly centralized wage-bargaining system and social protection as a means of preventing sheltered producers from attracting workers by offering higher wages. Moreover, in Kathleen Thelen's (2001) study, she finds that firm size matters. While large manufacturing employers favors the German wage bargaining system because they are most vulnerable to overt labor conflict, small and medium-size firms are dissatisfied with the system. As a result of these firm's preferences, complementary welfare programs and policies will emerge to reduce employers' labor costs and ensure the optimal supply of skilled workers (Hall and Soskice 2001). Thus, social policy is correlated with different development strategies to reshapes the local labor force (Wibbels and Ahlquist 2007).

Drawing insights from the existing literature and findings in my own research, given the mobile nature of migrant workers in China, firms requiring skill specific workers would prefer to invest in localities where workers' welfare needs are met by the state because these areas would be able to attract a steady supply of migrant workers who would stay for longer time periods. Thus firm type and labor composition would matter in the Chinese context. In this case, the employers' preferences may be aligned with the state to provide workers with social benefits, which would makes it easier for the state to implement such programs. In Frazier's (2010) pension study, he finds that SOEs prefer the state to take over social provision because they are then relieved of those welfare responsibilities. Moreover, depending on the strength of local governments, local employers can also bargain with the state on social contributions.



In sum, the power resource theory has limited explanatory power in China because the basic assumption is that social groups can press their demands against the state through an electoral process. Being an authoritarian state, social groups have few avenues to express their demands. Moreover, most migrant workers are *not* demanding social insurance from the state (examined in detail in Chapter 3). Yet, despite limited demand from migrants, some Chinese cities are expanding medical insurance to this population. An explanation for this can be found in the variety of capitalism thesis on employer preferences; though Chinese employers view social insurance as an added labor cost, they are not opposed to paying for occupational injury and medical insurance because they can spread the risk among many employers. As put forth in the existing literature, this preference among employers makes it easier for the government to implement social programs.

### ***State Centered***

In contrast to the logic of industrialism and power resource approaches, state centered theorists contend that political structure and policymaking are the primary sources of differences in welfare policy. According to this theory, politics between bureaucrats, sheltered from societal pressures, is the key determinant in explaining the variation in welfare policy over time (Hecklo 1974). Social policy should be seen *not* as a result of economic growth or a reflection of political power of various groups but as a result of state structure and individual bureaucracies. The organizational structure of the state influences politicians' incentives and the collective action of social groups. Case studies on the US Social Security administration and Medicaid/Medicare programs find that state bureaucracies have a high degree of administrative autonomy in establishing

and implementing priorities (Derthick 1979). Castles (1981) and DeViney (1983) find that administratively or fiscally centralized states are more conducive to generous social expenditures than decentralized states. In Immergut's (1992) comparative study of health insurance systems in France, Sweden, and Switzerland, she argues that political institutions shape interest groups' access to government to influence health insurance policies. In Wong's (1994) examination of Taiwan and South Korea's expansionary healthcare policy, he argues that democratization reshapes the political structure and creates new stakeholders in the new system. In China's case, its political structure deeply influences policy preferences and outcomes. However, institutions such as electoral rules outlined by this research have little relevance in China because expansionary social policy is done outside of democratization.

Besides political structure, policy legacy is very important in this approach. Policy makers do not base their agendas primarily on external demands but rather on prior state actions that shape future goals. In the case of the American welfare state, policy legacy was crucial in its development. The prior existence of state-level initiatives in unemployment insurance, old age pensions, and mothers' pensions prevented the Social Security Act of 1935 from being legislated as a single national program (Skocpol & Ikenberry 1983; Skocpol 1992). Moreover, Skocpol and Weir (1985) attribute the unwillingness of the United Kingdom to enact expansionary fiscal policies during the Great Depression to its experience with unemployment insurance policy in 1911. From this experience, British civil servants were unwilling to experiment with large-scale public programs. Hence, policy is not a reflection of preferences expressed by organized groups but is bounded by a historical process.

Moreover, past and existing policies can change public agendas and shape group interests (Skocpol 1992; Skocpol & Amenta 1986; Pierson 1994). Haggard and Kaufman (2004, 2008) argue that fiscal commitments and expectations from welfare legacies can become path dependent. They find that Asian governments, which inherited less fiscal constraints, have more options with respect to the expansion of public insurance and services as they become more democratic and more integrated into international markets. In contrast, Latin American and Eastern European countries have fewer policy options because they have inherited large fiscal commitments. Even as these states democratize, they find it difficult to respond to pressures for welfare expansion. Building upon this theoretical framework, policy legacies are examined in detail to explain the current policy options available in China.

Besides policy legacy, policy diffusion also plays a key role in social policy making because external forces influence policymakers. The process entails the “adoption of the same policy framework in varied national settings, [and] produces commonality in diversity” (Weyland 2005, 265). Researchers have identified four causal factors for this occurrence: coercion, competition, emulation, and learning (Simmons et al 2006). In examining the downsizing of OECD public spending in the 1980s, researchers found that emulation and learning dynamics were at work in the policy diffusion process (Simmons et al 2006). Similarly, Skocpol argues that state bureaucracies learn from each other in policy making. New Deal reformers were strongly influenced by Wisconsin policy makers, who were opposed to open-ended government handouts and committed to separating public assistance programs for the poor and social insurance programs for workers who would earn the entitlement as a right (Skocpol & Ikenberry 1983).

Subsequent states adopted the Wisconsin model in keeping these two programs separate. In addition to competition and learning, policy diffusion can also work through a regional effect where “bold changes that happen next door are immediately available and thus grab the attention of the decision maker” (Weyland 2005, 294). In the US policy literature, we see that policies spread from neighbor to neighbor and across similar states in different public policy areas (Case et al 1993; Mooney and Lee 1995). Shipan and Volden (2006) find that, conditional upon local political characteristics, city policies have led to state-wide adoption in their examination of anti-smoking laws across fifty US states. Similarly, in the case of social security reform, nine Latin American countries have followed Chile’s 1981 pension privatization plans (Weyland 2005). In China, cities do learn from each other, especially since certain cities are designated as pilot sites for policy innovation prior to a national policy roll out. In the case of medical insurance, the central government designated Zhenjiang (Jiangsu Province) and Jiujiang (Jiangxi Province) as experimental sites for urban employee medical insurance in 1994 (Duckett 2003). Learning from these two cities was later incorporated in the medical insurance reform of 1998. Thus, while internal city characteristics are important, a process of learning over time is also occurring in regards to migrant medical insurance.

In sum, the state centered approach provides the best analytical tool to examine the Chinese welfare state, but given that the literature is based overwhelmingly on developed countries with democratic institutions, it cannot adequately explain the current development and variation in social insurance expansion without incorporating the literature on social policy in authoritarian regimes.

## **Political Logic of Social Policy in Authoritarian Regimes**

While some scholars argue that regime type is epiphenomenal or that it does not matter as much as economic institutions (Wibbels & Ahlquist 2007; Haggard & Kaufman 2008; Kitschelt et al 1999; Hall & Sockice 2001), I argue that whether or not a country is democratic or autocratic is very important for social policy. Authoritarian regimes may have political motives, unrelated to structural economic conditions that determine their social program agenda and spending. In this section, the literature on authoritarian governments is examined to explore the political logic of social policy in authoritarian regimes.

The origins of this literature go back to Tullock (1987), who argues that all autocrats share the same primary goal: to hold on to office. However, autocrats are inherently insecure because they do not know who supports them and who does not. Thus autocrats face two types of threats to their rule: those that come from outsiders within society and those that emerge from within the ruling elite (Gandhi and Przeworski 2007). First, let us examine the threat posed by the masses. As Acemoglu and Robinson (2006) note, "the major constraint that faces those controlling political power in a nondemocracy is a danger that those excluded from political power might attempt to gain political power or to overthrow those who are in control" (120). In authoritarian regimes, leaders face threats from the majority by the virtue of their size. This threat becomes real when a society is highly unequal and the masses can overcome the collective action problems inherent in coordinating participation in revolutionary activities (Olson 1965; Acemoglu and Robinson 2006; Boix 2003). Thus, to stay in power, authoritarian leaders can use repression and/or make a number of concessions such as cutting taxes and

redistributing assets (Wintrobe 2000; Gandhi and Przeworski 2007). Faced with a potential revolution, an authoritarian regime will want to make policy concessions to avoid being ejected from power. To gain support for his rule, the autocrat can gain cooperation and thwart threats of rebellion through policy concessions and the provision of private goods. Autocrats who need more cooperation and face greater threats to their rule must make more extensive concessions in terms of private goods and policies (Gandhi and Przeworski 2007). Yet autocrats do more than just avert rebellion. Even if rulers act merely in self-interest, given a sufficient time horizon, they will benefit from a well functioning economy and thus do, under certain conditions, provide broad public goods (Olson 1993).

From this framework, we can deduce that an authoritarian regime, such as the one operating in China, has incentives to provide social policies for its populace. The Chinese Communist Party has around 80 million members, and it governs a population of 1.3 billion (Li 2012). The leadership can potentially be overwhelmed by the “disenfranchised” masses. In 2010, there were about 180,000 mass incidents relating to corruption, environmental problems and labor protection.<sup>2</sup> In late 2011, the party conceded to a democratic grass roots election in Wukan village (Guangdong province) where residents rose and seized control of their village in protest of land grabs and corruption by local officials. Thus the Chinese government has made policy concessions in the face of threats posed by the masses. However, in the case of rural migrants, the Chinese government has less to fear from this population, as these people have greatly

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<sup>2</sup> <http://www.theatlantic.com/infocus/2012/02/rising-protests-in-china/100247/>;  
[http://online.wsj.com/article/SB10001424127887324073504578106164215405612.html?mod=WSJ\\_China  
InTransition\\_LeftTopNews](http://online.wsj.com/article/SB10001424127887324073504578106164215405612.html?mod=WSJ_China_InTransition_LeftTopNews)

benefited from economic reforms. Migrants have seen vast improvements in their livelihoods since the reforms. While their existence may be miserable in the city, their economic rewards in the city are many times greater than in the countryside. Migrants also do not constitute a politically important population for urban governments because they are officially the responsibility of rural governments. Moreover, migrants have less organizing capacity than rural villagers or public sector workers due to their diversity and high mobility.

Bueno de Mesquita et al. (2003) depart from earlier scholars by assuming that dictators do not face a general threat from the rest of society, but instead face a threat from a subset of society, the selectorate. Their encompassing theory covers both democratic and authoritarian regimes. In addition to assuming that all leaders seek political survival, they assume that a leader's survival depends on the creation and maintenance of a winning coalition within the selectorate. The selectorate may exercise this power as a voting electorate or through other institutions, depending on whether the society is under democratic or authoritarian rule. To stay in power, the leader will have to cultivate loyalty among the winning coalition by rewarding this group with a combination of public and private goods. The cost of delivering private goods versus public goods is proportional to the size of the winning coalition. In a democracy, the size of the winning coalition proportional to the selectorate is large, and thus public goods are used to reward this group because it is cheaper than providing private goods. In an autocracy, the size of the winning coalition proportional to the selectorate is small, thus private goods are used to reward to this group. Bueno de Mesquita et al. find that larger winning coalitions are associated with higher levels of public spending on education and

health care, higher rates of childhood immunizations, lower rates of illiteracy, higher life expectancy, greater access to clean water, and faster rates of economic growth.

The predicted outcome for China, a country with a small winning coalition, is few public goods. However, this is not the case. From 1980 onward, the size of the winning coalition and selectorate has been identical and unchanging for China, but the amount of public goods has increased (Gallagher and Hanson 2009). Since the late 1990s, China has developed and expanded its social insurance systems and enacted encompassing social assistance programs such as *dibao*. As Gallagher and Hanson (2009) argue, the composition of the winning coalition matters more than the size of the winning coalition. Deng Xiaoping's reformist strategy shifted the "composition of the selectorate to reflect those who benefited from reform and globalization" (Gallagher and Hanson 2009, 21). By building reformist goals into the cadre evaluation system and *nomenclature* system of the elite appointment system, the preferences of ruling elites changed. Thus, the selectorate theory is limited in its ability to explain the logic behind the expansion of migrant medical insurance in China because it fails to theorize how a ruling party's rules manage and incentivize actors within the system. The proportional size of the coalition to selectorate is too simplistic to explain the evolution of the welfare state in China.

Additionally, the selectorate theory does not account for the fact that some public goods can be private goods. The authors contend that leaders stay in power by raising government revenue through taxation and then spending that revenue, dividing it between public goods that benefit everyone in the society and private rewards that go only to members of the winning coalition. While they acknowledge that most public goods are often private in their production (Aranson and Ordeshook 1985) - for example, defense



policy can contain aspects of both public and private rewards - this nuance is not factored into their theory of political survival. In the case of social insurance programs in China, these programs function as both a public good and private good. On the one hand, a migrant medical insurance fund can be a public good used to cover migrants and other social groups. On the other hand, a migrant medical insurance fund can be a source of extrabudgetary revenue for local governments, making it a private good. Extrabudgetary funds are officially recognized and accepted as funding sources that localities can use to overcome their fiscal shortfalls (Jia & Zhao, 2008; Oi & Zhao 2007). These funds enhance a local state's extractive capacity, and can be seen as state building through welfare expansion (Grzymala-busse 2008). Oftentimes, extrabudgetary funds are used at the discretion of local officials without oversight and have bred corrupt practices and popular discontent (Bernstein Lu 2003; Zhan 2009; Li 2007; Liu 2004). Thus, migrant medical insurance is not necessarily a public good in this case but a private good extracted by local officials, and the provision of public goods is secondary to the primary goal of raising revenue.

As mentioned earlier, besides encountering threats from the masses, authoritarian governments also encounter threats from within the ruling elite. Svobik (2012) argues that this is a more important and dangerous threat than those of the masses. In his study of 316 authoritarian leaders who held office for at least a day between 1946 and 2008, more than two third were removed from office by regime insiders, individuals from the dictator's inner circle, government or the repressive apparatus, only one fifth were removed by the masses through popular uprisings and pressure to democratize. Moreover, while the average time in power of an authoritarian leader is 16 years, the

median is 8 years, no longer than a two term American president (Svolik 2012). Moreover, the dictator also faces a commitment problem with his allies and thus institutions are used as a means to reduce the commitment and monitoring problem among ruling elites and not as a means to co-opt oppositions (Svolik 2012; Gandhi and Przeworski 2006, Gandhi 2008).

Additionally, scholars have noted that single party states are less likely to break down and democratize than other authoritarian regimes (Geddes 1999; Gandhi and Przeworski 2007; Slater 2003; Brownlee 2007). Svolik (2012) argues that a single party is more resilient due to the organizational features of authoritarian parties. He identifies three organizational features, the “hierarchical assignment of service and benefits, the political control over appointments, and the selective recruitment and repression” as the key instruments to co-opt the masses and elites (163). These features not only distribute rewards according to a party member’s allegiance but they also function as “sunk political investment,” where only by remaining in the organization will they be able to capitalize on their investment and advance their careers (Svolik 2012, 163).

Svolik’s argument comes closest to explaining the case of China as a conflict between the ruler and the ruling elite. However, this literature continues to view the state as a single unit and sees the conflict as between the ruler and the masses and the ruler and ruling elite. However, even among the ruling elite, actors do not operate as a unitary unit with a single preference. But rather, the state is a complex collection of actors that have incentives and constraints that may be in conflict with each other. Although the Chinese government is a unitary state ruled by the Chinese Communist Party, the decentralized political and fiscal system make the ruling elite a collection of actors with competing

interests. Moreover, while the cadre evaluation system does allow central officials to monitor local officials, this system also creates a set of incentives that are, at times, at odds with the general direction of central government leaders. Most specifically, the emphasis on economic growth in the evaluation system has led local officials to pursue investment and development at all costs. While the central government has called for more balanced growth, many local governments have not heeded this directive. In the case of social welfare, while the central government is concerned about inequality and wants to build a social safety net for fear of the masses, local governments are more concerned about developing the economy. Thus, social policy such as social insurance programs can be used to develop the economy and line the pockets of officials but not necessarily to coopt the masses.

To review, there are three major shortcomings in the current social welfare literature in explaining social welfare expansion to migrants in China. One, the country is used as the unit of analysis in most studies, and local variation in policy formation and implementation are ignored. Despite being a unitary government, China has a decentralized political system that has created large local variation in policy adoption. Even in the literature that speaks about the variations across policy areas within the same country, few have examined policy variation within one policy area in the same country. Two, society based explanations cannot explain the social welfare expansion to migrant workers, a politically weak group in China. Moreover, as described in Chapter 3, there is limited demand from migrants for social insurance. Three, the social welfare expansion in developing countries has largely been attributed to democratization and exogenous shocks such as financial crises. China has remained authoritarian and has weathered the

1997 Asian financial crisis, the 2008 US financial crisis and the current Eurozone crisis without large repercussions. According to the latest statistics, China's economy is still growing at 7.4% (BBC 2012). Despite this, China is expanding its social welfare system.

While the authoritarian regime literature provides a framework for the logic of social welfare provision based on political survival through cooptation, these theories are limited in explaining the China case for three reasons. First, the state is not a unitary actor. It is a collection of actors with different and sometime conflicting preferences and incentives. Second, the selectorate theory deals solely with the size of the winning coalition and the selectorate without regards to the changing preferences within the winning coalition. Thus, China is an anomaly because it has expanded public goods provision without changes to the size of the winning coalition or the selectorate. Three, public goods and private goods are clearly defined and divided in this literature. In China's case, social insurance funds, commonly viewed as a public good, can also be used as a private good to coopt individuals within the system because these funds have state building capacity as extrabudgetary revenue.

### **My Argument**

Building upon these two literatures, I lay out my argument in this section by expanding on the internal incentives of the state. At heart, my explanation is a state centered story about policy legacies, the political structure, and the political and economic incentives of local governments. While policy legacies shape the policy choices available to policymakers, the political structure promotes competition between local governments where social policy can be used as a development strategy. Additionally, local leaders are incentivized to promote the local economy and raise fiscal

revenue. Thus, whether or not medical insurance is expanded depends on a locality's economic structure, labor endowment and fiscal constraints. In sum, I argue that local governments are using medical insurance expansion to rural migrants as an economic strategy to reshape their labor force and as a revenue generation tool to meet their current fiscal commitments.

### ***Policy Legacies***

My argument begins with an observation about how policy legacies have shaped current policy choices. Policy feedbacks are immensely important in explaining current policy development because new policies are not created in a vacuum. Past policies shape and influence the formulation and implementation of current policies (Pierson 1994; Skocpol 1985). On the one hand, past policies create beneficiary groups and shape the expectations of these groups. They also shape the debate around social groups that are considered deserving of social benefits (Schneider and Ingram 1993). On the other hand, past policies also shape the capacity and structure of government agencies. In sum, policymakers do not start from a blank slate; rather, "they usually labor in the shadow of an extensive framework of existing policies that critically shape the types of the problems they perceive, the policy lessons they learn, the political conditions they face, and the types of policy instruments they have at their disposal" (Hacker 1998, 83).

In China's case, the command economy coupled with the *hukou* system, created a social welfare system that systematically favored the urban population over the rural population. In this system, the state delegated the responsibilities of social welfare functions to work units (*danwei* in the urban areas and collectives in the rural areas), which meant that employers played a major role in social welfare. Moreover, it also

meant that a “national” social welfare system did not exist. In the current social policy environment, Chinese policymakers need to contend with these policy legacies. One, because local governments have taken over the role of social welfare provision, the social welfare system remains localized. Two, employers continue to play a large role in the social insurance system. Three, the *hukou* system has created a new social group, rural migrants, and policymakers can choose to deliver social benefits to this group through *hukou* conversion or individual social insurance expansion.

### ***Political Structure***

Next, my argument is embedded in the political structure. The organizational structure of the state influences politicians’ incentives. The key determinant of social policy is the politics between bureaucracies (Heclo 1974). Thus, social policy is a result of state structure and individual bureaucracies.

The complex state structure is a significant determinant of political processes and policy outcomes in China. China has a “fragmented bureaucratic structure of authority” (Lieberthal and Oksenberg 1988, 22). The local government is made up of cadres with competing agendas and objectives depending on whether they are vertically (*bumen*) or horizontally linked (*zhengfu*). While vertical cadres enjoy political and budgetary support from higher levels, horizontal cadres generally rely on local resources (Baum and Shevchenko 1999). Despite being a unitary government, this state structure means that whether local governments can create and implement policy depends on their own resource constraints and regional concerns. Additionally, economic and fiscal decentralization have encouraged localities to promote their local economies at their own discretion. Along with regional growth comes regional competition; and product wars

and competition for foreign direct investment (FDI) were common in the 1980s (Baum and Shevchenko 1999). Local governments are still competing for FDI. Local governments are also the architects and providers of social welfare. Thus, in this competition for labor and capital resources, local governments can use social policy as a development strategy.

### ***Political and Fiscal Incentives of Local Leaders***

However, the first two variables are static across all localities. While they explain the broad context of social insurance expansion in China, they cannot alone explain the variation at the local level. In this regard, the role of self-interested bureaucrats is the focus of this explanation. It is important to examine the political and fiscal incentives of local government officials. In the end, all political leaders want to stay in power. It is no different in China except Chinese leaders are not put into power by popular elections but by the Chinese Communist Party's *nomenklatura* system (Manion 1985; Burns 1994; Lam and Chan 1996). The career prospects of government officials are largely determined by a cadre evaluation system based on a set of performance targets. In this system, cadre promotion is heavily weighted towards fostering local economic growth and generating local revenue (Edin 2003; Landry 2003, 2008; Li and Zhou 2005). Since each locality has a different economic structure and resource endowment, local leaders need to pursue different strategies to grow their economy. For some leaders, this means expanding medical insurance to attract a certain type of migrant workers to complement their local economy.

To get ahead in the political game, local officials need to pursue development strategies that will grow their local economies. However, at the basic level, local

officials also need to fulfill their obligations in governance, which include meeting existing fiscal commitments for their constituencies, such as paying current pensioners. Unless they meet this basic requirement, they run the risk of removal from office because not meeting these fiscal commitments can spell social upheaval from important social groups, thus risking the party's political legitimacy. Hence, in cash strapped local governments, local officials need to find alternative revenue sources to fulfill these fiscal obligations. Additionally, in a recent study by Shih, Adolph, and Liu (2012), they find that local revenue is a more important factor in cadre promotion than local economic growth. Thus medical insurance funds for migrant workers can become an attractive extrabudgetary option.

### **Organization**

The rest of my dissertation is organized as follows:

Chapter 2 applies my argument in detail to China's social welfare system and the plight of migrant workers.

Chapter 3 describes the limited demand for medical insurance among migrants. In the welfare literature, popular demands for social benefits are an important factor contributing to the development of social policy. Yet, I find that many rural migrants are *not* demanding medical insurance. A common trend that emerged from my interviews with migrants is that they do not attach importance to acquiring medical insurance. Thus, migrant medical insurance policies are formulated and implemented in cities, but the push is not coming from the migrants themselves. Hence, this is *not* a story about the migrants but a story about state building.



Chapter 4 presents case studies of Shanghai and Guangzhou. The hypotheses drawn from these two cases are: cities with a high demand for high skilled workers and cities with a high budget deficit are more likely to adopt medical insurance programs for migrant workers. Shanghai is a leader in migrant medical insurance adoption. Shanghai may have adopted migrant medical insurance because the city needs to attract migrants who are complementary to its aging urban labor force. Moreover, this insurance fund is an opportunity to generate additional revenue from a low risk population who is young, healthy and mobile, and thereby less likely to use this fund. Thus, this medical insurance expansion can potentially help close the impending gap in local pension and medical insurance programs for Shanghai's urban residents, who are politically more consequential. In contrast, Guangzhou is a laggard in migrant medical insurance adoption and did not implement migrant medical insurance until 2009. Guangzhou's lesser demand for higher skilled workers and more favorable demographic structure may have contributed to the city's less willingness to adopt migrant medical insurance. Moreover, Guangzhou's fiscal balance is better than Shanghai's. Compared to Shanghai's fiscal deficit of ¥43 billion (\$6.6 billion) in 2010, which was 2.5% of local GDP, Guangzhou's fiscal deficit was ¥9 billion (\$138 million) in 2010, which was 0.8% of local GDP, and Guangzhou actually had a budget surplus of ¥5 billion (\$77 million) in 2009.

Chapter 5 tests the hypotheses drawn from my case studies in the 285 prefecture-level and provincial-level cities in China. Contrary to the literature on economic growth and social policy, this analysis shows that a city's economic resources have little association with the probability that it adopted a migrant medical insurance program.

Rather, cities are more likely to offer medical insurance to migrants as a response to local labor demand and fiscal needs. Hence, a city with a high proportion of high skilled service workers is correlated with an increased likelihood of adopting medical insurance for migrants. Similarly, a city with a high proportion of heavy industry is also more likely to offer medical insurance to migrants. However, while economic growth is not linked to medical insurance adoption, it is linked to the political survival of local leaders. Thus, a city may adopt favorable migrant policies when it serves local economic needs. Additionally, cities have a higher likelihood of adopting medical insurance for migrants when they are running a budget deficit because medical insurance funds can finance fiscal shortfalls. Medical insurance funds for migrant workers are cash generating programs for local governments because very few young and healthy migrants access these funds. Thus, cities with high fiscal deficits are more likely to offer medical insurance to migrant workers.

Chapter 6 concludes with my major findings, major contributions to the field, and the limitations of this research.

## CHAPTER 2

### THEORY ON SOCIAL WELFARE FOR MIGRANTS IN CHINA

Recently, there have been a growing number of social policy studies in Eastern European, Latin American and East Asian countries. While some studies have been done in East Asia touting an “East Asian welfare model,” this model has largely been viewed as an amendment to Western welfare development models following the democratization in Taiwan and South Korea (Frazier 2006). While studies have been done in developing economies in Eastern Europe and Latin America, these countries have largely undergone economic *and* political liberalization. Building upon this literature, my research on China’s social welfare system explains the political and economic factors that drive the emergence of a welfare state in a developing, yet authoritarian society. Since China began market transition in the late 1970s, it has experienced increasing pressure to transform its welfare system. Despite retrenchment in the 1990s, the Chinese welfare state is expanding. Moreover, medical insurance has been expanded to cover migrant workers, a politically inconsequential group. For an authoritarian government, what is the motivation behind social welfare expansion? When do autocratic regimes expand social welfare to outside groups?

Building upon the literature on social welfare states and authoritarian regimes, I argue that migrant medical insurance programs have been adopted as a result of three factors: policy legacy, political structure, and political and fiscal incentives. Policy

legacies shape the policy choices available to policymakers. The political structure promotes competition between local governments where social policy can be used as a development strategy. Moreover, local leaders are incentivized to use social policy to promote the local economy and raise fiscal revenue. In sum, I argue that local governments are using medical insurance expansion to migrants as an economic strategy to reshape their labor force and as a revenue generation tool to meet their current fiscal commitments.

In this chapter, I examine each piece of my argument in detail. The study begins with a historical analysis of China's social welfare system from the Maoist era to the present day, paying close attention to the *hukou* and *danwei* systems. Next, I look at the political structure by describing the relationship between central and local governments. I then lay out the political incentives in the cadre evaluation system and the fiscal incentives in the recentralized fiscal system with hypotheses generated from my case studies (Chapter 4).

### **Political Legacy**

The institutional legacy from the Maoist welfare system, characterized by the command economy, the *hukou* system and the *danwei* system severely limits the ways in which the current government can provide social services.

### ***Maoist Welfare System***

During Maoist China, the command economy channeled surpluses from the agricultural sector into the industrial sector. In the process, two welfare systems were set up: one for the rural areas and one for the urban areas. Chinese welfare goods were allocated as rewards to job statuses and those favored by the government. Since the

private market was closed, most social services were state monopolies (Davis 1989). While the leadership endorsed the ideals of universalizing primary education, bringing health care to underserved areas and protecting all citizens against destitution in old age, social services were not distributed according to the need of individuals but according to the worthiness of their job status (Davis 1989; Walder 1986). Social welfare goods such as education, hospital care and pensions were rationed based on the value that the government placed on the rural and urban residents (Davis 1989).

The welfare policy consistently favored urban residents over rural residents, workers in state owned enterprises (SOEs) and the public sector over workers in cooperatives and collectives, and workers in heavy industries over workers in other industries because the former was “members of the most advanced class working in vanguard sectors, [thus] deserved higher rewards” (Davis 1989, 578). The welfare system was based both on inherited birthplace and workplace, where the former was dictated by the *hukou* system and the latter by the *danwei* system. Effectively, the bifurcated welfare system created two separate social identities and expectations from the state among the urban and rural populations.

#### Hukou System and Urban/Rural Divide

The *hukou* system, modeled after the Soviet Union’s *propiska*, an internal passport system, was set up between 1951 and 1958 to control rural-urban and intra-urban migration. In 1951, urban registration was implemented as a way to collect data on individuals for resource allocation under a command economy, and *not* as a way to restrict movement (Solinger 1999). By 1953, household registration was extended to the countryside, and registration booklets were distributed in the urban areas (Solinger 1999).

While the regulation did not prohibit migration, complex procedures were put in place to discourage migration. In 1955, grain rationing was only given to urban residents, and a clear demarcation of urban and rural areas appeared (Solinger 1999). By 1958, the “Regulations on Household Registration,” required that all residents to have legal documents for a stay longer than three days in the cities (Solinger 1999). The same regulation still governs the movement of people today in terms of requiring legal registration (Chan and Zhang 1999).

To this day, the *hukou* system is vastly important in determining eligibility to state resources such as education, health and pension benefits. This registration system has two elements, socio-economic and residential location (Chan and Buckingham 2008). The socio-economic component classifies a person as “agricultural” (rural) or “non-agricultural” (urban), and is also known as the *hukou* type. This *hukou* type distinction originated from occupational divisions in the 1950s and does not necessarily bear any relationship to the actual occupation of *hukou* holders today. The government also uses this separation to allocate social welfare entitlements for different population. For example, a Shanghai rural and a Shanghai urban *hukou* holder can draw on entitlements from the Shanghai government, but the rural *hukou* holder is only entitled to rural benefits and the urban *hukou* holder is only entitled to urban benefits.

In addition to *hukou* type, all individuals are categorized according to the location of the *hukou* registration. This is one’s official or “permanent” residence. Under *hukou* regulation, each citizen is required to register in one and only one place of permanent residence. In other words, in addition to the agricultural and non-agricultural classification, everyone is also distinguished by whether or not they have a local *hukou*

with respect to an administrative unit (such as a city or town). This residential *hukou* status separates the “locals” from the “outsiders.” The local *hukou* registration defines a person’s rights to many activities in a specified locality, such as employment and medical care (Chan and Buckingham 2008).

This dual classification system means that it is extremely difficult to change one’s *hukou*. It requires a dual approval process: changing the locality of the *hukou* registration and converting the *hukou* status from agricultural (rural) to non-agricultural (urban). The latter is the more important process known as *nongzhuanfei*. In other words, formal rural-urban migration usually involves both a geographical change in residence place and a conversion of entitlement status. To change the place of a *hukou* registration, applicants need to present the appropriate documents to public security authorities and obtain a migration permit. In the case of *nongzhuanfei*, it is necessary to satisfy the qualifications stipulated by the central government and enforced by the local *hukou* police (Wang 2005). The granting of full urban residence status is often contingent on the successful completion of *nongzhuanfei*, which is the core of the conversion process (Chan and Zhang 1999). Until 2001, the central government set the annual quota for these *nongzhuanfei hukou*. Between 1960 and 1978, it was virtually impossible to change from rural to urban *hukou*, except in cases where the state had initiated this transfer (Mallee 2003). Since 1980, the quota has been set around “0.2 to 0.5% of the total agricultural population” (Wang 2005, 90).

Moreover, *hukou* is hereditary. Prior to 1998, the *hukou* was inherited through the mother. If the mother has a Beijing rural *hukou*, it does not matter if the father has a Beijing urban *hukou*, that child will have a Beijing rural *hukou* and is only entitled to

social benefits defined for the agricultural population in Beijing. Since 1998, the child can inherit his mother or father's *hukou* location and type (CECC 2005; Chan and Zhang 1999). The following is a migrant community activist's story on gaining a Beijing urban *hukou* for her thirteen-year old son. "I came to the city [Beijing] in 1982. I worked as a live-in *aiyi* (housekeeper). Back in 1996, your child's *hukou* follows the mother. Now, a couple can choose if you want your child to have the mom or dad's *hukou*...I had my son in Beijing back in 1996. My husband has a Beijing urban *hukou*...[so] to change my son's *hukou*, [her son has her Jiangsu rural *hukou*] I moved and worked in Shenzhen factories for six years because I heard it was easier to get a Shenzhen urban *hukou* and then switch to Beijing urban *hukou*." At the same time, though a *hukou* can be inherited through either the mother or father, a child still cannot gain the *hukou* of his birthplace.

### Urban Social Welfare

The *hukou* system has established a society that divided people into rural and urban classes with different treatments by the state. As Solinger (1999) argues, the *hukou* system has created a new class system where residence status has become "an ascribed, inherited one, determining an individual's entire livelihood and welfare simply on the basis of where the registration [is] located" (35). The *hukou* system does this by delineating the benefits that are available to rural and urban *hukou* holders and assigning a specific local government to be responsible for this population. In essence, the *hukou* system regulates many social entitlements of citizens, including education, housing, and social protection, and also affects the ease of accessing formal sector jobs. During the Maoist era, the result was that an individual's benefits depended largely on his status in



the urban workforce and his *hukou* status, with full employees in SOEs at the top of the benefit ladder and peasants at the bottom.

This distinction between rural and urban *hukou* basically defines one's relationship with the state and the eligibility for an array of state-provided socio-economic benefits. In the command economy, the designation of urban status entitled the bearer to state-provided housing, employment, grain rations, education and access to medical care as well as other social welfare benefits (Chan and Buckingham 2008, Solinger 1999). Until the 1980s, those with urban status, regardless of their physical location and whether they resided in a town, small city or large city, were automatically entitled to these benefits because they were distributed and funded by the central government (Wang 2005).

#### Danwei System and Social Welfare

In addition to the *hukou* system, China's welfare system was also structured according to one's work unit (*danwei*). Since the state guaranteed employment in urban areas, China's urban workplaces were organized in a *danwei* system, a hierarchy of state-owned workplace units such as schools, factories, hospitals, and government agencies (Lu and Perry 1997). The *danwei* had both political and social functions. Politically, the *danwei* operated as a tool of the state for organizing and controlling urban society (Lu and Perry 1997). The state also used the *danwei* to mobilize workers for political participation. In addition to political functions, the *danwei* provided permanent employment and social benefits such as healthcare, retirement benefits, and childcare (Walder 1986; Hussain 2000). In the command economy, the *danwei* system provided such comprehensive social services that these work units operated as "self-sufficient and

multi-functional social communities” (Lu and Perry 1997, 9). The *danwei* was instrumental in reducing the pressure of urban unemployment by absorbing new working population internally. It also provided benefits to retirees. The *danwei* operated both as a production unit and as a social community. Moreover, the *danwei* monopolized the provision of social welfare by eliminating the private market for social services, which was a defining feature of the socialist firm (Naughton 1997). While this factory community organization also appeared in Soviet factories, the encompassing political and welfare function of the *danwei* system was unique to China. Unlike the Soviet system, which sought to tie and attract laborers to the work unit due to labor shortages, the Chinese *danwei* was a tool used to restrict access to urban factories in a labor surplus environment (Straus 1997).

Since social welfare provision was delivered through the *danwei*, urban residence committees and rural collectives, it was very important the type of enterprise at which one worked. In the urban sector, workers were segmented according to the ownership status of the *danwei* (state/collective). Firms were divided into primary and secondary sectors. The primary sector was made up of large, capital intensive and modern enterprises, mostly SOEs, that produced the bulk of industrial output, and the secondary sector was made up of small, labor-intensive industries, mostly urban collectives, that produced consumer goods for urban residents (Walder 1986). Urban collectives were an effort to absorb surplus laborers, mainly unemployed youth and family members of SOE employees (Walder 1986). As a result, government and SOE employees had the most generous social benefits, with subsidized housing and comprehensive labor insurance that provided pensions, occupational injury benefits, maternity care, and medical care

(Hussain 2000, Walder 1986). Since 1986, unemployment benefits were added because previously, lifetime employment was guaranteed (Hussain 2000). Urban collective enterprises also had labor insurance, though with less generous benefits. Workers who were unemployed or handicapped received social benefits through their urban residence committees. Finally, rural collectives were under rural governments with separate entitlements.

Within enterprise types, workers were divided and prioritized into different segments, and the *hukou* system contributed to this segmentation and prioritization of social benefits to workers. Urban laborers were divided into permanent state sector workers, urban collective workers, urban temporary workers and rural temporary workers (Walder 1986). Permanent state sector workers, which accounted for 42% of the industrial workforce, were the only segment entitled to participate in the welfare system, including pension, medical and disability insurance, housing and childcare subsidies (Walder 1986). Urban collective workers usually received a fraction of these social welfare benefits, and this varied depending on the size of the collective. Urban temporary workers received labor insurance when they were employed, and these benefits ended once their contracts ended. Pensions were usually unavailable to these workers. They enjoyed the use of the enterprise's meal hall and medical clinic while employed but they were not allowed to take advantage of the enterprise's apartments, nurseries and daycare centers (Walder 1986). Rural temporary workers were rural *hukou* holders hired on a contract basis through rural cooperatives with approvals from both rural and urban governments through a "labor contract system" (Walder 1986). In contrast to urban temporary workers who would find jobs through personal inquiries and

register at neighborhood “labor service stations” and were allocated through local urban labor bureaus, rural temporary workers were hired out through rural village brigades, and these village brigades would take a fixed proportion of these workers’ wages (Walder 1986). While there were no wage differences between urban temporary workers and rural temporary workers, the fixed payment to village brigades effectively lowered their earnings. As a result, this labor system combined with the *hukou* system effectively allowed the state to keep unemployment low and maintain a steady labor supply for urban enterprises, but it also perpetuated the inequalities between urban and rural residents.

### Rural Social Welfare

In contrast to urban residents, the rural population was expected to be largely self-sufficient, receiving very limited, if any, state benefits. Egalitarian land reform in 1947-53 eliminated property-based income inequality within each rural community and collective (Selden and You 1997). In its place, the state guaranteed full employment and subsistence. However, there were glaring inequalities between urban and rural areas because rural welfare was premised on community self-reliance (Selden and You 1997). Each rural community was responsible for itself with little help from the central government. As the state insisted that rural communities should depend on self-reliance, frugality, and mutual help in welfare matters, there was little redistribution between regions to alleviate the inherent resource inequalities. Moreover, since most rural surplus was channeled to finance urban industries, rural population could only afford amenities that were inferior in range and quality to urban provision (Wong 1994). For example, while 85% of rural residents had some type of health insurance, cooperative healthcare (

合作医疗), and access to barefoot doctors in 1976, the quality of healthcare was greatly inferior to that of urban areas (Davis 1989; Zhang and Unschuld 2008; Ma et al 2008).

Additionally, social welfare provision in rural areas was sparse and highly variable. As mentioned earlier, labor insurance was limited to urban workers and not extended to rural workers, who constituted between 12% and 24% of the total rural labor force in the 1970s (Hussain 1994). Whereas urban social welfare provision was an entitlement based on urban workers' lifetime labor contributions, social security provision in rural areas was a charity based on poverty relief (Selden & You 1997). Village based social welfare provided grain, clothing and housing only to those who lacked familial networks to provide them. The "five guarantee households," which included food, clothing, housing, medical care and burial expenses, were heavily dependent on the resources and good will of rural communities, and thus obtaining this status frequently entailed humiliating requests for support (Selden and You 1997). State assistance from the central and provincial governments consisted primarily of special assistance to poor areas and natural-disaster relief (Hussain 1994).

In sum, rural social welfare provision had rested on the assumption that rural residents were self-employed and were able to insure themselves against deprivation because they had farming rights to land. So while the state provided few benefits to this population, land was supposed to be the social safety net that the urban population lacked. With this assumption, those with rural *hukou* had no legal means by which to obtain social benefits from the state either inside or outside their registered location. Until the 1980s, this mechanism also served to curb rural to urban migration. Even though social welfare benefits were scarce and poor in rural areas, moving away from

rural areas also meant no access to jobs, no legal residency and no social welfare benefits at all.

### ***Types of Policy Legacies***

#### Institutional Changes under Market Reforms

In the policy legacy literature, institutional change is heavily path dependent (Hecló 1974; Myles and Pierson 2001; Pierson 1994, 1996; Skocpol 1995). Policy feedback mechanism tends to lock in existing structures over time, thereby making changes to welfare state politically infeasible as these institutions expand and mature over time (Pierson and Weaver 1993; Weaver 1998). However, as Haggard and Kaufman (2008) argue, these path dependent policies can shift to new equilibriums during critical alignment periods. For countries in Latin America, East Asia and Eastern Europe, these periods included democratization and financial crises. For China, this period was the shift from a command economy to a market economy.

During the 1990s, China's social insurance system imploded as the economy underwent market reforms. As mentioned earlier, until the 1980s, the urban welfare system was entirely funded and managed by urban enterprises. Even though most urban enterprises were in the public sector and the state essentially paid for pensions, medical, occupational injury, maternity and occupational injury benefits, enterprises were still the ones responsible for managing and delivering welfare benefits (Croll 1999). As more people became employed in the private sector, these people were outside of the social insurance system.

Additionally, to improve enterprise efficiency and profitability, China terminated lifetime employment in SOEs for new employees in 1994. Subsequently, rather than

obtaining lifetime tenure, new employees receive renewable contracts, usually up to five years (Selden and You 1997). The spread of contract employment and the increasing frequency of separations from the *danwei* imply that long-term attachment to work-units no longer holds for a majority of the urban labor force.

### Localization of Social Welfare

As China rebuilds its welfare system, it inherits a socialist welfare system characterized by the *danwei* and *hukou* systems. The institutional legacy of the *danwei* system means that there is no centralized provision of social welfare in China. The relative cellular provision of social welfare through the *danwei* means that the government finds itself ill-equipped to provide needed social services to its citizens. It also means that local governments, not the central government, are responsible for social welfare provision.

To replace the inherited *danwei* system, the Chinese government has instituted an urban social security system managed and administrated by local governments. As the government takes over social service functions formerly provided by the *danwei*, the new system continues to be highly localized. The new system emphasizes that social insurance costs are to be shared between the individual, the enterprise and the state. The new pension system has made individual and employer contributions compulsory (Nielsen et al 2005). In terms of medical insurance, prior to market reforms, enterprises paid the treatment costs for their workers, and the state budget paid the treatment costs for public sector employees. Employees did not make personal contributions to their health insurance. Moreover, employers continued to pay for employees' medical treatments after they retire (Dixon 1981). The new medical insurance program requires

both employers *and* employees to contribute to health insurance.

All urban governments give primacy to serving urban residents because these people are their main constituents. While the new social insurance schemes (pension, medical, occupational injury, unemployment, and maternity) extend coverage, previously confined to state and urban collective sector employees, to all urban wage-employed workers (including migrant workers) regardless of the ownership status of work units, these policies usually limit coverage to employees of *urban* enterprises (Hussain 2000, Frazier 2010). Rural residents, workers in township and village enterprises (TVEs), and migrant workers are usually barred from coverage (Frazier 2010). Though migrant workers are technically supposed to be covered under urban social insurance programs, many local governments do not have policy provisions to enforce these policies. As social welfare provision is moved from the *danwei* to local governments, the provision of these services is highly variable between localities because local governments have different resources and constraints.

#### Employer's role in the New Social Welfare System

Another legacy from the *danwei* system is the role of employers in the social welfare system. Employers, having had enormous political and social functions in the command economy, continue to play a major role in the current system, thereby giving credence to the policy feedback argument that inherited capacity is important for the creation of new policies. Although the *danwei* is no longer the sole provider of all welfare functions, a formal employer is still very important because without one, the worker lies outside the welfare system because social insurance programs require substantial employer contributions. Moreover, other social insurance programs, such as



occupational injury, unemployment, maternity, are funded entirely with employer contributions. Even in pension and medical insurance programs, employers pay the majority of the contributions. So, while current changes in the welfare regime have “flattened the employment status hierarchies so that, in theory, all urban workers (including migrant workers) have equal rights to welfare provision through social insurance” (Frazier 2010, 7), the reality is quite different. The ambiguous status of part time and temporary workers implies that the actual coverage of workers in pension and other social insurance programs is between 30-50% (Frazier 2010).

Additionally, the 2007 Labor Contract Law prioritizes formal workers (those with a labor contract) over informal workers. The law has “increased the penalties for failure to establish a written labor contract, increased restrictions on the use of fixed term contracts and set out severance compensation requirements for contract expiration” (Gallagher et al 2010, 14). In effect, the law is a push to formalize the labor force and provide more protection to formal workers. However, the law has done nothing to provide protection and benefits to the informally employed. For the most part, employers want to hire workers informally because they can avoid payroll charges for social insurance programs. Thus, workers in the rapidly growing private sector, including the self-employed, usually lack access to social insurance programs. More specifically, the informal worker coverage rate was 20% for pensions, 27% for health insurance, and 8% for unemployment insurance, as compared to 74%, 78%, and 55%, respectively, for formal employees in 2008 (Park et al 2008).

However, the Labor Contract Law has increased the rate of workers with formal labor relations through stricter punishments for firms that fail to sign written labor

contracts with their employees. Between 2005 and 2010, the proportion of migrant workers with labor contracts rose from 12% to 34%, and the proportion of local urban workers with labor contracts rose from 65% to 71% (Gallagher et al 2012). With more workers signing labor contracts, it also means that more workers are participating in social insurance programs. By prioritizing labor protection, the government is trying to meet the development goal of reducing inequality among urban workers, but at the same time, there is a perverse result of subcontracting where employers are hiring temporary workers rather than hiring permanent workers (Gallagher et al 2010). This current practice is not unlike the peasant-worker system during the command economy, where temporary workers were consistently used as a way to lower costs. Yet, throughout all these changes, employers remain an important actor in social insurance programs.

#### Rural Migrants as a New Social Group

The *hukou* system continues to play a key role in the new social welfare system because rural and urban populations are still accorded different social benefits. As a result of market reforms, a new group has emerged, rural migrant workers. They are rural *hukou* holders that have migrated to the city to live and work. Many are *defacto* urban residents without urban social rights. Until recently, the new urban social welfare system had largely ignored this population.

While market reforms have rendered the *hukou* status less important for mobility and job opportunity, the *hukou* system still determines the type of social benefits available to different groups. In the current employer based social insurance system, rural migrant workers are usually closed out of the system because most of them are engaged in informal work. In a 2010 study, 29% of local resident workers and 66% of

migrant workers were informally employed (Gallagher et al 2012). In 2010, coverage rates for urban resident workers were 89% for pensions and 86% for health insurance; for migrant workers, coverage rates for pensions and health insurance were 24% and 22%, respectively (Gallagher et al 2012). Moreover, while urban social relief covers all urban residents and is non-contributory, rural migrant workers are not included in this program because they are not “local urban *hukou*” holders.

In many ways, the *hukou* system is anachronistic with economic reforms as the movement of labor is vastly important for creating a unified labor market. However, the legacy of the command economy and the fear of social instability have determined the pace of *hukou* reform. Initially, the *hukou* system was tied to rations and coupons that were determined by the central government. Each locality was allowed a certain number of urban *hukou* by the central government. Recognizing the need for a unified labor market under market reforms, the central government have allowed local governments to experiment with *hukou* reform and called local governments to expand social benefits to the migrant population.

In sum, policy legacies from the command economy, the *hukou* system and the *danwei* system are the localization of social services, the importance of employer in the social insurance system, and the creation of rural migrants as a social group. Since China never had a centralized social welfare system, the shift from the *danwei* to local governments as the sole provider of social welfare means that there is substantial variation in local social welfare provision. Additionally, given enterprises’ role in the command economy as the sole welfare provider, employers continue to play an important role in social insurance. Finally, without the *hukou* system, we would not have this rural

migrant issue. Thus, the combination of these legacies means that as rural migrants are mostly employed in the informal sector, they continue to be excluded from the urban social welfare system.

Past policies have shaped the current social welfare system and presented two options for extending social welfare benefits to rural migrants. One is rural-urban *hukou* conversion. By granting a local urban *hukou*, the city is bestowing upon the rural migrant the full social rights of an urban resident. Second is through ad hoc social programs such as migrant medical insurance because local governments have taken over these social functions from the *danwei*. With regards to *hukou* policy, all cities have minimum requirements for *hukou* conversion. Small and medium cities have few requirements for *hukou* conversion, but at the prefecture level and above, most of these cities have more requirements for *hukou* conversion. Most cities also have quotas for this conversion because the incremental per year cost of converting a migrant worker to an urban *hukou* resident is approximately ¥80000 (\$12645) (State Council 2011).

At the same time, these *hukou* conversions constitute only a minority of migrants moving into cities. Looking at the percentage of migrants with a college education or who already have urban *hukou*, it is less than 15% of the entire of migrant population (Peng 2011). Thus to look at a social policy that covers the majority of the migrant population, I focus on the expansion of ad hoc social insurance programs to migrant workers. While *hukou* conversion is explored as an option in this chapter, the remaining dissertation is focused on social insurance programs, more specifically medical insurance.

## **Political Structure: China's Central-Local Bureaucratic Regime**

While policy legacies contribute to the structure of social programs for rural migrants, state structure is the primary source of differences in social policy among local governments. The politics between bureaucrats, sheltered from societal pressures, is the key determinant in explaining the variation in welfare policy over time (Heclo 1974). The organizational structure of the state influences politicians' incentives and the collective action of social groups. Moreover, case studies on the US Social Security administration and Medicaid/Medicare programs find that state bureaucracies have a high degree of administrative autonomy in establishing and implementing priorities (Derthick 1979; Shipan 2002). Castles (1981) and DeViney (1983) find that administratively or fiscally centralized states are more conducive to generous social expenditures than decentralized states. In Immergut's (1992) comparative study of health insurance systems in France, Sweden, and Switzerland, she argues that political institutions shaped interest groups' access to government to influence health insurance policies. And in China, the complex state structure is a significant determinant of the political process and policy variation.

While China is a unitary state, there are multiple layers of subnational government, provinces, counties and cities, townships and villages. The Chinese government is made of 31 provincial units, 2500 counties, 650 cities, 30,000 townships and 900,000 villages approximately (Lieberthal 2004). Province actually refers to the rank in the national political administrative hierarchy rather than a territorial province because four provincial units are municipalities (Beijing, Chongqing, Shanghai, Tianjin), and five are autonomous regions (Guangxi, Inner Mongolia, Ningxia, Tibet, Xinjiang).

Province is equal to the rank of a central government ministry. Since binding orders cannot be issued to administrative units of the same rank, a central government ministry cannot issue binding orders to a provincial government (Lieberthal 1995). Counties are ranked below provinces but are given considerable discretion in policy implementation to take into account local peculiarities and conditions. “Cities can plug into the political system at any rank depending on their size and importance” (Lieberthal 1995, 167). As economic reforms are increasingly making cities the key level of organization for the economy, cities are gaining administrative importance because large rural counties around major cities are brought under the control of municipalities (Lieberthal 2003). Townships are ranked below counties and villages below townships. Moreover, since binding orders cannot skip levels, it means that the policy implementation process is complex and prolonged.

The relationship between different layers of government is one of mutual dependence. For instance, while the central government maintains control over the provinces through cadre appointments, military deployment, and the allocation of key resources, decentralization has given provinces enormous power over personnel appointments and residual land ownership (Whiting 2000). The central government can appoint and dismiss any First Party Secretaries, Governors, and military commands in a province, but the bulk of personnel assignments are made at the provincial level and below because appointments are made one level down (Lieberthal and Oksenberg 1988). Since the central government controls military deployment, this can be used against provincial officials that are in defiance of central authority. Moreover, the central government controls key economic resources in the provinces such as electricity, major

transportation infrastructure, and large foreign and domestic investments (Lieberthal and Oksenberg 1988).

Despite the huge leverage that the central government has with its military and financial power, provincial power comes from the provinces' intermediate position in the hierarchy because the center has to go through the provinces to reach the numerous counties, townships, and villages. As a result, provincial leaders are "gatekeepers in guarding and providing access to local levels" (Lieberthal and Oksenberg 1988, 350). Hence, the central government cannot accomplish its goals without the cooperation of provincial governments. This necessitates a bargaining process between the center and provincial level to reach their independent and mutual goals (Lieberthal and Oksenberg 1988). Additionally, this center-provincial mutual dependence relationship is replicated at every layer of the government.

Each level of local government is a duplication of the former. This gives each political unit a counterpart to deal with at each level, but it also means that each layer of local government is made up of cadres with competing agendas and objectives depending on whether they are vertically linked to central agencies (*bumen*) or horizontally linked to territorial governments (*zhengfu*). While vertical cadres enjoy political and budgetary support from higher levels, horizontal cadres generally rely on local resources (Baum and Shevchenko 1999). Many times, local governments (*zhengfu*) would have to fund operations of local agencies belonging to the central government with budgeting, staff and other resources. As a result, a single ministry or local government unit lacks the political clout to carry out a policy. In this way, the local government tends to have more power because central government *bumens* are funded and appointed by the local

government. Thus China has a “fragmented bureaucratic structure of authority, decision making in which consensus building is central and a policy process that is protracted, disjointed, and incremental” (Lieberthal and Oksenberg 1988, 22).

As a result of this complex network of center and local relations, policy implementation is dependent on local governments and their priorities, and thus great variation exists at the local level. As Mertha (2005) demonstrates in his examination of intellectual property rights implementation, the central government finds it very difficult to implement policies if they are not in the interest of local officials. Similarly, Kevin O’Brien and Lianjiang Li (1999) find that local rural officials were selective in implementing measurable policies such as one child policy and tax collection but ignored hard to measure policies such as village elections and corruption. In Mark Frazier’s (2010) assessment of the pension system, he finds that local governments, namely urban governments, have the ability to undermine central government regulations and prioritized pensions over other social insurance programs. As a result, policy noncompliance and/or distortion are also virtually guaranteed by the time a central government directive passes through and is altered by agents found in the five separate levels of government.

While the complexity of this central-local relationship is unique to China, the fact that the organizational structure of the state affects policy is common across countries. Policies are massaged to fit the organization needs of the government (Skocpol 1995). For example, despite US’s democratic roots, the US did not become bureaucratically centralized in response to industrialism. At the beginning of the 1900s, industrial and social policies were largely left to the forty-eight state legislatures (Skocpol 1995). Even



within the federal government, Congress had strong roots in state and local politics. Moreover, with its limited fiscal and bureaucratic capacities, the US national government had often relied on “business enterprises, local governments or private voluntary associations for policy implementation” (Skocpol 1995, 45). This parallels China’s current policy environment where detailed policy formation and implementation are left to the provinces and prefecture cities and below. Thus, local policy implementation can vary dramatically in China. Despite the 2006 central government policy, which requires local governments to include migrants in local medical insurance or set up major illness insurance programs for migrants, we still see a variation in the expansion of medical insurance to migrant workers

### **Political Incentives**

Political leaders care first and foremost about political survival and their career prospects (Bueno de Mesquita et al 2003; Acemoglu and Robinson 2006). So in pursuit of their career interests, political leaders will try to use existing governmental and party organs to devise and implement policies that will attract support from various social groups (Skopol and Amenta 1986). However, China does not operate in an electoral system where social groups can press their interests with the state easily. Chinese citizens do not have periodic elections where they can punish or reward their leaders by voting them out or electing them into office. With the exception of villages (villages are not considered an administrative level of the government), where village committees are nominated and elected by villagers, the Chinese Communist Party puts government officials into office. Ordinary citizens can nominate township level officials, but they have to be vetted by party-led electoral committees (Manion 2008). Government

officials at the county level and above are appointed within the party through the *nomenklatura* system and promoted through a cadre evaluation system where ordinary citizens do not have significant influence in this process (Manion 1985; Burns 1994; Lam and Chan 1996).

Government officials are evaluated on a set of hard and soft targets, on which promotion, demotion and the removal of office are based. Hard targets reflect core tasks crucial to the regime, including economic growth and fiscal collection; soft targets include member recruitment, propaganda work, and social stability (Edin 2003). While failing to meet soft targets usually does not engender any real punishment, failing to meet hard targets can be detrimental to one's career.

In terms of hard targets, economic development indicators are assigned the highest priority, accounting for 30% of the evaluation, and GDP growth is the most important indicator (Wang 2011). Social development indicators account for 22% of the evaluation and include measures of social stability, family planning, and school enrollment. People's livelihood indicators, which include social insurance coverage, are weighed at 23%. Ecological environment indicators, including a pollution index, account for 25% of the evaluation. Among these indicators, GDP growth, the social stability index, and the fertility rate are the most important criteria for the evaluation (Wang 2011). While having low scores on the stability index and the fertility rate can prevent an official from getting a promotion, having stellar scores on either will not per se gain him a promotion. But consistently having GDP growth that outperforms other localities will lead to promotions (Whiting 2000, 2004; Wang 2011). As a result, the career prospects of Chinese local officials are determined more by their performance in promoting local

economic growth and less by their performance in providing social welfare benefits (Edin 2003; Laundry 2003, 2008; Li and Zhou 2005; Xu 2011).

While Chinese local officials are not politically motivated to provide social welfare, they are politically incentivized to promote local economic growth. Thus, they will do everything possible to grow the local economy, including the expansion of local social programs to migrants if it is in the local economic interest. Analogous to research on cross-national differences in social insurance programs, different economic strategies are linked with different social insurance programs (Wibbels & Ahlquist 2007; Haggard & Kaufman 2008). In Wibbels & Ahlquist (2007) study, countries use social policies to shape or create the labor force for their particular development projects. Thus, the provision of social welfare can be used as a tool to serve the need of the local economy.

### ***Competition for High Skilled Workers***

Chinese local governments can use the expansion of social welfare to remake their labor profile. First, local governments can use urban *hukou* conversions to attract non-local (rural or urban) migrants who are wealthy and/or talented to their cities. By picking off the richest and most talented migrants, cities can sustain their economic development with additional investment capital and high quality labor. These urban *hukou* conversions have very strict requirements and vary between cities. For example, large and medium sized towns in Zhejiang province will grant local *hukou* to individuals with local home purchases of a certain size and price or to individuals with higher educational levels (CECC 2005). In Shanghai, the requirements for a *hukou* conversion are: the possession of a Shanghai Residence Permit for at least seven years, urban employee social insurance contributions for at least seven years, the attainment of mid-

level professional qualification and beyond, tax receipts for at least seven years, and no criminal records. Individuals with special achievements such as sport champions, large investors, and high-income earners are also given hukou conversions. In 2010, the number of conversions in Shanghai was 71,700, which only increased the urban *hukou* population by 0.5% (Ulrich et al 2012; Zhu et al 2011).

In 2009, Guangdong province introduced a *hukou* conversion process based on a scoring system. Depending on an applicant's educational background, skills, years of social insurance contributions, place of origin and other criteria, points are assigned. Those with 60 points are qualified to apply for an urban *hukou*. Although the province set a target of 1.8 million conversions, only 100,000 migrant workers had acquired an urban household registration in Guangdong between 2009-2010 (Ulrich et al 2012; Zhu et al 2011).

Second, local governments are using the expansion of social insurance programs to attract high skilled workers because these workers are needed in the local economy. While *hukou* conversions can attract the highest skilled workers to a locality, a city cannot attract enough workers with this process because too many new citizens will exert undue pressures on the existing urban infrastructure and social welfare system. Moreover, not every city has the same demand for high skilled workers. Each city has a different labor endowment and economic structure that require a different labor composition. As a result, though every city will have *hukou* conversions to attract the best talent, not every city will put in social insurance policy to attract higher skilled migrant workers.

In my study of Shanghai and Guangzhou, I find that Shanghai's emphasis on heavy industry and financial services has created a demand for highly skilled workers. In

response to this, Shanghai may have adopted a comprehensive insurance plan, which provides pension, medical and occupational injury benefits to migrant workers in order to attract more highly skilled workers to the city. In contrast, Guangzhou does not need as many higher skilled workers because the city has chosen to develop its light industry and retail services. As a result, Guangzhou did not adopt medical insurance for migrants until 2009. Thus I argue that those Chinese cities with a demand for high skilled workers are more likely to expand medical insurance to migrant workers. More specifically, I hypothesize that a city with an emphasis on heavy industry and high value tertiary services are more likely to adopt migrant medical insurance. These hypotheses are further elaborated in Chapter 4.

### **Fiscal Incentives**

As outlined in the previous sections, the central government needs the cooperation of local governments for policy implementation. To accomplish this, the central government must provide the appropriate incentives. On the one hand, the cadre evaluation system provides officials with the political incentives to implement central government policies. On the other hand, fiscal incentives are also needed. In China, local governments have responded to central-local fiscal sharing rules in their policy choices (Oi 1992, 1999; Han and Kung 2012; Duckett 2000; Blecher and Shue 1996; Ruf 1999). The fiscal reforms beginning in the 1980s have given local governments greater incentives and responsibilities to provide local public goods such as economic growth, public infrastructure, and social services (Shue 1988; Shirk 1993; Oi 1999; Whiting 2001). With this fiscal decentralization came a crucial transformation in property rights. Local authorities at local levels (cities, counties and townships) received the rights to

revenue from local economic activity (Montinola, Qian and Weingast 1995; Oi 1999). Since the 1994 fiscal reforms, local governments have been squeezed by the central government to provide social services but are not given enough revenue to do so and are forbidden to raise funds through borrowing. As a result, local governments are fiscally incentivized to raise extrabudgetary funds through the sales of *hukou*, sales of land rights, and the establishment of migrant social insurance funds.

### ***Types of Revenue***

The fiscal revenue of local governments in China can be divided into two categories: budgetary and extrabudgetary revenues. Budgetary revenue includes value-added tax, enterprise tax, and business tax, and is shared between local governments and upper levels of government. The central government has exclusive rights on setting the tax rates and bases. Extrabudgetary revenue includes non-tax items, which are fees and funds, authorized by various governmental departments. It is not shared with the upper levels of government. Thus, local governments have exclusive authority over the use of extrabudgetary revenue (Wong 2007).

Extrabudgetary funds are not unique to China. The two common types of extrabudgetary funds found around the world are special accounts and fees. Special accounts are separate from the budget and are intended to carry out a specific activity or benefit to a specific agency (like a pension fund). These accounts are often organized as funds or self-balancing accounting entities. Special fees are revenues raised outside the budgetary framework. These fees include motor vehicle registration fees, construction permits, and highway tolls (Wong and Bird 2008).

Extrabudgetary revenue is not new to China. It was first created in the early

1950s, following the Soviet practice, as a way to set aside small funds from centralized management and control. The earliest examples were the surcharge on agricultural taxes and the surcharge on wage bills (Wong and Bird 2008). Local governments were permitted to spend this revenue without upper level approval. Presently, extrabudgetary revenue includes social security funds and revenue from the sale of land leases (Wong and Bird 2008). Nationwide, extrabudgetary funds may total 20% of GDP (Saich 2008).

### ***Revenue Sharing Structure***

To reduce the central state's fiscal burden, make localities fiscally self sufficient, and provide incentives for local authorities to promote local economic development, the central government instituted a revenue-sharing fiscal system in the 1980s. Prior to market reforms, local governments turned over virtually all taxes and SOE profits to the central government, and local governments looked to the central government for budgetary allocations (Whiting 2000). With the reforms, the central government eliminated top down budgeting and granted governments at each level residual property rights over state owned enterprises within their jurisdiction.

The current tax system, instituted in 1994, separates the tax types into central, local, and shared taxes, where only the central government has the right to authorize taxes. Among major shared taxes, the central government gets 75% of value added tax (增值税), a tax levied mainly in the production process and comes primarily from township village enterprises (TVEs) and other industrial enterprises, 60% of enterprise income tax, which is drawn from enterprise profits, and 60% of personal income tax (Lou et al 2008; Han and Kung 2012; Ahmad 2008). Local governments have exclusive rights over the business tax (营业税), which is based largely on the construction sector and to a

lesser extent on the service sector, land use tax, and real estate tax (Ahmad 2008). Local governments also get three types of general-purpose transfers: revenue sharing transfers, tax rebates and equalization transfers (Lou et al 2008).

In contrast to the previous system where local governments collected all the taxes, the center government has established central tax offices at provincial, municipal and county levels as well as in some townships for tax collection (Whiting 2000). The new tax system also revokes the formal authority of local governments to approve tax exemptions and reductions for collective firms, which was the main source of tax avoidance in pre-1994 (Whiting 2000). Additionally, township governments and village associations have been prohibited from levying agricultural taxes since 2005. These abolished fees include funding for rural education, the militia and subsidies for rural officials and social relief programs (Han and Kung 2012). Without these agricultural taxes, these local governments are completely dependent on central government transfers.

As the central government increases its share of tax revenue, which resulted in falling revenue for local governments, local governments have become increasingly dependent on extrabudgetary revenue in achieving their policy goals (Wong and Bird, 2008). In an attempt to rein in these fees by local governments, the central government has declared that extrabudgetary levies to be illegal if not approved by the central or provincial government (Whiting 2000). In recent years, land conveyance fees (土地出让金), which local governments receive from selling the land usufruct rights of formerly arable land to a third party for a different usage, have become an important source of fiscal revenue (Wong and Bird 2008; Xu 2011). This is considered a legal



extrabudgetary fee because the Ministry of Finance has deemed its nonrecurring nature unfit for inclusion into the fiscal revenue base (Wong and Bird 2008).

### ***Expenditures Imbalances***

Under the current fiscal arrangement, the central government receives the bulk of tax revenue, but local governments are responsible for providing the bulk of social security, basic education, health care, and public safety services. China is unusual in assigning heavy responsibilities for public services and social welfare to local governments. The assignment of costly services such as pension and unemployment benefits to local governments is unusual because they account for a very high proportion of total budgetary expenditures, close to 55% (Wong and Bird 2008). For comparison, in a sample of 100 countries, on average, subnational governments only account for 13% of total welfare expenditures in developing countries and 35% of total welfare expenditures in developed countries (Wong and Bird 2008). In most countries, social security, i.e. pension, is almost always financed by the central government, and central and local governments jointly finance the social safety net system. Similarly, the responsibility of education and public health is usually shared between central and local governments to ensure some minimum level of provision across localities.

However, in China, local governments account for 70% of budgetary expenditures on education and 55–60% of expenditures on health (Lou 2008). At the same time, there are fairly limited central government transfers to finance these services. As a result, local governments tend to end up with expenditure responsibilities in excess of the revenue at their disposal. Yet, cities are generally expected to cover any deficit from their own budgets. In 2010, local governments accounted for over 80% of public spending but

collected only 45% of the country's tax revenues, a gap amounting to ¥4.1 trillion (\$631 billion) or just over 10% of national GDP (Economist 2012).

Moreover, the tax sharing arrangements introduced in 1994 are not extended to the sub-provincial level, and the most serious fiscal disparities remain at that level. Sub-provincial fiscal arrangements are at the discretion of provincial governments, leading to a high variation across provinces. In general, the higher-level government grabs a higher fraction of the fiscal revenue than its share of expenditure responsibility. As a result, the most serious vertical and horizontal imbalances are at the lower levels of government (counties and below). In 2005, provincial governments on average took about 25% of total sub-national revenue, municipal governments took another third, and county governments, which provide most social services, took the remaining 43% (Wong and Bird 2008).

Additionally, under the 1995 Budget Law, local governments are not allowed to borrow but are allowed to run deficits. Unable to raise adequate funding through measures such as property or vehicle user taxes, local governments are excessively reliant on inadequate central government transfers (general or earmarked) and extrabudgetary revenue (Saich 2008). The funding environment became even tougher for local governments after 2004, when the Ministry of Finance shifted its macroeconomic policy to ensure greater fiscal restraint and less reliance on borrowing (Su and Zhao 2006). Because local governments are prohibited from borrowing directly from banks, they have established special purpose vehicles such as Urban Development Investment Corporations that are free to borrow for infrastructure and urban construction (World Bank 2012). These corporations are financed principally by local land sales and bank

loans, often with land as collaterals (World Bank 2012). According to the World Bank China 2030 report, the total local government debt in 2010 was as high as 26% of national GDP.

### ***Revenue Generation through Migrant Social Welfare***

Despite fiscal decentralization, the central government has retained control over the policy agenda. While localities do not have enough funding to carry out central government policy, the center still mandates many tasks that must be carried out. Most of these are unfunded mandates (Saich 2008). Local governments are charged with finding the solutions and supplying most of the funding for promises made by the central government.

Beginning in the 1980s, different levels of government have to contend with the rural-urban migration issue. Since the central government does not have a coherent policy on delivering social welfare to the migrant population, local governments have been experimenting and implementing social policy reforms to cover this population. As mentioned earlier, two sets of practices are available to provide social welfare to rural migrants. One is rural-urban *hukou* conversion. By granting a local urban *hukou*, the city is bestowing upon the rural migrant the full social rights of an urban resident. Two is through ad hoc social programs such as migrant medical insurance. Given the fiscal squeeze, local governments have used both methods to raise fiscal revenue to cover shortfalls in government budgets, and *not* as ways to improve rural migrants' livelihood in cities.

### Hukou Conversion for Revenue

Rural migrants are divided into local and outside migrants because a local rural resident is counted as a rural migrant in the same city. For example, a Guangzhou rural *hukou* holder and a Henan rural *hukou* holder are both considered rural migrants in Guangzhou city. The only difference is that the Guangzhou rural *hukou* is considered a local rural holder. Moreover, there is a high likelihood that the Guangzhou rural *hukou* holder can exchange his rural *hukou* for an urban *hukou* in Guangzhou because he has land rights in Guangzhou, but the Henan rural *hukou* holder has a very low probability of gaining a Guangzhou urban *hukou* if he is not rich and/or highly educated/skilled. As a result, *hukou* conversion can be used as a revenue-generating vehicle in two ways.

One, local governments are using *hukou* sales to outside migrants to generate additional revenue. Starting in 1992, local governments began to offer blue stamp *hukou* and local urban *hukou* to wealthy, educated, and highly skilled individuals (CECC 2005). Many city governments granted these blue stamp and local *hukou* registrations based on educational and/or financial criteria. Blue stamp *hukou* registrations were initially used to attract capital investment to cities and enrich local government coffers. Eligibility was primarily based on “contributions” to the locales, calculated mostly in terms of monetary investments or years of education and skills (Chan and Buckingham 2008). Since blue stamp *hukou* were not officially “*nongzhuanfei*” *hukou*, they did not entail any fiscal obligations from the central government. This became a policy alternative to legalize a *de facto* urban population. Blue stamp *hukou* also required an urban entry fee for any newcomer, and thus this was very lucrative for local governments. The fee structure was based on the size of the city and the sub-district. On average, a prefectural level city’s

fee was at least ¥10000 (\$1587), a county level city's fee was around ¥5000-10000 (\$794-\$1587), and the fee at cities and towns below county level was approximately ¥2000-5000 (\$317-\$794) (Chan and Zhang 1999). In Shanghai, the fee ranged from ¥40000 (\$6349) for the city proper to ¥20000 (\$3174) for suburban district to ¥10000 (\$1587) for suburban counties. In Guangzhou, the fee ranged from ¥20000-40000 (\$3174-\$6349) depending on the city district (Chan and Zhang 1999, 838). However, these blue stamp *hukou* holders did not necessarily enjoy the full benefits of formal *hukou* holders. They were considered provisional citizens. When these blue stamp *hukou* holders moved out of their registered area, they were to resume their original *hukou* status. Blue stamp *hukou* were phased out because the massive influx of these blue stamp *hukou* holders had overburdened the urban infrastructure in the early 2000s (Mallee 2003).

Two, some local governments have been using *hukou* reforms as an attempt to move peasants off their land for urban development. Given the revenue sharing agreement with upper levels, many local governments have large funding gaps. This squeeze has led many local governments to rely on the sales of land under their jurisdiction to raise additional revenue (Saich 2008). In theory, all land is owned by the state in China but local governments are authorized to sell the usufruct rights of land for a certain time period (up to 70 years) in the “primary land market” (Han and Kung 2012). The land conveyance fees and the usufruct rights of land can also be legally transferred (土地转让) within the leasing period in the “secondary market” (Han and Kung 2012). Initially put forward in 2004, local governments are reclaiming rural collective land, including farmers' residential land and converting it to farmland. A unit of reclaimed

farmland creates one unit of construction land quota that can be applied elsewhere in the jurisdiction (Han and Kung 2012). The government can convert this one unit of farmland for non-agricultural use and grant land use rights to this new non-agricultural land to developers in a high land price area in the city. Through this mechanism, currently non-transferable rural residential land rights are made marketable.

Under the banner of eliminating rural-urban *hukou* distinction, equalizing benefits and unifying the labor market, local governments are pursuing a range of programs aimed at promoting urban-rural integration, which is really a thinly veiled attempt at land grabbing. These programs often target farmers' rights to farmland and residential land through an approach of "exchanging farmland rights for social security coverage and exchanging residential land rights and houses for urban apartments," which really means exchanging land rights for an urban *hukou* (Han and Kung 2012, 8). Hence these *hukou* conversions are, in effect, "a partial compensation arrangement to expropriate the remainder [portion] of peasants' land" (Chan and Buckingham 2008, 597).

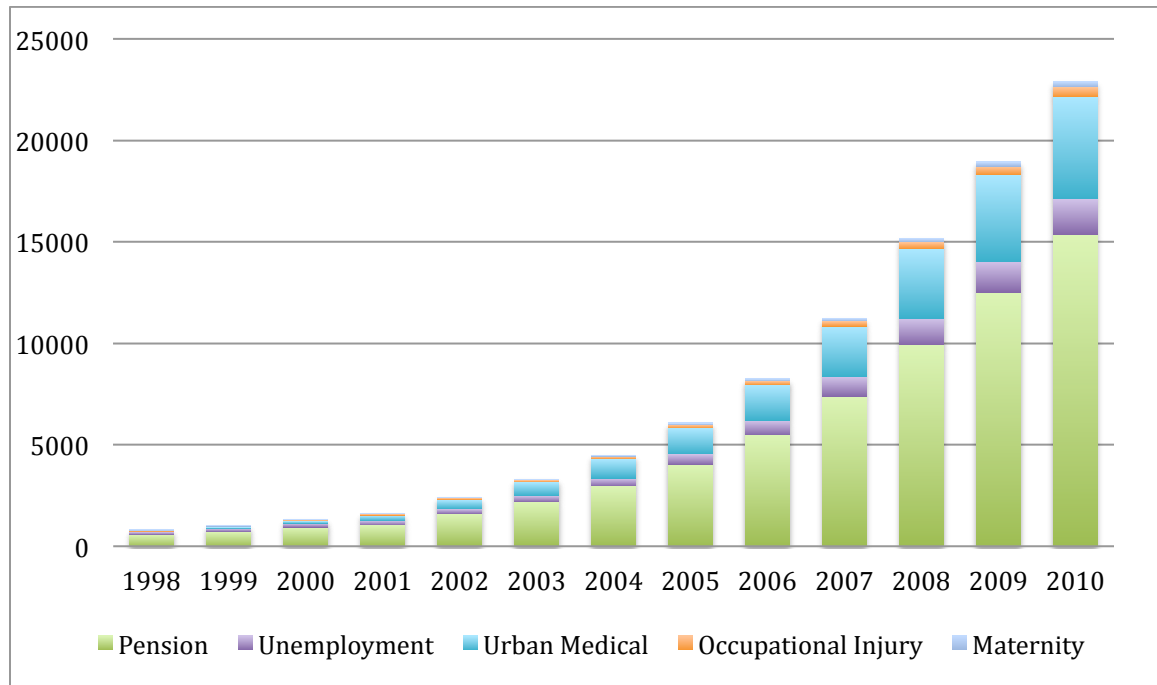
### Revenue Generation through Social Insurance

Social insurance funds, including medical insurance and pensions, are another way for local governments to generate additional fiscal revenue. The 1994 Labor Law also requires local governments to set up social insurance programs for urban workers. As local governments bear the direct responsibility for administering and managing these programs, social insurance funds have become an important source of extrabudgetary revenue that is not shared with the upper levels.

From 1998 to 2010, we see a positive balance for every social insurance fund in the country. By the end of 2010, the national social insurance fund balance was ¥2.3

trillion (\$354 billion) (Figure 2.1). Next to pensions, urban employee medical insurance (UEMI) had the largest balance, at ¥505 billion (\$77.7 billion). From 1998 to 2010, the national social insurance fund balance grew 28 times.

**Figure 2.1 National Social Insurance Fund Balance 1998-2010 (¥10 Million)**



Source: China Statistical Yearbook 2011

Note: Data of basic medical care insurance include both urban workers and urban residence from 2007

**Table 2.1 Urban Employee Medical Insurance Balances (¥100 million)**

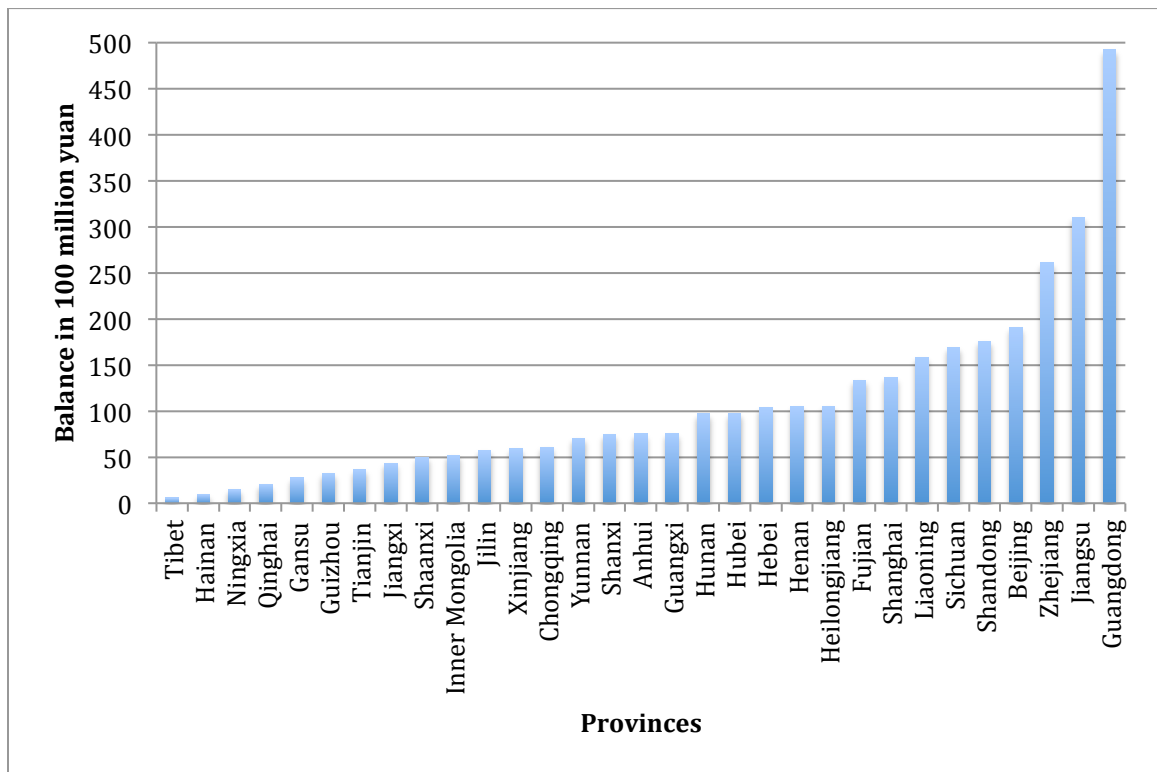
Year	Revenue	Expenditure	Payout Rate
2006	1747.1	1276.7	73%
2007	2214.2	1551.7	70%
2008	3040.4	2083.6	69%
2009	3671.9	2797.4	76%
2010	4308.9	3538.1	82%

Source: China Labor Statistical Yearbook 2011

Looking only at the medical insurance fund, we see that the payout rate has been increasing in recent years (Table 2.1). However, high deductibles and uncovered medical services still prevent many people from receiving these benefits. As medical costs continue to rise, out of pocket payment remains around 50% as compared to 18% around the world (WHO 2012). In 2009, out of pocket expenditure as a percentage of private health expenditures was 79% in China and 50% globally (WHO 2012). While general government expenditure on health as a percentage of total health expenditure had risen from 42% to 53% between 1998 and 2009, government expenditure on health as a percentage of total government expenditure had actually fallen to 13% from 12% between 1998 and 2009 (WHO 2012). As government healthcare spending as a share of fiscal expenditure declines, the government is amassing a sizable year-to-year balance in this insurance fund. While the fund is supposed to be earmarked for medical expenditure in personal accounts and social pooling accounts, external audits for these funds do not exist. As a result, medical insurance funds, along with other social insurance funds, can be an additional source of financing for local governments.

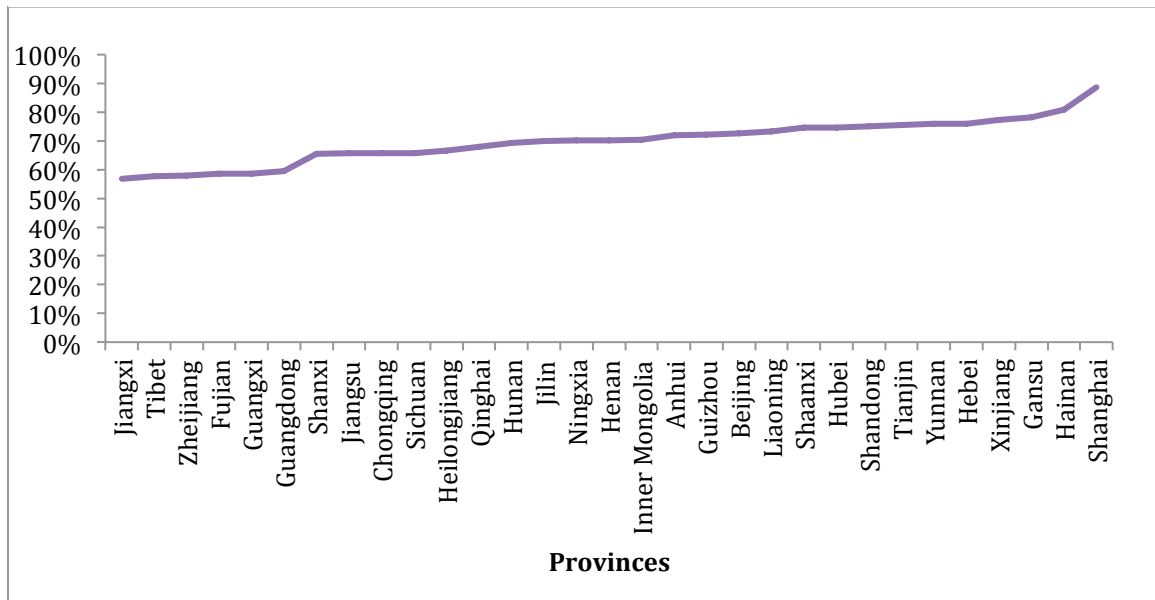


**Figure 2.2 2008 Provincial Urban Employee Medical Insurance Balance**



Source: China Health Statistical Yearbook 2009

**Figure 2.3 Provincial Medical Insurance Payout Rate in 2008**



Source: China Health Statistical Yearbook 2009

In addition to social insurance funds for urban residents, some urban governments have expanded these social insurance funds to include migrants. Since these funds are pooled at the city level, there is significant variation in these local insurance programs. Some local governments, such as Shanghai, have chosen to implement a comprehensive insurance that includes medical insurance, occupational injury insurance and pension benefits with a high employer contribution rate. This revenue is not shared with upper levels. Compared to urban employee medical insurance funds, the payout from migrant medical insurance funds is very small because migrants are young and healthy. Additionally, when a migrant leaves, contributions from the employers remain at the original city.

Given this scenario, most local governments will want to expand medical insurance to migrant workers, but implementing these programs is not costless. While all governments may want to generate additional revenue from this policy, not all local governments have the capacity to implement these programs. Moreover, there can be a

potential backlash from a poorly implemented and managed program. So local governments are incurring a cost in expanding medical insurance to migrant workers. As a result, local governments will only do so when they feel substantial fiscal pressure to raise additional revenue. Thus I argue that cities with high fiscal deficits are more likely to offer medical insurance to migrant workers.

## **Conclusion**

In China, the institutional legacy of the command economy, the *danwei* system and the *hukou* system has created a social welfare system based on employer contributions where there are only two options for expanding social welfare to migrant workers, *hukou* conversion and ad hoc social program expansion. The political structure characterized by bureaucratic negotiation between central and local governments has created a space for variation in local policy and promoted competition between local governments.

The cadre evaluation system and fiscal system have created political and fiscal incentives that motivated the expansion of social welfare to migrants. Two hypotheses are generated from this examination, labor competition and fiscal generation. To promote local economic growth, cities that need highly skilled workers will have to attract high skilled migrants to their cities. While *hukou* conversions are used to attract the highest skilled workers and attract capital to a city, a city cannot rely on this method to attract all the required workers to the local economy because each city has a quota on the number of new *hukou* holders. Moreover, too many new *hukou* holders can cripple the local urban infrastructure and social welfare system. Thus ad hoc social insurance programs have been used as a way to compete with other cities for high skilled migrant workers.

In the current fiscal system, local governments are cash strapped, and they are looking for new ways to raise revenue. Besides selling urban *hukou* registrations to outside migrants and using urban *hukou* registrations to gain land revenue from local migrants, ad hoc social insurance programs for migrant workers have been used as a revenue generating vehicle that is not in the purview of upper levels of government. These funds also assume a low utilization rate among migrant workers. Thus, cities with high fiscal deficits are more likely to offer social insurance to migrants as a way to plug shortfalls in their budgets.

Overall, social welfare programs for rural migrants are designed so that the “best” rural migrants are converted to urban residents, and the “other” rural migrants are provided minimal social protection while they reside in the cities. These policies are designed so that these rural migrants would leave their host cities when they are past their productive years. Local governments are counting on the fact that migrants are infrequent users of the urban social welfare system because most of them are young and healthy. Thus, migrant social programs are really about the state building and *not* about the migrants.

## **CHAPTER 3**

### **IT'S NOT ABOUT THE MIGRANTS**

A key explanation in the origins of social policy is social demands. In the logic of industrialism literature, social demands for welfare programs are a byproduct of industrialization and urbanization. Though economic variables are identified as the drivers for social policy, these economic variables are important because the traditional family can no longer take care of life's uncertainties, thus the government needs to provide social benefits such as old age pensions and health care. In the power resources theory, social pressures from important political groups are the mechanisms by which social policy originates. Even in the state centered theory, social beneficiaries created by past policies can lobby and access the government to provide additional social benefits. Thus an important driver of social welfare is bottom up pressure.

In the Chinese case, low skilled migrants, those with less than high school education, makes up 78% of migrant population, are generally not demanding social insurance. In this research, I have focused on this category of migrants because they represent the majority of migrants. While they attribute some importance to health care, they do not think medical insurance is important in their lives. In this chapter, I first review China's health care system and the types of medical insurance that are available to these migrants. Then, I provide a general assessment of migrants' health situation. Next, I examine this lack of demand from these low skilled migrants, and I conclude by postulating rationales behind this phenomenon.

## **Overview of China's Medical Insurance System**

China's transition from a centrally planned to a market oriented economy transformed China's health care system from one that provided affordable preventive and basic health care to most people to one where most people *cannot* afford basic care, and many families have been driven into poverty as a result of large medical expenses (Liu et al 2003; Hsiao and Yip 2008). According to a WHO survey in 2000, China ranked 188 out of 191 nations in terms of health care access. Compared to Western Europe, the US and other East Asian countries, which spend between 10-15% of their GDP on health care, China spent a mere 5.1% of its GDP on health care in 2010 (World Bank 2012). Recognizing this lag in health care spending and worsening health outcomes, the Chinese government rolled out a health care reform in 2009 to provide universal basic medical coverage for its population (State Council 2009). To date, China has set up three types of medical insurance plans, Urban Employee Medical Insurance (UEMI), Urban Resident Medical Insurance (URMI), and the New Rural Medical Cooperative (NRMC). These three medical insurance plans cover around 97% of the population (Ministry of Human Resources and Social Security 2011, Ministry of Health 2012).

For urban areas, UEMI and URMI were put in place in 1998 and 2007 respectively. Under central government's guidance, all cities have set up a UEMI scheme that offers workers medical savings accounts combined with catastrophic insurance accounts. Employer participation in this insurance scheme is compulsory. The minimum contribution rate is set at 8% of total wages, shared between employers and employees at 6% and 2% respectively. Depending on local conditions, local governments may choose to set their contribution rate above 8%, but not below it.

Benefits packages vary between cities, but both inpatient and outpatient services are covered. Under the principle of broad coverage, the new program is intended to provide basic medical insurance for all formally employed urban employees. Dependents of employees are not covered. Currently, the UEMI covers approximately 252 million people (Ministry of Human Resources and Social Security 2011).

In 2007, the central government piloted the URMI program in 79 cities to cover urban residents not engaged in formal employment. By 2009, URMI has been expanded to all cities. The population covered includes students, children and the unemployed. Participation is voluntary, and the plan is financed with government subsidies and household premiums. The plan is a catastrophic insurance that covers hospitalization and major illnesses. To date, around 221 million people are covered under this insurance (Ministry of Human Resources and Social Security 2011).

For rural areas, China began rolling out NRMC, a voluntary insurance system, in 2003. It is a voluntary insurance that insures rural residents against catastrophic health expenses. The financing is shared between the central government, the local government and the individual. To expand the benefits package, the combined premium has increased from ¥120 (\$19) to ¥220 (\$32) per year, where the central government contributes ¥100 (\$16), the local government contributes ¥100 (\$16) and the individual contributes ¥20 (\$3) (Yip et al 2012). As long as they follow the two policy guidelines of voluntary enrollment and major illness coverage, local governments are free to choose the contents of their benefits package and the administrative arrangement of their program. Some locales have been experimenting with outpatient coverage to their

members. According to official statistics, the NRMC currently covers 96% of the rural population, around 832 million people (Ministry of Health 2011).

While urban and rural medical insurance programs cover over 97% of the population, most people (more than 80%) have very shallow coverage under the URMI and NRMC plans, which are basically catastrophic insurance. Additionally, there are few linkages between urban and rural insurance plans. For example, a Shanghai NRMC member will have difficulty being reimbursed at a Shanghai urban community clinic. Moreover, few linkages exist between locales. A Beijing urban worker requiring medical treatment in Shanghai will not be covered under his Beijing medical insurance. This feature in China's medical insurance system makes it very difficult for people to use their medical benefits, especially for those who have moved or are mobile. While the 2010 Social Insurance Law is requiring local governments to establish linkages between these different insurance schemes, there has been limited progress due to the wide disparities in health provision between localities.

### **Chinese Migrants and Their Access to Medical Care**

Overall, migrants are typically younger and healthier than their urban counterparts. In a 2003 Ministry of Health survey, researchers find that migrants in Beijing and Guangzhou are significantly younger than the national average. While a third of the general population is age 45 and above, less than a fifth of migrants are in this age category (Zheng 2007). Migrants are also 2-3 times less likely to describe themselves as being in poor or fair health than their rural and urban counterparts (MOH 2004). Moreover, given their youth, migrants suffer from less chronic illnesses.



Although migrants are healthier than the general population, they have poorer health outcomes, in terms of incidence of communicable diseases and infant and maternal mortality rates, than their urban counterparts because they usually work in harsh conditions, live in crowded and shabby housing, and earn a minimal income. In my visits to migrant communities, a family of four usually lives in a room that is less than 200 square feet with no indoor plumbing. Cooking is done outside on a coal-burning stove. Open sewage runs through these communities. Garbage is usually piled four feet high outside their living space. As a result of their poor living conditions, migrants are highly susceptible to communicable diseases. In the late 1990s, regional studies in the Yangtze River delta find that migrants are 12-27 times more likely than local residents to suffer from malaria (Liu and Wang 2007). Since the late 1990s, there has been a significant increase in the incidence of Hepatitis A among migrants (Liu and Wang 2007). In an interview with a healthcare worker at a second tier hospital in Shanghai, I find hepatitis and high blood pressure to be more prevalent among migrants than urban residents. Moreover, among the migrant population, the maternal mortality rate is more than three times the local urban rate, and the under-5 infant mortality rate is twice the local urban rate (Liu and Wang 2007). Additionally, according to the International Labor Organization, approximately 90% of the workers suffering from occupational diseases are migrants (Amnesty International 2007).

Furthermore, compared to their local counterparts, migrant workers are less likely to access the urban health care system. A 2005 survey finds that over 73% of migrants use home remedies in the event of illness instead of seeking professional care (State Council 2006). Three factors contribute to this low utilization rate. The first is migrants'

income levels and the cost of urban medical services. According to a 2010 survey, the average monthly income of employed migrant workers is ¥2554, which is a third less than the national urban average (Ministry of Population and Employment Statistics 2011, National Bureau of Statistics 2011). Given their lower income, it is difficult for migrants to use urban health centers because an average outpatient visit to a city hospital costs around ¥200 (Ministry of Health 2009). The second factor is the low rate of medical coverage of migrants in cities. Generally, only 10-22% of migrants have medical insurance in cities (State Council 2006; Liu and Wang 2007; Gallagher et al 2012). In a 2004 Zhejiang study, researchers find that while 68% of urban workers have some sort of health insurance, only 19% of migrants do (Hesketh et al 2008). In a 2010 multi-city study, the health insurance coverage rate is 86% for urban workers and 22% for migrant workers (Gallagher et al 2012). Of the urban poor with no medical coverage, 40% of those are migrant workers (Liu and Wang 2007). Moreover, though 80% of migrants are employed, compared to 54% of urban residents, employment is not a significant factor in determining coverage for migrants (Liu and Wang 2007). This data implies that migrants are typically engaged in low paying jobs that offer little to no medical benefits. The third factor is the lack of linkages between urban and rural medical insurance systems. While only a small percentage of migrants have urban medical insurance, an increasing number of migrants have joined the NRMC plan at their *hukou* residence. However, this has not translated into better medical access because most migrants cannot get reimbursement from their NRMC outside the program's designated area. In cases where they can file for reimbursement, they usually have to pay the entire treatment cost upfront and file for reimbursement later.

In conclusion, while migrants are younger and healthier, they are more vulnerable to diseases than their urban counterparts. Moreover, they are at risk for health related impoverishment. The lack of medical coverage and high medical costs mean that many migrants delay medical treatment. In doing so, ordinary diseases can develop into major illnesses, which can destroy their health and bring financial ruin to their entire family. These conditions can create a scenario where migrant workers are at risk being the sickest and poorest of China's urban population.

### **Medical Insurance Available to Migrants**

For the most part, cities do not want to expand medical insurance to migrants because their welfare is the responsibility of their *hukou* governments. A city's main responsibility is to provide health care for its registered urban residents. Moreover, many urban governments bemoan the difficulty of designing an appropriate insurance for migrants given their transient nature. However, studies have shown that migrants are less transient than is commonly believed. Only 24% of migrants stay less than 1 year in a city, about 40% stay 1-4 years in a city, and 36% stay more than 5 years in a city (MOH 2004, Zheng 2007). For migrants that stay less than a year, it may be understandable that city governments pass over this group because they are less likely to become urban citizens. For migrants that stay 1-4 years, city governments cannot ignore this group because they are making significant contributions to the local economy plus they are semi-permanent residents in their host cities. For migrants that stay more than 5 years, city governments have a responsibility to these people because they are by default urban citizens, and they should be recognized as urban citizens through the provision of social programs such as medical insurance. So, despite their supposedly mobile nature, close to 75% of migrants

are staying in cities on a semi-permanent to permanent basis (Zheng 2007). As a result, urban governments should consider this population in their public health and social programs.

Medical insurance for migrants has been evolving. In the 1998 health care reform, migrants employed in the formal sector were recognized as participants in the urban medical system, but the central government did not require cities to cover this population. Medical insurance coverage for migrants did not become an important issue until May 2006 where the Ministry of Labor and Social Security ordered that prefecture and large/medium sized cities to cover migrants under an urban medical insurance scheme. In the 2009 healthcare reform, the central government has required that migrants be covered either through urban or rural insurance, but no specific plans have been laid out as to how they are to be covered. With the 2010 Social Insurance Law, all migrants are to be covered in the Urban Employee Medical Insurance with the same contributions and benefits but implementation has been slow.

Prior to these central government orders in 2006, 2009 and 2010, many cities did not have medical insurance programs that enrolled migrants. Currently, 61% of Chinese cities provide medical insurance to migrants. Migrants are covered in four ways: UEMI, URMI, Flexible Worker Medical Insurance, and Migrant Major Illness Insurance. Although UEMI and URMI are commonly provided to urban workers and residents, some cities have expanded these insurance programs to migrant workers with the same contribution rates and benefits. Since UEMI and URMI have been covered earlier in this chapter, Flexible Worker Medical Insurance and Migrant Major Illness Insurance are described below:

### ***Flexible Worker Medical Insurance***

The flexible worker medical insurance plan is an easy way for cities to include migrants in urban medical insurance programs. With market reforms, an increasing number of people are engaged in part time and flexible work. Providing medical insurance for these informally employed workers became an issue, and thus the flexible worker medical insurance was created in 2003 (State Council Policy Document No. 3, 2003). This insurance plan has a lower employer/employee contribution rate, 3-5% of average city wages, versus above 6% for most UEMI plans. This insurance does not carry a personal savings account and does not have outpatient care, and enrollment is voluntary. Reimbursement rates are around 60% (World Bank 2012). For the most part, flexible worker insurance offers higher contribution rates and better benefits for inpatient services than migrant major illness insurance, but much lower than UEMI.

### ***Migrant Major Illness Insurance***

Migrant Major Illness Insurance is another way that cities can provide coverage to migrants. Cities such as Shanghai (2002), Beijing (2003) and Guangzhou (2009) have chosen to cover migrants in this way. Unlike UEMI, individual medical savings accounts are not set up. This insurance is financed entirely by employers; and thus only the formally employed are included in this insurance. The insurance premium goes into the city's social pooling fund and major illness fund. The contribution rate is based on 60-80% of the city's annual average wage, and the contribution rate is typically 1-4%. Given the low contribution base and rate, members typically receive 60-80% of the UEMI coverage and benefits.

**Table 3.1 Types of Medical Insurance Available to Migrants**

	<b>Urban Employee Medical Insurance (UEMI)</b>		<b>Urban Resident Medical Insurance (URMI)</b>		<b>Migrant Worker Major Illness Insurance</b>	<b>Flexible Employee Medical Insurance</b>
<b>Contributions</b>	Employer (6-12%)	Employee (2-3%)	Resident (¥20)	Government (¥200)	Employer (2-12.5%)	Employer or Employee (5%-12%)
<b>Benefits</b>	Inpatient and Outpatient		Inpatient		Inpatient	Inpatient and Outpatient
<b>Reimbursement</b>	85-95%		60-80%		75-85%	80%
<b>Deductibles (Annual)</b>	¥100-¥2500 (\$16-\$400)		¥100-¥600 (\$16-\$96)		¥100-¥2500 (\$16-\$400)	¥100-¥2500 (\$16-\$400)
<b>Benefit Caps (Annual)</b>	4-10x average yearly wages (¥50000-¥500000) (\$8000-\$80000)		¥20000-¥50000 (\$3200-\$8000)		¥20000-¥150000 (\$3200-\$24000)	¥30000-¥150000 (\$4800-\$24000)

### **Lack of Demand for Medical Insurance**

If migrants do not believe that medical insurance is important, they will not demand it from the local government. Thus, the importance of medical insurance can be used as a proxy for social pressure for medical insurance. Given migrants' vulnerable health situation, we would expect migrants to consider medical insurance to be very important and demand it from the government, but this is not the case. In my interviews with migrants, local activists, and scholars, I find that medical insurance is not an important concern for migrants, especially the low skilled migrants.

Between 2009 and 2010, I visited a number of migrant communities in Beijing, Shanghai, and Guangzhou. During this time, I interviewed over sixty migrants about their lives in their host cities and their experiences and expectations of the healthcare system. Depending on the interviewee, the interview lasted between half an hour to an hour. Over 70% have their spouse and children living with them at their host city. They

work in services, manufacturing, and construction. Most of them (80%) are between the ages of 18-45. 63% of them are women because I mostly visited these communities during the day when the men were working. I include more men in my study by interviewing some migrants outside their worksites during their lunch breaks. While my interview sample is not representative of the migrant population, trends can still be drawn from these interviews. More importantly, these interviews allow me to tease out migrants' needs and expectations from the healthcare system. In addition to interviews with migrants, I also visited non-governmental organizations serving migrant communities in Beijing, Shanghai and Guangzhou. To understand the health care situation from the health care professional perspective, I also interviewed a number of physicians and hospital administrators at a third tier hospital, two secondary tier hospitals, a first tier hospital, a rural community clinic, a private first tier hospital and six private migrant clinics in Shanghai.

Given their “vulnerable” health status, one might expect that migrants would desire medical insurance? However, in my research I found that migrants tend not to expect the government to provide medical insurance for health care. Similar to other studies, my interviewees generally consider themselves to be very healthy (Smith and Fan 1995; MOH 2003; Liu and Wang 2007; Hesketh et al 2008). While older migrants do express concerns about their health, they do not consider sickness a major concern at this time. To most migrants, the generally attitude is, “If you get sick, you buy some medicine. It’s not a big deal” (病了就病了, 买药吃了, 不是大问题). When asked to list their major concerns with living in the city, social insurance, including medical insurance and pensions, usually come fourth or fifth after wages, housing, and children’s

education. Among my interviewees, only 11 have local medical insurance. However, most of them do have NRMC because their relatives have registered for them at their *hukou* place. Though most of them have never used NRMC and do not return regularly to their hometown to access healthcare, they want to have it because it is very cheap. As a Jiangxi man working at a Shanghai ship building company says, “It’s only ¥20 (\$3) per household per year, why not? Maybe I can use it, maybe I can’t. But if I can, all the better.” Overall, my interviewees have a nonchalant attitude towards medical insurance. While they are not opposed to having it, they do not feel that they particularly need it either. Given a choice between higher wages and medical insurance, more than half would choose higher wages. As a 20 year-old electrician from Hunan says, “Having medical insurance is fine, but I’d much prefer to keep my money. I can purchase commercial insurance when I want to.” There is a sense among migrants that they do not need medical insurance and it is an extra expense that they will spend money on if they can afford it. Thus, it is not surprising that migrants are enormously disgruntled about back wages and have taken to the streets on this issue (Zhang 2012), but medical insurance is seen as a non-issue. Moreover, in Li (2006) Tianjin study, social insurance never made it into the list of concerns among migrants.

Moving beyond my interviews, I find similar trends in a 2005 Shanghai Migrant Public Goods Survey, conducted by the Shanghai Academy of Social Sciences (SASS) with 2000 participants. In this study, while 65% of migrants consider healthcare a public good, only 30% of migrants find medical insurance to be very important; 34% of migrants are willing to forgo medical insurance for higher wages, and 35% of migrants do not want medical insurance because they are young. Of the migrants that do not want



medical insurance, 90% are age 40 and younger, 78% completed middle school and 78% earn less than ¥1800 per month (the average for this survey sample). Similarly, Hesketh et al (2008) find that 47% of migrants were unwilling to make contributions to health insurance, and of the uninsured migrants, 53% were unwilling to join a health insurance plan (Hesketh et al 2008). Thus, even though migrant medical insurance programs are available in Shanghai, Beijing, and Guangzhou at the time of my fieldwork, migrants are not concerned or interested in enrolling in these medical insurance schemes. As such, they do not see this as social benefits that they should demand from the government.

### **Why No Demand for Medical Insurance?**

Given migrants' vulnerable health status, why do they attach such little importance to medical insurance? Migrants are not demanding medical insurance as a result of their social economic status (SES), barriers to access, the lack of trust in urban providers, and the lack of confidence in the state to provide useful medical insurance programs.

#### SES Explanation

SES indicators are important in explaining the lack of demand for medical insurance among migrants. As mentioned earlier, over a third of migrants surveyed in this SASS study believe that medical insurance is not important because they are young. In this survey, migrants are fairly young, close to 75% are age 35 and younger, and less than 7% are age 45 and above. Similarly, in the latest national migrant population report, 80% of migrants are age 15-59, and 44% of migrants are age 30 and younger. Given their youth, migrants suffer from less chronic illness and consider themselves to be very healthy. Other researchers also find similar results in their studies, migrant workers are

willing to risk living in the cities without medical insurance because many believe that “they [are] unlikely to require extensive medical treatment because they [are] young and healthy, and also because they [have] been careful (and lucky)” (Smith and Fan, 1995, 174). As a result, they are more likely to believe that they do not need medical insurance and thereby do not make demands on the government for this social program. However, as we move away from the young migrants, older migrants are more likely to consider medical insurance to be a concern because they are experiencing more health problems. These two stories illustrate this difference between the two age groups:

*“I’m young, only 19 year old. If I’m sick, like get a cold and have minor ailments, I can just take some medicine. When I’m 30, then I may worry about having medical insurance. Right now, I’m as healthy as an ox.” -- Henan migrant who is studying at a vocational school in Beijing to be an electrician.*

*“I am near my 50s now. When I was young, I didn’t care about my health. I rarely got sick then, but I am starting to develop ailments like pains in my joints. I don’t have any medical insurance now but I do worry about this from time to time.” – Jiangxi migrant who is taking care of her grandson in Shanghai.*

In addition to age, education plays a role in accounting for their view on medical insurance. Better educated than their rural counterparts, migrants are less educated than their urban counterparts. Compared with 43% of Shanghainese that have a high school education and above, only 28% of migrants in this SASS survey have the same education attainment (Shanghai Statistical Yearbook 2010). Similarly, in a Hangzhou study in 2004, around 25% of migrants have completed high school and above, compared with 15% of rural residents and 45% of urban residents (Hesketh et al 2008). Education is an important marker for life opportunities. Thus having less education than their urban counterparts mean that migrants are usually engaged in occupations that provide lower income and greater work related injuries and stress (Fan 2008; Nielson et al 2005; Peng

et al 2010). However, despite their greater risk of injury and disease, lower education usually translate into less desire for medical insurance.

Moreover, being less educated affects a migrant's knowledge of medical insurance. People may not know what this insurance is, what it covers, and what it means not to have insurance. As a middle-aged Anhui housewife in Shanghai points out, "My family and I need it (medical insurance), but we don't understand it. We don't know how to buy it (insurance)...we are afraid of being swindled. After we pay into it, we may not be able to find these people to get reimbursement." Similarly, on the types of insurance they would prefer, a middle-aged Jiangxi man working in recycling in Beijing mentions, "The cost efficient one...but I don't understand the different types of insurance, covering major illness vs. covering minor illness. I don't know enough to make a choice between them. They both sound good, but it really comes down to what I can afford and use." Thus, it is reasonable that migrants would not demand medical insurance because they do not understand it.

Besides age and education, income plays a large role in the demand for medical insurance among migrants. According to a 2004 survey, the average monthly income for migrant workers is ¥780 (\$124), which is just half of the national urban average (State Council 2006). In this 2005 SASS survey, migrants' earnings mirror results in the national study. Even though the average monthly income for a Shanghai migrant is around ¥1800 (\$288), it is only 55% of the average monthly income in Shanghai. Thus, as lower income earners, migrants' main concerns are not medical insurance. In my interviews with migrants, their top three concerns are 1. Make money 2. Provide education for their children 3. Save money for rainy days. Migrants are most concerned

about having a stable income. As many put it, the reason for leaving their hometown is to make money. All other concerns fade in comparison. Only after these other concerns are met would these people consider medical insurance. As a 30-year old Henan shop keeper in Beijing says, "If I can't even have enough money for food, how can I go to a doctor? If I become ill, I'll just buy medicine and take care of myself." Similarly, a Beijing housekeeper from Anhui says, "We poor people do not get sick. We just buy some medicine and make do. We don't spend much on health. We cannot afford to get sick." It is the same sentiment that I hear from many other migrant workers. "Since we're poor, we don't get sick." In sum, cost is a main barrier to accessing health care for migrants. Moreover, 71% of migrants would prefer to pay out of pocket for what they use rather than be burdened by regular insurance payments (Hesketh et al 2008).

Of the migrants in the SASS survey that are not willing to take a job without medical insurance, 62% of them have attained at least high school education as compared to 28% in the whole survey. 35% of these migrants are age 35 and older compared to 25% in general survey. The average income for this subgroup is Y2285, which is 25% more than general survey mean. Henceforth, older migrants are more likely to place importance on medical insurance because they have a higher need for medical care. Better-educated migrants may be more aware of the risks associated with the lack of medical insurance and thereby place more importance on having medical insurance. High-income migrants will have more disposal income to spend on non-basic needs such as medical insurance. Hence, older, better-educated, and high-income migrants are more likely to consider medical insurance to be important and unwilling to accept jobs without medical insurance. These migrants are also the ones more likely to seek out cities that

provide more adequate medical insurance or have conversion hukou conversion policies that would allow them to take urban residency.

### Barriers to Access

Though SES provides part of the explanation, it is not the complete story on the limited demand for medical insurance among many migrants. Although the combination of migrants' age, income and education level is important in explaining this limited demand, it is also important to think about whether or not the insurance plans offered is suitable for this population. Given their youth and health, catastrophic insurance is what this population mostly need. They are most at risk for major illnesses and thus need insurance coverage in an event of major medical expenses. However, the fact that this insurance is a catastrophic insurance with a high deductible means that most people cannot use this insurance. In a Jiangsu study, researchers find that migrants are unwilling to participate in social insurance because they are concerned about the ability to use the insurance after paying into it (Nielson et al 2005). In sum, migrants lack confidence in the system. In a study of health insurance schemes, researchers find that as financial barriers are removed in the access to care in insurance plans, and members begin to realize their benefits and gain a positive experience in the medium and long term, they will develop trust in the institution and increase the demand for health insurance (Jutting 2003; Chen 2005). Thus, as long as there are high financial barriers to prevent the access to care, migrants will have limited demand for medical insurance.

With an annual deductible of ¥1500 (\$240), the near equivalent of their average monthly wage, migrants would not be able to realize any benefits from this insurance due to minor illnesses. Since migrants are younger and healthier than their urban

counterparts, they will naturally use the healthcare system less frequently. To date, the current reimbursement claims made by migrants are only 1-2% of total contributions in Shanghai (Xia et al 2009). Besides their youth and health status, low income and rising health care costs have prevented many migrants from seeking medical care. An average Shanghai migrant in the SASS survey earns around ¥1800 (\$288) per month, and the annual medical deductible is ¥1500 (\$240). Depending on the types of treatment required, inpatient care could cost more than ¥10000 (\$1600) where his copayment would be 20%, approximately ¥2000 (\$320). So, an insured migrant would have to pay ¥3040 (\$487) for an ¥10000 (\$1600) treatment, which would be almost 15% of his annual income.

Thus, migrant medical insurance is underutilized. In an interview with an Anhui woman working at a Shanghai property management company, this is her view, “I have comprehensive insurance. I have never used it. I have a drug card, so sometimes I use it to get some medicine from the pharmacies. It’s better than nothing, but I just don’t use it. Most of the time, I just go to a small clinic to pick up some medicine...plus only hospitalization is covered. Neither my family nor I have had a need for hospitalization.” Similarly, a Jiangxi man working at a logistic company in Shanghai says, “My wife has comprehensive insurance working for this small plastic flower company. It’s useless because she’s young, only 27. So she doesn’t need to see a doctor. Besides it’s only for hospitalization, so having it is the same as not having it.” Similarly, a Guangxi migrant working at a Guangzhou accessory factory says, “My employer buys me medical insurance, but I have not used it. I don’t even know which clinic to go to because I’ve

heard that not every clinic accepts my insurance...so I just go to my nearby [private] clinic when I'm sick.”

Moreover, dependents are not covered in this insurance scheme. The insurance may not be vital for the individual, but having the option to buy insurance for a dependent is very important. As a 58-year old Anhui woman mentions, “My husband has comprehensive insurance, and we can use his medical card for some over-the-counter medicine because he gets ¥240 on his card a year, but we cannot use it for anything else...he has had it for more than a year because he works for a factory.” For a Jiangxi housewife in Shanghai, “I used to work for a clothing factory. I had comprehensive insurance...I no longer work there because I have to take care of my son now. He has a nervous disorder. We have spent tens of thousands of yuans on his treatment but it's no use. My husband and I have depleted our savings. We have borrowed from my family and friends...my entire family, husband, father, mother and brother, have comprehensive insurance in Shanghai, but it doesn't help us.”

Since many migrants have not been able to use this insurance, their demand for health insurance is not high. Since people's demand for health insurance is to buy health services, it is only reasonable to expect there to be limited demand for health insurance in scenarios where health services cannot be accessed as a result of high deductibles and limited benefits.

#### Lack of Trust in Urban Health Providers

Migrants also have alternatives to urban medical insurance schemes. With the development of NRMC, some have insurance at their place of origin. Many migrants seek care at their hometown prior to returning to their host city. When asked about major

illnesses, most migrants' responses are, "If there is a major illness and an emergency, I will go to the urban hospitals, but if it's really serious and can wait, I will just go home for treatment because my family members are familiar with the good doctors at my hometown (*laojia*) plus it's much cheaper to seek treatment there." Similarly, as a NGO worker working at a migrant center rightly points out, "Migrants will primarily self-treat, they then will go to private clinics. In an emergency, they will go to local hospitals. If it can wait, they will return to their hometown (*laojia*) because they can tap into their network of family and friends for care taking. Plus they are familiar with the health facilities there."

Additionally, many migrants do not wish to go to city hospitals due to the environment. It is not purely a cost issue. While most Chinese use this phrase to describe the health system, "看病难, 看病贵" (getting treatment is difficult and expensive), among migrants, it is "看病难, 看病贵, 态度差" (getting treatment is difficult and expensive and doctors' attitudes are poor). Migrants feel that they are looked down upon at hospitals. Since they are poorly educated, they find city hospitals to be very confusing. When they arrive, they are unfamiliar with the procedures of getting seen by a doctor there. They are unfamiliar with the registration process. They are confused about which department to go to. When they ask nurses for directions, they feel shunned because they are migrants. They find hospitals to be a scary, confusing, and isolating place that are best to be avoided. To some extent, they feel humiliated at hospitals. They find doctors' bedside manners to be infuriating because they are given cold shoulders or talked down to. As a result, they prefer to return home to see village physicians that are recommended by their family and friends. In Shanghai, a Szechuan migrant working at a glass factory



relays, “Last time I went to a hospital for a broken arm, I was sent around the hospital from department to department. Since I don’t speak Shanghainese, when the nurses and doctors speak amongst themselves, I didn’t understand it and felt utterly lost. If I didn’t need to go to a local hospital, I would much prefer to go to private clinics. Since they are usually operated by outsiders like us, it feels better.”

Moreover, there is an abundance of private (unlicensed and licensed) clinics that can take care of migrants’ outpatient needs. In any migrant community, there are numerous private “black” clinics. Within a three-block radius, there is bound to be at least one private clinic if not more. These clinics usually have a sign outside, “clinic” (诊所). In the private clinics that I have visited, the space is usually 1-2 rooms around 100-200 square feet each. One room is used to treat patients, and other room is used as the doctor’s living space. If it is a one-room clinic, a curtain separates the room. In the patient room, a patient bed is usually set up with an IV drip. A cabinet showcasing different medicine is also in this room. As one doctor in Beijing says, “Besides regulated drugs such as morphine, I can pretty much buy any medicine that I can sell including antibiotics.” These clinics are open anytime of the day, between 7am to 1am. Since they live there and everyone knows that they are doctors, a patient can come knocking on their door anytime of the day. The “doctor” is usually a migrant with 2-3 years of vocational training in medicine. People come to see them for all types of ailments and procedures, from treating minor colds to delivering babies.

Moreover, migrants do not trust doctors at hospitals. Since doctors are incentivized to overprescribe, migrants feel that they are overcharged and prescribed a battery of unnecessary tests and drugs. At these private clinics, they, on average, spend

no more than ¥100 per visit, compared to several hundred yuans at a city hospital. Besides the cost, there is also a level of trust established between these private clinicians and migrants. Below is a story relayed to me by a Henan woman who has a fruit stand in Beijing.

*“In 2006, I took my son to several hospitals to treat a swollen prostate. He was kicked while playing with some friends. I initially went to Wujing (a local public hospital) and was transferred to a pediatric hospital. They said that my son needed surgery and inpatient care for 2 weeks. They did a battery of tests on him and asked for a ¥2000 deposit for the surgery. These tests were taken on Monday and the results were to be ready on Friday. When I went back on Friday, I was assigned to a new doctor. This doctor was in his 60s and says that my son does not require any surgery. Instead, my son just needs rest and a cold pack. This doctor mentioned that if he were my son's doctor from the beginning, I would not have had to spend all that money on these tests and a deposit. At this time, I was very skeptical since the other doctors were certain that my son needed surgery. So this doctor suggested that I wait a week and see what happens. Miraculously, in a week, my son did get better without any intervention. Since my son didn't need the surgery, I went to the hospital to get my deposit back, but they refused. I was so angry that I filed a complaint against the hospital. After a prolonged process, I was able to get half of my deposit back, which was ¥1000. Ever since then, I have been very distrustful of doctors at urban hospitals. These doctors lack medical ethics. My son does not need surgery so why say he does (医生没有医德。明明不要手术, 都说要手术).”*

The plethora of private clinics, the availability of rural healthcare, plus the discomfort and distrust experienced by migrants toward the urban healthcare system make them less likely to seek care in the city, and thereby contributing to the low demand for urban medical insurance.

#### Lack of Confidence in the Government

Additionally, this population has never realized any social benefits from urban governments. During the 1980s-1990s, urban governments repeatedly harassed migrants with fees and registration requirements; thus they have little trust that the city government will carry through on their promises on social insurance. Despite the fact

that Shanghai's comprehensive insurance has been in place for eight years in 2010, migrants do not have any expectation or confidence that the Shanghai government is really looking after their interests. A housewife from Anhui says, "When I worked for a small factory, I had comprehensive insurance but not anymore...my husband has such insurance now, but it doesn't cover me...medical insurance is really for local Shanghainese. It's not for us. Comprehensive insurance is something, but we can't stay here long...I don't expect the Shanghai government to do much for us."

This lack of expectation originates from their *hukou* status and their identification with being outsiders and being peasants. A Fujian woman who owns a noodle shop points out, "We are peasants...we don't have health insurance here. The Shanghai government doesn't need to take care of us." Similarly, a young pedicurist mentions, "The countryside is getting better. I don't expect the social safety net to be in place here or at my hometown when I am old and gray. So in the meantime, I will just have to make enough money for rainy days and take care of my family...nobody cares...the government doesn't care." Another migrant who works at a massage parlor says, "I only can blame fate and not the government (只怨命苦 不怨政府). It is fate that I have a hard, manual labor life, and I cannot expect the government to help everyone because there are too many of us." Similarly, Huang (2010) finds in his migrant study that only 29% of respondents "expect" to change their urban *hukou*. In his study, 73% of migrants report the difficulty of obtaining an urban *hukou*. Despite residing in their host cities for years, migrants still do not expect to become full urban citizens.

## **Conclusion**

In conclusion, we can see that low skilled migrants are not exerting pressures on the local government to expand medical insurance because they are younger, healthier, poorer, and less educated. Their lack of knowledge about the insurance system is a bane for medical insurance uptake and demand because they do not have the information to correctly assess their medical risks and see the benefits associated with medical insurance coverage. They are also less likely to use the insurance because high deductibles make hospital visits too expensive for these migrants. Additionally, migrants usually self-treat, visit private clinics, and return home for health care, thus they are less likely to use urban health facilities. Finally, given their historical experience with the state, they do not consider themselves to be urban citizens and do not expect city governments to provide them with social benefits.

At the same time, while low skilled migrants do not attribute importance to medical insurance, high skilled migrants do. Though not examined in detail in this study, migrants with higher SES, those with higher income and higher educational level are the ones that consider medical insurance to be very important in the SASS study. These migrants are also the ones more likely to have the resources to move to another city with better economic opportunities. Since these migrants are unwilling to take a job without health insurance, they are also more likely to move to a city that has better medical insurance programs for them. These migrants fit the profile of highly skilled migrants that some cities would want to attract through social programs. Hence, though the majority of migrants do not consider medical insurance to be important, this subset of migrants with higher SES could be a motivating factor for local governments to adopt migrant medical insurance.

## CHAPTER 4

### A TALE OF TWO CITIES: SHANGHAI AND GUANGZHOU

Shanghai and Guangzhou are selected to examine the leader and laggard cases. Both cities are situated in rich regions with booming local economies with large migrant populations, but they have taken different paths in developing medical insurance for those populations. In Chapter 3, we see that the impetus for migrant medical insurance is not coming from society because medical insurance is not a primary concern for migrants. To understand the evolution of migrant medical insurance, these two cities are used to examine the factors that drive the expansion of medical insurance for migrants in one city and not the other. The hypotheses drawn from this inductive process are then tested in a multi-city dataset on migrant medical insurance adoption in Chapter 5. In Shanghai's case, I ask the question, "Why so fast?" In Guangzhou's case, I ask the question, "Why so slow?"

#### **Overview of Shanghai and Guangzhou**

Shanghai and Guangzhou are similar in two respects. Both are economically developed with large migrant populations. Both are regional leaders; while Shanghai is the economic power in the Yangtze River Delta, Guangzhou is the economic leader in the Pearl River Delta. Over the last two decades, Shanghai has been experiencing an average GDP growth of 17%, with the largest growth period between 1990-1995, where the average growth rate was 24%. In 2010, Shanghai's GDP stood at ¥1.7 trillion (\$264

billion), accounting for 4.3% of China's economy of \$5.9 trillion.<sup>3</sup> In 2010, Shanghai's GDP per capita was ¥76074 (\$12,075). Similarly, Guangzhou's economy has been growing at 16% in the past ten years, and was growing at the pace of 26% between 1984 and 1995. In 2010, Guangzhou's GDP was ¥1.1 trillion (\$171 billion), accounting for 2.9% of China's GDP. In 2010, Guangzhou's GDP per capita was ¥87458 (\$13,822). Economically, both cities are comparable in size, as Shanghai is ranked 1<sup>st</sup> and Guangzhou is ranked 3<sup>rd</sup> in the country.

In terms of migration, both cities are populous cities with large migrant populations. Shanghai and Guangzhou have followed similar trajectories, where market reforms drew large number of migrants to these cities looking for economic opportunities. In Shanghai, there were merely half a million migrants in 1990 (3.8% of the population). By 2000, there were 2.8 million migrants (18% of the population), and by 2003, the number had reached 3.8 million. In the 2010 census, among the 23 million people counted as living in Shanghai, only 14 million held Shanghai hukou, which meant that 9 million, 39% of Shanghai's residents, were migrants.

Since Guangzhou was one of the first cities allowed to experiment with market reforms, by 1987, Guangzhou already had 1.1 million migrants, about 33.2% of the population. At the time, it was by far the highest percentage of migrants in any large Chinese city (Ikels 1996). By 1988, Guangzhou was such a major hub for migrants that the city had to turn away workers (Vogel 1989). By 2000, the migrant population had grown to 2.9 million. By 2010, this population had swelled to 4.8 million, which was approximately 37% of the city's population.

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<sup>3</sup> 2010 Exchange Rate: \$1 to ¥6.5

Given the parallel tales of these two cities, economically and population-wise, we would expect both cities to develop migrant medical insurance at similar times. Moreover, we would expect Guangzhou to adopt a migrant medical insurance earlier because it had a head start on developing its local economy and had experienced an earlier inflow of migrants. However, this was not the case. While Shanghai implemented a comprehensive medical insurance for migrant workers as early as 2002, four years prior to the 2006 central government order to implement a medical insurance for migrant workers, Guangzhou did not adopt a medical insurance for migrant workers until 2009.

Shanghai's 2002 "Interim Regulations on Out-of-Town Employees' Comprehensive Insurance," stipulates that all employees and their employers, except home care services and agricultural workers, must participate in this plan. Migrant workers without a work unit can also enroll in this insurance. This program is separate from the city's main insurance system. From 2002 to 2009, the Shanghai government has employed private insurance companies, Pingan, China Life, and Taiping, to manage this insurance program.

This insurance covers pensions, occupational injuries and medical insurance for migrant workers. A monthly premium is set at 5.5% for construction companies (which does not include pension benefits) and 12.5% for all other companies. Of the 12.5%, 7% is for pension benefits, 3-4% is for medical benefits, and 1-2% is for occupational injury benefits. For every twelve months of enrollment within a three-year period, a pension card is given to employees, which can be redeemed at retirement (age 50 for women and age 60 for men).

Based on the previous year's average monthly city wage, the insurance cost per employee is around ¥292 (\$47) at the 12.5% contribution rate, where ¥70-94 (\$11-15) is allocated to medical insurance.<sup>4</sup> Benefits start the month after contributions are first made. This is a catastrophic insurance that only covers hospitalization and major illnesses. The annual deductible is ¥1500 (\$240) for hospitalization with a reimbursement rate of 80%. The benefit caps are four times the previous year's annual per capita salary, which is approximately ¥187000 (\$29,687).<sup>5</sup> Since its inception, the hospitalization rate among migrants has been around 1-2% (Zhou and Gao 2009). A drug card is also offered to migrants to offset pharmaceutical costs, where each worker receives ¥20 (\$6.5) per month. This card can also be used for free physical exams at two designated hospitals, Jiangong hospital and Changning Zhongxin hospital. By 2010, about four million migrants have enrolled in this insurance, about 44% of the migrant population.<sup>6</sup>

In 2009, Guangzhou also announced a migrant medical insurance to formally employed migrant workers. The insurance provides both inpatient and outpatient care. The contribution rate is 1.5%, approximately ¥40 (\$13). The copayment is between 45-60%, depending on the clinics chosen. The annual benefit caps are ¥295000 (\$47,244) for hospitalization and an ¥300 (\$48) monthly cap on outpatient care. While most cities are afraid to open up outpatient care because it may bring financial ruin to their insurance funds and overburden urban health facilities, Guangzhou has expanded this outpatient care to migrant workers. It has done so because it has learned from Shenzhen's

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<sup>4</sup> Based on monthly city average wage of Y3896 in 2010.

<sup>5</sup> Based on city average wage of Y46757 in 2010.

<sup>6</sup>[http://www.12333sh.gov.cn/200912333/2009xxgk/zhxx/tjsj/201204/t20120405\\_1137963.shtml](http://www.12333sh.gov.cn/200912333/2009xxgk/zhxx/tjsj/201204/t20120405_1137963.shtml)



cooperative medical insurance that few migrant workers use outpatient care even when offered because these clinics are closed when they are off from work and few migrants are willing to take time off of work to see a doctor.<sup>7</sup>

Similar to Shanghai's comprehensive insurance, Guangzhou's migrant insurance does not receive any subsidies from the government. This insurance has lower benefit levels than UEMI and URMI. However, unlike Shanghai, where employers have to pay into a fund that covers all three social insurances--occupational injury, medical and pension--Guangzhou's insurance only includes medical. By 2009, 1.1 million migrants had enrolled in this insurance, about a quarter of the migrant population.<sup>8</sup>

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<sup>7</sup> Interview with an official at the Guangzhou Social Insurance Bureau

<sup>8</sup> [http://www.gov.cn/fwxx/jk/2009-03/18/content\\_1261734.htm](http://www.gov.cn/fwxx/jk/2009-03/18/content_1261734.htm)

**Table 4.1 Comparison of Migrant Medical Insurance in Shanghai and Guangzhou**

Cities	Shanghai	Guangzhou
<b>Start Date</b>	September-02	Jul-09
<b>Eligible Population</b>	All formally migrants; self -employed migrants	All formally employed migrants
<b>Medical Savings Account</b>	No	No
<b>Benefits</b>		
<b>Coverage</b>	Hospitalization, ¥240 (\$38) annual drug card for OTC drugs, free annual physical exams at designated hospitals	Hospitalization and outpatient services
<b>Copayment</b>	Deductible plus 20% coinsurance for amount above deductible	Copayment is 45% at designated clinics and 60% at other clinics
<b>Provider Choice</b>	All urban health facilities	Choose 2 designated hospital, 1 primary 1 tertiary care at patient choice, no restrictions on 24 listed specialty hospitals
<b>Deductible</b>	¥1500	Deductible is 50% lower than resident insurance
<b>Benefit Caps</b>	400% of last year's per capita salary for 1 year enrollment, reduction for shorter enrollment (~¥187000)	80% of resident (~¥295000), highest monthly outpatient reimbursement is ¥300, ¥300 cap out of district health care costs
<b>Financing</b>	Employer	Employer
<b>Contribution Base</b>	60% of last year's per capita salary	60% of last year's per capita salary
<b>Contribution Rate</b>	12.5% (3-4% (¥70-94) for medical insurance)	1.2% (¥40 per month)
<b>Benefits Start Date</b>	Following Month	Immediate
<b>Plan Manager</b>	BOHRSS	BOHRSS

In the sections below, I first present the Shanghai case. I then introduce the Guangzhou case. After these cases are presented, I draw out the major implications from these two cities that can be generalized to other Chinese cities.

### **Shanghai: Why So Fast?**

#### *Shanghai's Economy*

Located on the Huangpu River, Shanghai was a fishing village until the 1800s. The history of modern Shanghai really comes from its status as a treaty port as a result of

the Opium War (1839-1842) and the Treaty of Nanking. Under the protection of foreign powers, Shanghai flourished as an economic power (Bergere 1981). By the 1930s, Shanghai was a thriving commercial and financial center. At the time, it was the most modern city of East Asia, dubbed the “Paris of the East” (Wong et al 2004, 1). The socialist revolution put a radical stop to this prosperity. The transformation of Shanghai into a socialist city meant that the bulk of local resources had to be surrendered to the state. Once a freewheeling capitalist city, it came under the shackles of a communist state.

Overall, Shanghai’s economic development can be described in three periods. Between 1953 and 1978, Shanghai operated under a command economy with economic growth averaging 8.8%. During this time, Shanghai was under the watchful eyes of the central government, which was suspicious of Shanghai’s capitalist leaning, and many of its industries and skilled workers were redistributed to the rest of country. Between 1979 and 1990, Shanghai was relegated to the “rear guard” of economic reforms as Guangdong and other southern provinces received economic discretion to surge ahead. At the time, Shanghai’s manufacturing sector lacked vitality and its economy grew at an annual rate of 7.5%, well below the national average of 9.4%. Since the 1990s, Shanghai has been released from the “rear guard” to become the “dragon head” of economic reforms with the development of the Pudong economic zone.

#### Focus on Heavy Industry

Shanghai has a long history as China’s industrial center. Prior to 1937, half of China’s large-scale, modern industrial production was located in Shanghai. The city dominated the national production of textiles, ships, chemical and metal working. During

the command economy, the city was turned into the industrial core for the nation. On the eve of the reforms, Shanghai's economy was concentrated in the secondary sector. Moreover, Shanghai's industrial output accounted for 76% of local GDP in 1979.

Leveraging its industrial base, Shanghai concentrated on building up its heavy industry. In 1990, heavy industry made up 48% of industrial output, and made up 79% in 2010. In the 1990s, Shanghai emphasized the six pillar industries of automobiles, iron and steel, petrochemicals, power station equipment, telecommunications, and household electronics (Jacobs 1997). Even though sectors such as food, textiles, and chemicals continue to grow, their proportion of Shanghai's industrial output have declined while metals and machinery have gained importance. Low value-added types of manufacturing such as textiles were relocated outside of Shanghai.

Moreover, Shanghai is home to big industrial firms such as Baosteel Group, Fosun Group and Shanghai Automobile Industry Corporation (SAIC). Shanghai Baosteel was founded in 1978 and chosen by the central government to locate in Shanghai. Today, it is the second largest steel producer in the world as measured by crude steel output (after ArcelorMittal) and had an annual operating revenue of \$30.6 billion in 2010. Fosun Group is one of China's largest private steelmakers. Moreover, SAIC's origins date back to the 1940s, as one of the few car manufacturers in Maoist China. The company has been revived in the reform era with huge investments from the Shanghai government and strategic partnerships with Volkswagen and General Motors (Segal and Thun 2001). By 2010, SAIC had produced 3.6 million vehicles, the largest to date by any Chinese car manufacturer and had an annual operating revenue of \$34 billion.

### Focus on Financial Services in the Tertiary Sector

Besides focusing on heavy industries, Shanghai's economy has also been powered by the service sector. Prior to market reforms, Shanghai's economy was concentrated in the secondary sector, which accounted for 65% of Shanghai's economy in 1991. By 2000, the secondary sector had shrunk to 46%, and the tertiary sector accounted for 52% of the economy. By 2010, the tertiary sector accounted for 57% of the economy and had grown from ¥24 billion (\$4.4 billion) in 1990 to ¥983 billion (\$157 billion) in 2010.<sup>9</sup> Within the tertiary sector, financial services, real estate, and logistics have had the fastest growth. In terms of employment, a significant proportion of Shanghai's labor force, around 25%, is engaged in highly skilled tertiary work such as financial services and science and technology.

Shanghai has been able to grow its financial sector due to its history as a major financial center. The first modern Chinese bank, the Commercial Bank of China, was established in Shanghai in 1897 (Jao 2003). The first stock exchange was formed in Shanghai in 1904. By 1936, Shanghai had forty-seven foreign banks, of which thirty-three came from the UK, the US, and Europe (Jao 2003). At the time, it accounted for 40% of the nation's total bank deposits (Jao 2003). Aside from being the nation's banking center, Shanghai was also the place where modern financial markets were concentrated: the securities market, the gold market, the foreign exchange market, the internal remittances market, and the inter-bank market all operated there (Jao 2003).

Given its past experience as a financial center, Shanghai has quickly capitalized on its past to become the de-facto financial center in China with the opening up of

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<sup>9</sup> 1990 Exchange Rate: \$1 to ¥5.4

Pudong in 1990. With the aspiration of becoming a major international financial center, the Shanghai stock exchange was reopened in 1990. In April 1994, following the exchange rate reform, the central government located the China Foreign Exchange Trading Centre in Shanghai to unify the country's foreign exchange trading (Jao 2003). In 2010, Shanghai's financial industry generated an added value of ¥195 billion (\$31 billion), with over 900 financial institutions (Shanghai Statistical Yearbook 2011). By 2011, Shanghai Stock Exchange became the 6<sup>th</sup> largest stock market by market capitalization at \$2.3 trillion (Shanghai Stock Exchange 2012).

### Firm Ownership

The Shanghai government has a major role in developing its heavy industry and financial services sectors. Throughout the 1980s, close to 66% of investment projects in Shanghai were of central government origin. Of those, the more notable projects were the expansion of Shanghai Petrochemical Plant and the formation of Shanghai Baoshan Iron and Steel Corporation and SAIC (Li 1998). Given the capital investment required in heavy industry, government financing has been very important.

Although enterprise's ownership structure has changed dramatically since 1990, a large part of the economy remains in the public sector, over 51%. The actual number may be much higher than 51% because joint ownership units and cooperative units with state investments have no longer been counted as urban collectives since 1998. Additionally, large and medium state-owned firms make up 37% of the gross industrial value of Shanghai's economy, and 15% of the urban labor force works for these companies. Taken together, this means that there is a continued strong state presence in Shanghai's economy.

In terms of employment, most workers are employed in the private sector, but a significant portion of the workforce remains in the public sector. In 1990, 90% of the workforce was employed by SOE. By 2000, 38% of laborers were employed in the private sector. Over this period, average annual wages also grew from ¥2917 (\$540) in 1990 to ¥46757 (\$74,22) in 2010. Moreover, in 1990, 81% of total wages were paid by SOE, and by 2010, 66% of total wages were paid by private enterprises. At the same time, when including small SOEs and collectives, over a third of the total urban labor force works in the public sector, at 36%.

Another implication of an emphasis on heavy industry is the presence of large firms. In terms of having industrial firms above a designated size, defined as firms with an annual revenue above ¥5 million (\$800,000), Shanghai has 16,684 units, more than twice the number in Guangzhou. Also, large firms accounted for 43% of the gross industrial output of the city in 2010.

### Foreign Direct Investment

Given its past as an economic center, Shanghai does not lack international experience, and it occupies a more advantageous position in attracting foreign direct investment (FDI) than other cities in China. More than 300 of the world's top 500 enterprises have invested in Shanghai, such as Delphi, GE, Mitsubishi, Siemens and Hitachi. In 2010, Shanghai accounted for 10.5% of China's FDI, at \$11.1 billion. As a result of the recent liberalization in the services sector that emphasizes financial services, tertiary industry accounted for 79.4% of Shanghai's total utilized FDI in 2010 (Statistical Yearbook 2011).

Given its original ties with outside investors, most of Shanghai's FDI comes from the US, Europe and Japan rather than from overseas Chinese communities in Hong Kong, Macao and Taiwan. Prior to the communist takeover in 1949, Shanghai had an international settlement of more than 300,000 foreign residents, French, British, American and Japanese, who helped build Shanghai's industrial sector. Of the total utilized FDI, wholly foreign-owned companies account for close to 82%.

### ***Shanghai Demographics***

The combination of an emphasis on heavy industry and highly skilled tertiary services mean that Shanghai needs a highly skilled labor force. Moreover, Shanghai needs migrant workers to fuel its economic development. Shanghai's demographic pattern is the most advanced in China, and resembles that of many developed countries. The major driving force of Shanghai's demographic transition is its rapid fertility decline. Since the mid-1970s, Shanghai's fertility rate has been kept below the replacement level of 2.1. Since 1993, Shanghai has been experiencing a negative natural growth rate of its native urban residents, averaging -1.8% per year (Shanghai Statistics Bureau 2011). In the mid-2000s, Shanghai's total fertility rate was as low as 0.8. While the fertility rate has increased to 0.9 recently with the encouragement of single-child couples to have two children, Shanghai still has the lowest fertility rate in China, a country that already has a low fertility rate of 1.63 (Peng 2011).

As a result, the 1980s was the golden period for Shanghai because it had an abundant supply of young labor as the baby boomers of the 1950s and early 1960s entered the labor market. However, since the late 1980s, the decline in fertility rate of the past decades has led to slower growth in the number of new workers in the urban-born



labor force. Beginning in the mid-1990s, scholars were projecting that Shanghai's native labor force would start contracting in 2010, which would correspond with a 30% decline in GDP per capita without a migration of outside workers into the city (Wang and Sheng 2001).

Therefore, the demographic window in Shanghai that has opened since the late 1960s due to the rapid decline in total fertility rate is rapidly closing in the coming years as the city ages. Fortunately, the flow of young migrants has greatly restructured the actual age distribution of Shanghai's population. From the 2010 census, we see that Shanghai has added 5.5 million migrants since 2000. The additional migrants boost the working age population (age 15-59) by 3.5% to 76.3%, which puts Shanghai ahead of the national statistics. Moreover, the addition of the migrant population also lowered the proportion of those age 65 and older by 1.3% to 10.1%. The 2010 Shanghai statistical report notes that the inflow of migrants has greatly improved the demographic structure of the city and helped slow the aging of the population in Shanghai.

Thus, given the small number of Shanghai residents in their mid-20s, the desired age for factory workers and construction workers, the influx of migrants provided the labor needed to spearhead Shanghai's economic growth throughout the reform period. Since the majority of migrants are young, this migration complemented a Shanghai labor force that lacked young workers. Moreover, these migrant workers are engaged in various manual jobs that urban workers are not willing to take. In addition, the number of skilled and educated young migrants, particularly young university graduates, has also increased. As a result, Shanghai has been able to reap a prolonged demographic bonus through inward migration and sustain its economic growth. Furthermore, researchers

agree that migrant workers have been the main contributor of the labor component to Shanghai's economy over the last two decades (Wang and Sheng 2001). Some researchers estimate migrants' contributions to Shanghai's GDP to be as much as 31% in 2007 (Chan 2010). Moreover, according to a retired official from Shanghai's social insurance bureau, there were already numerous white-collar workers within this migrant population that did not have any social insurance in the early 2000s; thus, the comprehensive insurance program could have been set up as a way to retain this talent.

### *Attitudes Towards Migrants*

Although Shanghai needs migrants for its economic development, migrants have not been treated well in Shanghai. Similar to the rest of the country, Shanghai was most concerned about how to best control and manage this population without taking into consideration its welfare in the 1990s (Solinger 1999). Moreover, much of the discussion among Chinese academics was focused on the ills that these migrants had caused in the city, such as over crowdedness and crime (Ding and Stockman 1999; Solinger 1999). In a study of Putou District Caoyang Xincun, Ding and Stockman (1999) find that urban residents perceive a negative influence from migrants in transportation, living environment and personal safety. In 1994, the Shanghai Municipal Police Bureau claimed that 70% of thefts in the city were attributed to migrants (Ding and Stockman 1999). This widespread perception of criminality among migrants meant that there was much wariness among urban residents and policy makers regarding the migrant population in their city.

Shanghai, being a major industrial center, also witnessed a period of tumultuous labor relations, where a large number of SOEs were reformed and large layoffs were

implemented. Moreover, SOEs were firing local workers and using migrant workers who were willing to accept lower wages. To limit these occurrences, the Shanghai government restricted the types of jobs that migrants could legally hold (Jacobs 1996). In 1995, Shanghai authorities differentiated between three areas of employment and barred migrants from certain jobs. The first (heavy industries and textiles) was open to migrants; the second (mass consumer goods, mostly in electronics) was open to migrants only in the case of pressing need; and the third (administration, security, banking etc.) was completely closed to migrants. In the same year, the Shanghai Bureau of Labor and Social Security published a list of twenty types of employment forbidden to migrants, which included taxi drivers, telephonists, insurance agents and bank clerks. This list was modified in 2001 according to labor demand, but migrants are still not allowed to work for official or public services, public security or environmental protection services, the management of joint property in city districts, sales departments in state-owned stores, and cleaning services in airports, railway stations and harbor facilities (Jacobs 1996; Roulleau-Berger and Lu 2005).

Beginning in the mid-1990s, a small but growing number of scholars pushed for a sympathetic understanding of the migrants' situation and sought to repudiate urban prejudices through survey research. A focus on the lives of migrants in the city seemed motivated by a growing realization that coercive restrictions and regulations on migrants would not prevent them from threatening social and political stability (Hu 2002). Instead, some efforts needed to be made toward incorporating them into urban social life and instilling a type of self-regulation in them. In the late 1990s, some newspapers began running columns providing information on migrants' legal rights and responsibilities

(Jacka 2006). Some local scholars even suggested that Shanghai could benefit from migrant workers because they were doing jobs that Shanghainese did not want to do and provided the labor necessary to fuel the economic boom (Wang and Sheng 2001; Wang 2002).

The attitude towards migrant workers changed dramatically in the 2000s. At the 16<sup>th</sup> Party Congress in November 2002, President Jiang Zemin argued that “all the institutional and policy barriers to urbanization must be removed and the rational and orderly flow of the rural labor be guided” (Lague 2003, 25). With China’s accession to the World Trade Organization (WTO) in 2000, the demand for workers led to the saying, “离土又离乡，进场又进城,” which means “leave the land and the village, enter factories and towns and cities” (Jacka 2006, 48). As a result, migrants were deemed necessary and beneficial for urban development. Since March 2002, Shanghai has forbidden the imposition of arbitrary taxes on migrants seeking to obtain various permits. In 2003, a university graduate, Sun Zhigang from Henan Province, was beaten to death in a Guangzhou custody and repatriation center after being detained by the police as a suspected illegal migrant. This tragedy sparked public outrage regarding the treatment of migrants in cities. Three months after the event, the State Council replaced these administrative detention centers with humanitarian relief centers to support migrants, vagrants, and the homeless (Li and Wu 2006).

Moreover, the wave of labor protests in 2006 led the central government to issue many documents and policies requiring local governments to step up their efforts toward helping migrants win back-wages and provide labor protection for this population. In the past couple of years, migrant workers have been brought to the forefront of media

attention. In the party congress of 2010, there was a migrant worker delegate. Additionally, while migrant workers were forced to leave Beijing prior to the Olympics in 2008, migrant workers were honored in Shanghai's 2010 World Expo with a plaque dedicated to them. Moreover, migrants were featured prominently in the World Expo advertisement. Additionally, in the 2011 CCTV Spring Festival Gala, one of the most watched Chinese TV shows, with approximately 700 million viewers, migrants were given three slots to perform, including a duet by two Beijing migrant workers, Wang Xu and Liu Gang, a dance by a "Xidan" girl who performed in the Beijing pedestrian underpasses, and a dance by a Shenzhen hip hop dance group (CCTV 2011). In Shanghai, migrants were also featured in a popular talent show in 2010, called "Star Migrant Workers" hosted by a popular local stand-up comedian Zhou Libo. While migrants' fundamental status as the underclass in urban areas has not changed, this is a huge departure from an atmosphere where migrants were ignored and ostracized.

Additionally, in contrast to years past, Shanghai was reporting a shortage of 150,000 migrant workers after the Spring Festival 2011. The city was actively trying to attract migrants through government job centers that post jobs for migrants. Companies were also hiring over 400 tour buses to pick up migrant workers from their hometowns in Anhui, Jiangsu, Henan, and Hubei. Companies were also paying headhunters to find workers and paying bonuses to these new workers, which was unheard before then.

Against this background and shift in attitudes towards migrants, a space has been created to have a more inclusive urban social policy towards them. Also, there is recognition that migrants should be included in the social welfare system because Shanghai's economic rise is attributable to this population's efforts.

### ***Capacity of the Shanghai Government and the Preferences of Employers***

State capacity can be defined broadly into two areas, the state's role as a tax collector and its role as public goods provider (Besley and Persson 2011). Compared with other cities, Shanghai excels in both areas. Shanghai is not the same "unenthusiastic tax collector" as Guangzhou. Shanghai's image is a "diligent and sometimes overdiligent revenue collector" (Li 1998, 244). Between 1940 and 1980, Shanghai's tax revenues accounted for one sixth of central government revenues, and the city was only allowed to retain less than 13% of this amount (Li 1998). During this time, Shanghai gained the reputation of being a "house that follows the law," and this reputation endures to this day (Segal and Thun 2001, 567).

The Shanghai government has a reputation for being strict on regulatory compliance and fee collections. While Shanghai did have a difficult time getting firms to join the comprehensive insurance initially, especially construction firms, the government was able to use licensing rights to coerce these firms into joining this scheme. Moreover, in my firm interviews in Shanghai, managers mention that in Shanghai, they have to pay the required payroll tax, but in surrounding cities, they can negotiate a flat rate fee. Below are some examples of firms' assessments of Shanghai's government capacity:

*"In Shanghai, we pay all of our social insurance fees, but outside of Shanghai, we can negotiate to pay a percentage of our social insurance fees." – Human Resource Manager at a paper product firm with operations both within and outside of Shanghai*

*"Shanghai has really high standards. To operate a business, we need licenses for everything, and it is hard for small businesses to survive. Big businesses have access to bank loans and preferential policies from the Shanghai government, and small businesses have access to nothing. Moreover, there are too many requirements, from business licensing to labor protection. In other places, you can negotiate with the local governments on the amount of social insurance fees, but not in Shanghai. In Shenzhen,*

*everything is possible (negotiable), but not in Shanghai.” -- Owner of a Shanghai legal consulting agency*

*“As a business owner, I am not afraid of workers, I am afraid of the government. I am afraid of labor inspections and penalties (fines) by the labor affairs and social security people. I have never been inspected but I am afraid of being inspected. Plus, every firm has a relationship with the local labor office (劳务所). Unless there’s a complaint, inspection does not happen.” --Owner of a shoe company*

Moreover, Shanghai is very much a “developmental state,” with a strong government presence in industries as witnessed by the emphasis on heavy industry. The government believes that pooling the risk of compensating workers involved in occupational injury cases will lower the risk of doing business in Shanghai. Moreover, the comprehensive insurance makes it possible to spread the risk across the migrant population by also extending medical and pension insurance to them. Comprehensive insurance also translates into an image of better labor protection, hence attracting more migrants to Shanghai. In an interview with a researcher at the Shanghai social insurance bureau, he says, “Migrant workers became a population that we need to worry about in the 1990s. Migrant workers were mostly engaged in dangerous and dirty jobs. They were at the most risk of being injured at the jobs because their occupations were dangerous, mostly clustered in construction and logistics. As a result, there were a large number of occupational injury cases. If they worked for a large enterprise, at least they were able to get some compensation. When they worked for a small enterprise, their chances of getting compensated were minimal, especially since these employers were more likely to close shop and leave town. In the case of occupational injury, each case could be upward of several ¥100000 (\$16,066). These workers were not able to raise these issues in the courts at the time, but they were able to petition. Seeing the rising

number of occupational injury cases and petitions regarding this problem, the Shanghai government decided to act, especially on occupational injury insurance.” When I asked about the response from firms, he mentions, “There actually was not that much push back from enterprises but they actually supported it because they did not have to contribute that much to the fund. For 12.5%, they were covered for occupational injury, medical and pension. Since an occupational injury case could be upward several ¥100000 (\$16,066), companies actually wanted to be protected. Companies benefited a lot from this insurance, especially in occupational injury. We demanded that all enterprises contribute to all three insurances because we wanted to increase the risk pool. We did not only want enterprises in high-risk sectors to join. With this insurance, everyone benefited, the workers, the employers and the government.”

A labor lawyer affirms this view. This is what he said: “For the firm’s perspective, they are most afraid of occupational injury. This is especially true for enterprises that have had 1-2 occupational injury cases. An occupational injury case is at a minimum ¥200000 (\$32,134). So for a firm to spend ¥200 (\$32) per month per worker on comprehensive insurance that covers occupational, medical and pension, it’s well worth it. Of course, the firm would prefer not to pay for pension but Shanghai is an all-in-one insurance. Plus the one-time payout for occupational injury is good for financing the insurance scheme.”

Overall, employers are not opposed to providing workers with migrant social insurance, especially occupational injury insurance, but the administrative hassle of the whole process nonetheless makes compliance difficult. As a construction foreman said, “My uncle’s company took out accident and health insurance for our workers for one



year, but found it to be too burdensome. It is not the costs, but it is the administrative hassle of setting up these accounts. In order to buy the insurance, each worker needs to have a residency permit, labor contract and other paperwork in place. It takes around two months to get all the paperwork in place and get the insurance accounts set up. But by this time, the worker may have already left my work team because the project has been completed or he left for other reasons. The temporary nature of these jobs makes it impossible for us to set up social insurance accounts.”

For bigger firms that can afford it, they will actually buy additional commercial insurance for their workers. In a meeting with a human resource manager at an staffing agency, this was her view on insurance: “Besides the regular government insurance schemes, we also buy additional commercial insurance for our migrant workers because they are in high-risk industries such as manufacturing. Even drivers run a huge risk of injuries. Since accidents and injuries are common among migrant workers, it is much cheaper administratively to take out an additional commercial insurance for these workers. With an additional private insurance, workers get up to 90% reimbursement in outpatient and inpatient care. Plus when an injury happens on the job, the insurance company can take on the investigation and compensate the workers. The parent company does not have to waste human resources and time to do this. It's worth the extra money not to deal with the hassle.” Similarly, an HR manager at a packaging company mentions, “Besides the required social insurance, we also take out additional insurance to cover our high-risk workers, the ones who have a high risk of getting injured because they operate dangerous machinery and equipment. They make up around 10% of our workers. We take this additional insurance for our workers because we have done the

accounting. It's cheaper for us take an additional insurance for them than for us to pay in case of an accident. Moreover, administratively, it's less hassle for us because the insurance company can do the investigation and pay out for these cases.”

### ***Social Insurance Programs as Revenue Generation Opportunities***

As explained in Chapter 2, revenues are shared between the central and local governments in China. In 1994, China struck a central-provincial budget deal, where the central government will get 75% of value-added taxes and 60% of enterprise income taxes and personal income taxes collected at the local levels. In return, the central government will make three types of general-purpose transfers: revenue sharing transfer, tax rebate and equalization transfers (Lou 2008). Shanghai had the largest per capita revenue sharing transfer and tax rebate in 2004, but received no equalization transfers as a rich province (Lou 2008).

### **Fiscal Pressure**

While the central government receives the bulk of the tax revenues, local governments are responsible for providing the bulk of social security, basic education, health care, and public safety services. Moreover, there are fairly limited transfers to finance these services. As a result, local governments tend to end up with expenditure responsibilities in excess of the revenue at their disposal. Cities are generally expected to cover any deficit from their own budgets. Shanghai has been experiencing a growing yearly fiscal deficit since 1994. In 2010, Shanghai had a fiscal deficit of ¥42.9 billion (\$6.8 billion), which is 2.5% of its local GDP. As a result, Shanghai is pressured to raise additional funds for make up for this fiscal gap. The social insurance fund is one such revenue source.

**Table 4.2 Shanghai Fiscal Balance 1994-2010**

Year	Fiscal Balance (¥100MM)	Balance as Percentage of GDP
1994	-21.65	-1.1%
1995	-40.59	-1.6%
1996	-54.17	-1.8%
1997	-76.59	-2.2%
1998	-88.48	-2.3%
1999	-114.53	-2.7%
2000	-124.88	-2.6%
2001	-106.14	-2.0%
2002	-158.05	-2.8%
2003	-203.35	-3.0%
2004	-275.97	-3.4%
2005	-226.42	-2.4%
2006	-213.43	-2.0%
2007	-99.29	-0.8%
2008	-235.34	-1.7%
2009	-449.35	-3.0%
2010	-429.31	-2.5%

Source: Shanghai Statistical Yearbook 2011

### *Aging and Pension Pressure*

Besides suffering from a fiscal deficit, Shanghai, along with other fast developing coastal cities, is also suffering from a rapid aging process and increased dependency ratio because it had an earlier and sharper drop in fertility rate. Shanghai is also aging faster than the rest of the country. Between 1990 and 2000, Shanghai's native population age 60 and older increased from 14.1% to 18.1%. By 2010, compared to the national figure of 13.3%, Shanghai's elderly population of age 60 and older had increased to 23%. The combination of falling natural growth rate and an aging population means that there are fewer native workers added to the workforce each year.

An aging society is also a great challenge to Shanghai's pension system, and rural migration is seen as a way to reduce pension pressure in the city as evidenced by a UN

Report, “Replacement Migration: Is it a Solution to Declining and Ageing Populations?”

The report proposes migration as a policy tool to extend the demographic bonus and relieve pressure on a country’s social security systems in aging societies. As early as 2000, some local scholars were predicting that Shanghai could be experiencing a pension gap in 2002 (Wang and Sheng 2001). Moreover, in Peng and Cheng’s (2005) analysis, Shanghai’s pension balance could be kept running until as late as 2028 before turning negative with a high level of migration. Without any migration, Shanghai’s pension fund would begin experiencing a negative balance in 2008. The intensity of migration also has a significant effect on the performance of pension funds because a higher volume of migration means a longer demographic bonus and a longer sustainability of the pension system (Lu and Wang 2008). Additionally, the government would also have more opportunities, time, and experience to formulate public policy to relieve the pension problem. Thus, beginning in 2000, Shanghai researchers noted that migrant workers could increase local tax revenue and local security funds and sustain Shanghai’s rapid economic growth (Wang and Sheng 2001; Hu 2006).

As proposed in Chapter 2, there appears to be a national trend of using social insurance as extra-budgetary revenue. In 2008, Shanghai’s UEMI balance is ¥13.6 billion. However, Shanghai’s payout rate is much higher than the national average, at 89%, as compared to the national average of 69% (China Health Statistical Yearbook 2009). This large difference is due to the more generous medical insurance benefits and the larger proportion of retirees in Shanghai’s insurance enrollment. Currently, 28% of Shanghai’s UEMI members are retirees. Retirees do not contribute to the medical insurance fund, but they receive more generous medical benefits than current workers

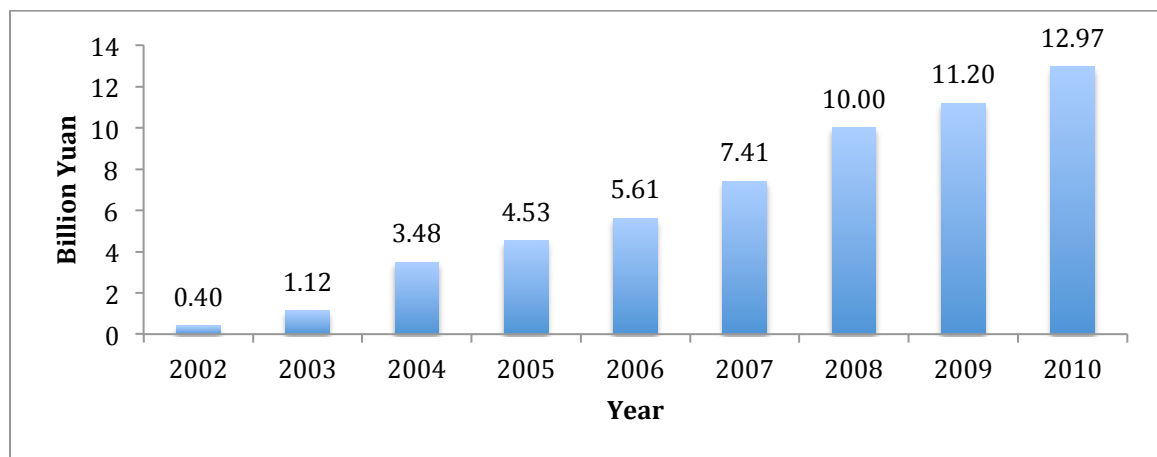
(Table 4.3). Retirees also have lower deductibles, ¥300-¥700 for outpatient and ¥700-¥1200 for inpatient care, and higher reimbursement rates of 75-85% for outpatient and 92% for inpatient care. The generous retiree benefits mean that the medical insurance fund will be depleted faster as the city ages. By 2015, the number of retirees is expected to reach four million, which will make up approximately 30% of Shanghai's *hukou* population (Shanghai Human Resources and Social Security Bureau 2009). As experiences in the US suggest, older people are much more likely to be the top spenders on health. While the elderly (age 65 and over) made up only 13% of the US population in 2002, they accounted for 36% of the total US health expenditure (Stanton 2006). To prevent this future gap in the medical insurance fund, Shanghai may have been thinking ahead in 2002 when it implemented the migrant comprehensive insurance fund (Hu 2006).

Hence it is not surprising that Shanghai has created a comprehensive insurance to include migrants in the city's social insurance system. Migrants' youth, health and lack of intention to stay make this a very attractive population to cover in the urban social insurance pool. By including this group in the city's medical insurance fund, the city is enlarging the medical insurance fund with minimal risks. Thus, deducing from demographic numbers and local scholarly discussions, a very compelling reason for Shanghai to create a migrant comprehensive insurance is revenue generation (Zhong and Zha 2006; Yuan and Sun 2008; Xie 2009).

By establishing a comprehensive insurance fund for migrants, Shanghai's government has added over ¥10 billion to the social insurance fund every year since 2008 (Figure 4.1). While 3-4% of this fund is supposed to be allocated for medical coverage,

there is no set policy on this matter. In terms of medical benefits, less than 1% of this population had been hospitalized between 2004-2006 (Zhou and Gao 2009; Li 2006). Using the assumptions that an average hospitalization is around ¥8600 and the hospitalization rate is 1% among members, the payout is around 6-8% from the medical insurance share of the fund (Xia 2009). If one adds the ¥20 per month drug card, the payout rate increases to 31-41%, but this money expires after 12 months. So at present, the low payout rate from this fund suggests that the aggregate medical insurance fund balance from 2002-2010 can be between ¥7.7B-¥12.3B.

**Figure 4.1 Comprehensive Insurance Balance 2002-2010**



\*Based on comprehensive insurance's enrollment numbers, contribution rate, average city wages from Shanghai Statistical Yearbooks and Shanghai Human Resources and Social Security Bureau reports

Additionally, most of this comprehensive insurance fund is supposed to be allocated for pension vouchers. For every 12 months of contributions, the workers receive a voucher for around ¥1000, but they cannot cash in on this benefit until they retire at age 50 for women and 60 for men, which can be more than 40 years later for many migrants given their youth. Between 2000 and 2005, migrants age 60 and over made up only 2% of the total migrant population (Xie and Sun 2010). Of those people, very few had fulfilled the twelve-month employment period with employer contributions

to this comprehensive fund; thus, at present, only a very small number of people can actually withdraw money from these pension vouchers (Feng 2008). As one interviewee puts it, “I think I’ve received two vouchers so far, but I don’t know where I put them because the amount is so small, maybe less than ¥1000...I’m only 35 this year, so it won’t be another 15 years until I get this money.” Currently, the total balance on Shanghai’s comprehensive insurance can be approximately ¥35-40 billion, and that is assuming a 100% payout rate on the occupational injury fund. This is more than 1.5 times the 2010 UEMI fund in Shanghai of ¥20.4 billion (Table 4.3). To put these numbers into perspective, Shanghai’s 2010 fiscal revenue was around ¥287 billion. So the comprehensive insurance fund is around 12-14% of Shanghai’s 2010 fiscal revenue, which is a not an insignificant number.

**Table 4.3 Comparison of Shanghai's UEMI, URMI, and Comprehensive Insurance**

	<b>Urban Employee Medical Insurance</b>		<b>Urban Resident Medical Insurance</b>	<b>Comprehensive Insurance</b>
	Current Workers	Retirees		
<b>Financing Party</b>	Employee / Employer	Fund	Resident and government	Employer
<b>Enrollment principle</b>	Compulsory		Voluntary	Compulsory
<b>Contribution Rate</b>	12% by employers and 2% by employees	Fund	Resident: ¥60-¥700 per year depending on age	12.5% (3-4% for medical insurance fund)
<b>Base Salary</b>	Employee's wage		None	60% previous year's average monthly city wage
<b>Outpatient Deductible</b>	¥1500	¥300-¥700	¥1000 for age 18-59; No deductible for children and senior	No outpatient care
<b>Outpatient Reimbursement Rate</b>	70%	75-85%	50% (60% at community clinic)	No outpatient care
<b>Hospitalization Deductible</b>	¥1500	¥700-1200	None	¥1500
<b>Hospitalization Reimbursement Rate</b>	85%	92%	50-70%	80%
<b>Additional Benefits</b>	None	None	None	¥240 annual drug card for OTC drugs; free annual physical exams
<b>Fund Management</b>	Health Insurance Bureau		Health Insurance Bureau	Human Resources and Social Security Bureau
<b>Total Number of Covered People (2010)</b>	12.8 MM	3.9MM	2.6MM	4.0 MM
<b>Fund Balance (2010)</b>	¥20.4 B		¥150MM**	¥35B-40B*

China Statistical Yearbook 2011, Shanghai Health Insurance Bureau, Shanghai Human Resources and Social Security Bureau

\*Based on comprehensive insurance's enrollment numbers, contribution rate, average city wages from Shanghai statistical yearbooks and Shanghai human resources and social security bureau reports.

\*\*2008 statistics

With the migrant population, Shanghai has no responsibility toward their old-age medical care. The comprehensive insurance is only valid when the worker's employer pays into the fund and is terminated once the worker leaves employment or when the employer stops making payments. Moreover, while both the UEMI and URMI require the government to subsidize the funds when these funds fail, the comprehensive insurance requires no such obligations from the Shanghai government. Currently, there



are no medical provisions in the insurance for migrant retirees because to date, around 85% of migrants residing in Shanghai are under the age of 40 (Xie and Sun 2010). In terms of the risk for this fund, expanding coverage to migrants through a comprehensive insurance fund carries very little risk. The insurance is available to migrants who have formal employment or who can pay into the fund independently. If they have formal employment or can pay into the fund independently, chances are that they are young, healthy and capable. Given their youth, migrants also suffer from less chronic illness. By self-selection, these people are less likely to use the medical services in cities because they are younger and healthier. Moreover, a serious illness could also mean employment termination and the loss of any insurance; hence, migrants may not be able to access the medical insurance fund for services when they need it most.

Additionally, a 2005 survey finds that over 73% of migrants use home remedies in the event of illness instead of seeking professional care (State Council 2006). Migrants' income levels and the cost of urban medical services are the underlying reasons behind this phenomenon. Given their low income, it is difficult for migrants to use urban health centers because an average outpatient visit to a city hospital costs around ¥200, which is more than a quarter of a migrant's average monthly income (MOH 2009). Since Shanghai's comprehensive insurance only covers inpatient care, all outpatient care is out of pocket for migrants. Even in cases where the migrant needs to seek inpatient care, the ¥1500 deductible, which is nearly a month's salary for many migrants, can be a deterrent to seeking care (MOH 2009). Moreover, the comprehensive insurance requires the member to pay for the medical costs up front and file for reimbursement later. Given high medical costs, this can create a cash flow problem for many migrants seeking care in

Shanghai. As a result, unless it is an emergency, migrants will delay treatment until they can return to their hometowns to seek treatment because the combination of high deductibles and overall higher medical costs in Shanghai offsets the benefits of having comprehensive insurance. As one migrant woman puts it, “We cannot afford to go to the Shanghai hospitals, [because] a simple procedure can be several thousand kuai. We can probably get the same procedure done in our hometown for less than a thousand. If we can bear it, we will wait until we can return home.” Thus, this comprehensive fund has been operating in a low-risk environment where young, healthy and mobile migrants are included in a medical insurance program that they under-utilize due to their good health and high medical costs. Overall, this insurance fund can be generating revenue for the local government to use at its own discretion.

### ***Relations Between Shanghai Leaders and Central Government***

As a provincial level city, Shanghai’s leaders are appointed by and beholden to the central government. Moreover, Shanghai has served as the final grooming and testing ground for potential national level leaders. The most prominent promotions were those of Jiang Zemin, Zhu Rongji and Wu Bangguo. In the current generation of leaders, we also see that Xi Jinping, had also served as Shanghai’s party chief. As a result, it is important that Shanghai should respect the central government’s concern for this vulnerable population. The importance attached to migrant workers around 2002 was especially apparent in the leadership change from Jiang Zemin to Hu Jintao at the 16<sup>th</sup> National Congress. Under this new leadership, there is a greater concern for the poor and vulnerable. Migrants’ comprehensive insurance can also be a way for Shanghai to showcase to the central government that Shanghai is respecting the party line.

Additionally, given Shanghai's political clout, Shanghai has to lead and innovate in social policy. With the exception of Beijing, the level of involvement of Shanghai leaders in national politics since 1949 has been much higher than most other localities. Following the fall of the Gang of Four in the late 1970s, the central government has kept a tight rein on Shanghai's leaders in the early 1980s, but since the ascension of Jiang Zemin in 1989, Shanghai's leaders are once again active in national politics. As Jiang lacked an extensive political network in Beijing, he relied on his Shanghai network and was latter coined the Shanghai faction by China observers. While some viewed this Shanghai faction as the agent of the center rather than of those fighting for Shanghai's interests, the close association with Shanghai certainly benefited the city in terms of policy leeway and economic projects, as witnessed by the 1994 revenue sharing reform debate where Shanghai's leaders threw their support behind this reform in return for the central government's support for their Pudong project (Cheung 1996). Thus, given that there were no set timelines and mandated programs on migrants delineated by the central government, while touting the party line, Shanghai leaders could make innovative policy to shine next to their brother cities, also signaling to the central government that they could innovate and lead.

### ***City's Image and Aspirations***

Also, Shanghai is considered the big brother among Chinese cities. With its rapid economic growth and cosmopolitan and forward-looking urban culture, Shanghai is an inspiration for the nation. With landmark buildings such as the Oriental Pearl Tower and the Jinmao Grand Hyatt, Shanghai has regained its past glory as a pace setter for China's socio-economic development. Not only has Shanghai led the nation's economic growth,

Shanghai has also led the country in reforming the social security system. Hence, it is the example to follow, be it in economics or social policy.

As early as 1984, Shanghai introduced a pooled collection and distribution of pensions for its urban employees, which initiated the transition away from an employer-based to a government-administered pension program (Selden and You 1997). This was officially formalized into a universal retirement insurance program for all urban employees in 1997. Shanghai was also the first to introduce the *dibao* program in 1993, a minimum living allowance program for urban residents (Wong and Shixun 2004). The system was initiated to cope with urban poverty exacerbated by the restructuring of SOEs. The system was later replicated throughout the country to help destitute urban households. Reform efforts for unemployment insurance also started in 1986 and culminated in the Regulation for Unemployment Insurance in Shanghai in 1995.

Similarly, health insurance reforms started in 1992, which was earlier than the Zhenjiang (Jiangsu Province) and JiuJjiang (Jiangxi Province) urban health insurance experiments in 1994 (Cheng and Gu 2004). By 2000, Shanghai was offering better basic health care coverage for all urban employees in its Regulation on Basic Health Insurance for Workers in Cities and Towns than that mandated by the 1998 central government health insurance policy.

Moreover, Shanghai was also the first to institute a requirement of the *wubao* concept, which dictated that employees should be covered under the five principal social insurance schemes covering occupational injury, maternity, medical, pension and unemployment (Wong and Shixun 2004). These employer social security obligations were governed by the location of the enterprise (urban, rural) and the type of employee

(urban, rural, migrant), and the first regulation that specified the minimum employer contributions as a percentage of the previous year's payroll for urban residents was first passed in 2002 (Nyland et al 2011).

According to AmCham Shanghai, employers in Shanghai pay higher social insurance costs than employers in other Chinese cities and other Asian countries. Despite an opposing policy position statement in 2002 from AmCham Shanghai stating the mandated social welfare costs in Shanghai could be a disincentive for investors and could potentially drive investors away from Shanghai to other regions in China or elsewhere in Asia, Shanghai did not change its official position and kept its mandated social insurance contributions. While Shanghai lowered the housing fund contributions for employers, it added occupational injury and maternity to its benefit package in recent years, bringing the cost of employer contributions to 51% of wages (Table 4.7).

**Table 4.4 Urban Social Insurance Contribution Rates in Urban China**

Type	Employer*	Employee**
Pension Insurance	20%	8%
Unemployment	2%	1%
Medical	at least 6%	2%
Occupational Injury	0.5-2%	0%
Maternity	0.5-1%	0%
Total	29-31%	11%
*of payroll **of monthly wages		

Source: World Bank 2012

**Table 4.5 Total Employer Contribution Rates in Selected Chinese Cities 2002**

City	Employer
Shanghai	51.5% - 56.5%
Beijing	33.50%
Guangzhou	34.20%
Chongqing	28% - 36%
Nanjing	33%

Source: AmCham Shanghai 2002

**Table 4.6 Employer Social Welfare Contribution Rates, Shanghai vs. Asian Countries 2002**

Types of Insurance	Shanghai	Philippines	Thailand	Korea	Taiwan
Pension	22.50%	5.07%	2%	4.50%	4.56%
Unemployment	2%	-	-	0.50%	0.70%
Medical	12%	1.25%	1.50%	0.5-25.8%	2.55%
Housing	15 -20%	2%	-	-	-
Total	51.5% - 56.5%	8.32%	3.50%	7 - 32.3%	7.80%

Source: AmCham Shanghai 2002

**Table 4.7 Shanghai Social Welfare Contribution Rates 2002-2010**

Types of Insurance	2002	2002	2010	2010
	Employers	Individual	Employers	Individual
<b>Pension</b>	22.50%	6%	22%	8%
<b>Unemployment</b>	2%	1%	2%	1%
<b>Medical</b>	12%	2%	12%	2%
<b>Occupation Injury</b>	0%	0%	0.5%	0%
<b>Maternity</b>	0%	0%	0.5%	0%
<b>Housing</b>	15 -20%	7%	14%	14%
<b>Total</b>	51.5-56.5%	16%	51%	25%

Given Shanghai's history as a social policy innovator, Shanghai's migrant comprehensive insurance can also be another example of the city's innovative reputation. The comprehensive insurance has been touted as the new frontier in the country's social insurance (Hu 2006). It is the first insurance to pool medical, injury and occupational into a single fund for migrants. It is also considered a custom-designed policy for migrants (量身定做). Six months after its creation, the insurance was emulated by the cities of Chengdu and Dalian in 2003. According to Chinese social insurance scholar, Hu Wu, Shanghai's social security bureau sees the comprehensive insurance program as Shanghai's answer to years of propaganda on protecting migrant workers (2006). In the absence of any central government policy, Shanghai's comprehensive insurance program

is an effective and innovative way to cover this population, and Shanghai has had to take a leadership role because nobody else could do it (Hu 2006).

Moreover, Chinese pundits believe that Shanghai has shown that it cares about the migrant population by continuously improving on this program. Shanghai has been making changes to the comprehensive insurance since its creation in 2002. To encourage enrollment, in 2004, the Shanghai Development and Management Committee and the Labor and Social Insurance Bureau started to require construction companies with Shanghai projects to first hand over comprehensive fees prior to releasing permits for these projects. The contribution rate for the construction industry was also lowered to 5.5% as pension contributions were no longer required. Since firms did not want to pay for workers who only work one out of the three months that they had contributed to in this insurance, fee collection was also changed from quarterly to monthly to accommodate the transient nature of the migrant population. Moreover, the ¥20 per employee enrollment was also eliminated to ease the burden on firms. As a result of these policies, the enrollment rate in this industry climbed to around 70% (Ying 2010; Hu 2006).

In 2005, the comprehensive insurance benefits were also expanded. The maximum benefit payout was increased from 100% to 400%. The insurance also provides members with an annual ¥240 drug card for over the counter drugs and free physical exams at designated hospitals. Furthermore, the pension payout was increased from 5% to 7%. In 2010, the annual deductible was lowered to ¥1500.

**Table 4.8 Changes in Comprehensive Insurance from 2002-2010**

	2002	2004	2005	2010
<b>Financing Party</b>	Employer			
<b>Enrollment principle</b>	Compulsory			
<b>Contribution Rate</b>	12.5% (3-4% for medical insurance fund); 7.5% for construction workers (no pension component)	12.5% (3-4% for medical insurance fund); 5.5% for construction workers (no pension component)		
<b>Contribution Base</b>	60% of previous year's average monthly city wage			
<b>Outpatient Deductible</b>	No outpatient care			
<b>Outpatient Reimbursement Rate</b>	No outpatient care			
<b>Hospitalization Deductible</b>	10% of previous year's average monthly year: ¥1947 (2002)			¥1500
<b>Hospitalization Reimbursement Rate</b>	80%			
<b>Benefit Caps</b>	Based upon enrollment period, benefits are capped at 60% of average annual city wage <ul style="list-style-type: none"> <li>• 3 months: 100%</li> <li>• 6 months: 200%</li> <li>• 9 months: 300%</li> <li>• 12 months: 400%</li> </ul>		Based upon enrollment period, benefits are capped at 60% of average annual city wage <ul style="list-style-type: none"> <li>• 1 month: 33%</li> <li>• 2 months: 67%</li> <li>• 3 months plus: 100%</li> </ul>	
<b>Additional Medical Benefits</b>	None		<ul style="list-style-type: none"> <li>• ¥240 annual drug card for OTC drugs</li> <li>• Free annual physical exams at Jiangong Hospital and Changning Center</li> </ul>	



<b>Pension Benefits</b>	<ul style="list-style-type: none"> <li>• Pension cards after 12 consecutive months of enrollment.</li> <li>• Pension cards can be redeemed at age 50 for women and 60 for men in 1 time payment.</li> <li>• 5% of actual contribution base in enrollment period.</li> </ul>		<ul style="list-style-type: none"> <li>• Pension cards after 12 accrued months within 3 years period</li> <li>• 7% of actual contribution base in enrollment period</li> </ul>	
<b>Occupational Injury Benefits</b>	<ul style="list-style-type: none"> <li>• Compensation for death: ¥14800</li> <li>• Compensation for injuries ranges from 1st degree of ¥14700 to 10th degree of ¥10000</li> </ul>			
<b>Policies to encouragement enrollment</b>		Require licensing fees prior to releasing permits for construction projects; ¥20 per employee management fee eliminated		
<b>Fund Collection</b>	Every three months	Every month		
<b>Management of Fund</b>	China Life (pension), Ping An (medical and occupational injury for non- construction workers), and Tai Ping Yang (medical and occupational injury construction workers) and oversee by the Bureau of Human Resources and Social Security			China Life (pension), Medical and Occupational Injury (Bureau of Health Insurance)

Overall, Shanghai may want to appear as a city that cares about social programs. As a world-class city, Shanghai needs to treat its population reasonably and fairly. In a research report by the Shanghai Social Insurance bureau, the comprehensive insurance was mentioned as a way to avoid US and European criticism of Chinese labor practices,

which could help set the stage for Shanghai enterprises to be competitive in the global market.

Moreover, although Shanghai has higher social insurance costs than other cities, it does not appear to be very concerned about the loss of enterprises to other cities with lower social insurance contributions. Shanghai is actually giving financial incentives to some low-value companies to move outside of Shanghai because it wants to attract high value, high tech manufacturing, information technology and biomedical research. As an in-house counsel to a big domestic electronics company says, “Shanghai is not terribly concerned about the exiting of companies such as DHL because newer, better companies are coming in to take its place. Moreover, these firms cannot leave Shanghai completely. Shanghai is the economic powerhouse in China, so these firms will have to maintain a presence in Shanghai. Oftentimes, these firms will leave a management and/or marketing team in Shanghai, which provides the higher value added services. So the Shanghai government is not worried.”

Moreover, for some firms, social insurance contributions are a labor cost that one cannot avoid. When asked whether or not social insurance figures in their plans for relocating in Shanghai or elsewhere, some HR managers offered the following responses:

*“Social insurance is not a factor that figures in my firm relocating elsewhere. Social insurance is a fee that my firm will have to pay in every city. It’s a percentage of the local wage. So if I move my firm to a tier two city, labor costs will naturally be lower, rent will be lower, thus the social insurance fee is lower. So it doesn’t matter what the social insurance fees are because other factors will trump it.” -- Packaging firm*

*“When we were choosing a new location, there were two main considerations: the size and the profitability of the local market. Initially, we were choosing between Shenzhen and Shanghai as our headquarters. Ultimately, we chose Shanghai as our headquarters because of the following: labor in Shenzhen is much more mobile. So it’ll be harder for us to retain talent there. Social trust among people is weaker in Shenzhen. There is also less culture and less opportunity for expansion and development into other*

*service areas in Shenzhen. So social insurance costs is not a factor at all.” – Home furnishing firm*

*“Social insurance was one of our considerations but not our main one in opening our factory here. We also looked at other locations such as Wuxi, Nantong. But we decided on this location because it’s close to our existing factory in Shanghai plus we got a good deal on the land rental.” -- Glass production company*

In sum, Shanghai may have adopted medical insurance for migrants as a development strategy and fiscal strategy. Shanghai’s economy needs highly skilled workers due to its emphasis on heavy industry and financial services. Moreover, Shanghai also has a labor shortage due to its low birthrate. Given this need for additional workers, it may be using medical insurance as a method to attract and retain talent. Moreover, given the reputation of the Shanghai government as a strong regulator, it would have an easier time coercing and collecting fees from enterprises. Plus, Shanghai’s unique economic status as the economic powerhouse of China means that it could throw its weight around with employers because they could not afford to bypass Shanghai.

Another factor driving migrant medical insurance may be the pressure to raise additional funds to bridge the current fiscal gap. Shanghai, as an aging society, is anticipating a big shortfall in paying for its retirees. By extending medical insurance to migrants, it can raise funds from a low-risk population that is healthy, young and mobile, and potentially spend the money on its more important constituents, the aging Shanghai residents and/or use the fund for other purposes.

Additionally, Shanghai’s role as the big brother among Chinese cities and its innovator role could also shape the type of policy it would pursue. Unlike other cities, Shanghai leaders would want to showcase their success through economic and *social*

policy innovation because Shanghai is already an economic powerhouse. Hence, having a comprehensive insurance that includes pension, medical and occupational injury for migrants is a policy innovation that could present Shanghai as a leader in social policy.

Shanghai could have adopted comprehensive insurance for multiple reasons including rhetorical support for migrant insurance on equity and social justice grounds to burnish its city's image, but in my interviews with Shanghai researchers and officials from Shanghai Social Insurance Bureau, Shanghai has been concerned about its rapidly aging native population and the related fiscal pressure. While the comprehensive insurance fund is officially earmarked for migrants, my interviewees did not dispute the fact social insurance funds in general have and could potentially be used for other purposes. This suggests that Shanghai government may have adopted comprehensive migrant insurance for more self-interested reasons related to its demographic and fiscal needs.

### **Guangzhou: Why So Slow?**

#### ***Guangzhou's Economy***

Guangzhou is an ancient city with over 2100 years of history that dates back to the Han dynasty. Guangzhou's location at the head of the Pearl River Delta made it easily accessible to foreign traders coming by sea, and it was known as the "Silk Road on Water" (Ikels 1996, 12; Xu and Yeh 2003, 363) in ancient times. Between 1757 and 1840, Guangzhou monopolized foreign trade in China because it was the only port city opened to foreign trade. The preeminence of the city declined after 1840 because the Nanking Treaty opened four other ports, Fuzhou, Xiamen, Ningbo and Shanghai, which competed with Guangzhou (Xu and Yeh 2003). Shanghai became Guangzhou's fiercest

rival due to its favorable geographic location on the Yangtze River. The subsequent decline in Guangzhou's foreign trade was followed by the shift of the commercial center to Shanghai. In modern times, Guangzhou's fortunes reflect a similar tale.

Guangzhou is the political, economic and cultural center of Guangdong province and southern China. In the early years of the reform period, it was one of the first cities to open up to the outside world. At the time, Guangdong was considered the province one step ahead of China, and Guangzhou was considered the city one step of Guangdong (Vogel 1989). However, as preferential policies were granted to other cities in the later years of the reform, especially with the development of Shanghai's Pudong Area in 1990, Guangzhou lost its position as a dominant city.

#### Focusing on Light Industry

Guangzhou, similar to other large Chinese cities under the command economy, emphasized heavy industry because the motto from 1954 through the Cultural Revolution was to change Guangzhou from a "consumption city to an industrial city" (Vogel 1989, 197). However, given its history as a consumption port city, it lacked the robust industrial base and natural resources of other Chinese cities. Moreover its geographic location on the coast and connections with international communities also prevented the central government from making investments in its industries. As a result, on the eve of the market reform in 1978, Guangzhou's economy was distinct from those of other major large cities. Industrial development played a less important role in its economy than in other key industrial cities such as Shanghai. In 1978, Guangzhou's industrial output constituted only 58% of its GDP as compared to 76% in Shanghai's economy (Xu and Yeh 2003). Furthermore, light industry made up 63% of the industrial output of

Guangzhou, as compared to 52% in Shanghai. Given this economic legacy, Guangzhou chose to emphasize the development of light industry when it was granted the permission to open up to the outside world in 1984.

Guangzhou also concentrated on light industry such as textiles, bicycles, watches, tires, refrigerators, televisions, air conditioners, etcetera, because investment in heavy industry was severely constrained by shortages of capital and readily accessible raw material (Vogel 1989). Guangzhou's lack of natural resources meant that they had to be brought in from long distances, and thereby would put strains on the national transportation system. Thus, planners only modernized heavy industry producing goods needed by local industry (Vogel 1989). Moreover, large industrial plants making steel, ships, tires, and machinery, were decades out of date, and modernization required large investments. Light industry, on the other hand, required less investment and brought greater, quicker returns and more foreign sales. Furthermore, Hong Kong investors were interested in making quick returns and showed little interest in capital-intensive industries (Vogel 1989). The emphasis on light industry continued through the 1990s, and accounted for more than 60% of its industrial output. It was only in 2004 that heavy industry constituted more than 50% of the city's industrial output. In recent years, Guangzhou has been making great efforts to develop its three pillar industries, namely automobiles, petro-chemicals and electronics. By 2010, 35% of Guangzhou's industrial output was still in light industry, as compared with 22% in Shanghai.

#### Low-Value Tertiary Services and Primary Sector

Similar to Shanghai, Guangzhou's economy shifted from the secondary to the tertiary sector. However, Guangzhou began with a higher share of tertiary sector in its

economy than Shanghai, 30% vs. 18%. Between 1978 and 1990, the secondary sector went from 58.5% to 43%, and the tertiary sector grew to 49% of its economy. By 2000, the tertiary sector made up 55% of the economy; and by 2009, 61% of the economy was concentrated in the tertiary sector. As a first mover in the reform period, Guangzhou moved to reorganize into the tertiary sector faster than Shanghai. Even though Guangzhou moved into tertiary services earlier, tertiary services covers a wide range of services. Whereas Shanghai has emphasized tertiary services such as financial services and logistics, Guangzhou's tertiary sector has more focused on retail and wholesale trade. In Guangzhou, transportation and telecommunications, catering, retail and wholesale trade as well as the social service sector are major sub-sectors of the city's tertiary. In 2000, wholesale, retail, and catering made up more than 17% of tertiary employment, and financial services made up 1%. In recent years, Guangzhou has also been developing its financial services, but it has a significant rival, Hong Kong, across its border. Thus, Guangzhou's aspiration as a regional financial center is limited. To date, only 5% of Guangzhou's tertiary labor force is engaged in financial services, as compared to Shanghai, which has 10%. This later emphasis on higher skilled services may have contributed to the late adoption of migrant social insurance.

Furthermore, Guangzhou's leadership was also much more interested in earning a quick return on investment. "Officials were instructed to listen to the market" (Thun 2006, 157). In 1992, Guangzhou Mayor, Li Ziliu, argued that profiteering was the way to economic development (Thun 2006, 158). Thus, smuggling across the border to Hong Kong was another way to grow the local economy, as this provided the start up capital for

further development (Thun 2006, 161). Hence, the government then held a myopic view on economic development.

In addition to developing low value services, Guangzhou also has a bigger primary sector. In 1990, Guangzhou’s primary sector made up around 8.1% of its economy, which was close to twice the size of Shanghai’s primary sector. Moreover, Guangzhou has a higher agricultural population than Shanghai. On the eve of market reforms, Guangzhou was less urbanized than Shanghai. Guangzhou’s non-agricultural population made up 51% of its population. Between 1980 and 2000, Guangzhou had approximately 10% more agricultural population than Shanghai. While Guangzhou attracted huge number of migrants from the 1980s, the majority of these migrants were also part of its agricultural population (Li and Shang 2011). This higher agricultural population also meant that the city was able to absorb most of this population into its industries in the reform period, meaning that there was less need for migrants from further afield. Unlike migrants from other areas, these rural residents with Guangzhou hukou would be covered under Guangzhou’s new rural medical cooperative, and a separate migrant medical insurance would not be needed for them (Li and Shang 2011).

**Table 4.9 Percentage of Non-Agricultural Hukou Population**

Year	Shanghai	Guangzhou
1980	61%	51%
1990	67%	58%
2000	75%	63%
2005	85%	89%
2009	89%	90%

Guangzhou Statistical Yearbook 2010

The combination of light industry, high agricultural sector and low value tertiary service means that Guangzhou’s economy needed a different migrant profile than



Shanghai. Light industry meant that lower skilled workers were needed for these factories. Moreover, migrants were also absorbed into the agricultural sector, which again required less skilled workers. Finally, low value tertiary services meant that less skilled workers were required. In all these scenarios, the migrant laborers needed were easily replaceable because they had no specialized skills.

### ***FDI and Relationship with Hong Kong***

Guangdong's connection with overseas Chinese in Hong Kong and Macao was vastly important to the central government's decision to allow the province to experiment with early market reforms. In Guangzhou, a third of the families have overseas connections (Vogel 1989). Guangdong has a special relationship with overseas Chinese because some 80% of the overseas Chinese originate from Guangdong province, and the estimated remittances from this community totaled around ¥745 million (\$298 million) to Guangdong in 1979 (Vogel 1989).<sup>10</sup> As such, the hope at the time was that these overseas Chinese would invest in China and bring in foreign currency much needed to purchase other resources abroad. Additionally, Hong Kong investors could also bring in technology to expand Guangdong's efforts in light industries. In the era of economic reforms and opening to the external world, overseas Chinese investment (including that from Hong Kong and Macau) has been an important force promoting China's economic development. Guangdong in particular has been a beneficiary of overseas Chinese investment. By 2004, there were 80,000 foreign-invested enterprises in the province, and

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<sup>10</sup> 1979 Exchange Rate: \$1 to Y2.5

capital from overseas Chinese in Hong Kong and Macao made up about three-quarters of them.<sup>11</sup>

Additionally, Hong Kong has been Guangdong's gateway to the outside world throughout the Maoist and reform eras. Just as Guangdong was looking to Hong Kong as a way to gain access to technology, economic expertise, business connections and financial resources to develop the local economy, Hong Kong was looking at Guangdong for investment opportunities. Hong Kong businesses were looking to access cheap labor for their manufacturing needs and to access the Chinese market (Vogel 1989). Moreover, just as China was trying to build good will for national reunification with Hong Kong in 1997, Hong Kong in the 1980s was also trying to build relationships and prepare for this eventual reunification.

The fact that there are more Hong Kong investments in Guangzhou also implies a different relationship between workers and employers. In my fieldwork, the sense among workers is that they would prefer to work for foreign firms because they are usually better compensated. Among these foreign firms, migrants would rank Hong Kong, Macao and Taiwan at the bottom (Zheng 2007). They believe that Hong Kong and Taiwan employers are the most demanding and provide the worst working conditions. As an 18-year-old Guangxi girl working in a Taiwanese accessory factory in Guangzhou says, "I am not allowed to talk at work. I work twelve hours per day, and sleep in a room with seven other girls. I get fifteen minutes for meals. During the rush season, I don't even get my allotted day off per month...I can't leave because I would lose two months of salary because they only give you that at the end. I hear it's better working at European

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<sup>11</sup> <http://gocn.southcn.com/tzcy/cybd/200407200046.htm>

and American firms.” This conversation along other interviews from migrant workers and scholarly reports highlights the belief that working conditions at Hong Kong and Macao firms are worse than those at other foreign firms (Zheng 2007; Xie 2011). For the most part, the Guangzhou government is less likely to pursue a more onerous policy towards these firms because they can easily move to another location since firms in light industry require less capital investment.

### ***Guangzhou Demographics***

Additionally, Guangzhou may not need as many migrants as Shanghai. Guangzhou has a better demographic structure than Shanghai. In the 1990 population census, there were 6.3 million people residing in Guangzhou. The age 0-14 made up 23% of the population, which meant that Guangzhou had a crop of young people that would enter the workforce in the next decade. At that time, Guangzhou had around 487,000 migrant workers. By the 2000 census, there were 9.9 million people residing in Guangzhou, of which 2.9 million were migrants, making up 30%, which far exceeded the percentage of migrants in Shanghai at that time, which was around 21% of its population. At the time, Guangzhou’s elderly, those 65 and older, made up 6.1% of the population, and the young, age 0-14 made up 16.4%. It also had 77.5% of its population in the working age category. In the 2000 census, Shanghai’s elderly population made up around 11.5% of its population, which implied that Guangzhou was aging more slowly than Shanghai.

By 2010, those 65 and older made up 6.6% of the city’s population as compared to 10.1% in Shanghai. Those aged 0-14 made up 11.5% in Guangzhou and 8.6% in Shanghai, which meant that even if both cities’ dependency ratios were similar, 23 for

Shanghai and 22 for Guangzhou, Shanghai's population was aging faster and there would not be enough young people coming of age to work in the coming years.

Moreover, unlike Shanghai, Guangzhou does not have a negative natural growth rate of its hukou population. While Guangzhou has experienced a decrease in birth rate, it is still growing at approximately 4.3% annually. As a result, Guangzhou does have a growing native work force. Thus, while Guangzhou does benefit from an influx of migrants in their labor force, the city is not in dire need of migrants to support its economic growth. The brighter demographic picture suggests that Guangzhou does not need to do more attract migrants to sustain its economic development.

**Table 4.10 Changes in Hukou Population in Shanghai and Guangzhou**

	Shanghai			Guangzhou		
	Birth Rate	Death Rate	Natural Growth Rate	Birth Rate	Death Rate	Natural Growth Rate
1990	10.3%	6.7%	3.5%	15%	5.5%	9.5%
2000	5.3%	7.2%	-1.9%	10.3%	5.8%	4.5%
2005	6.1%	7.5%	-1.5%	8.9%	5.6%	3.2%
2009	6.6%	7.6%	-1.0%	9.7%	5.4%	4.3%

Shanghai and Guangzhou Statistical Yearbook 2010

### ***Migration to Guangzhou***

Moreover, Shanghai migrants are also older. While they are still in their 20s, Shanghai migrants are concentrated in the late 20s, with 79% of migrants above the age 24 (Ruan 2009). On the other hand, Guangzhou migrants are concentrated in their early 20s with 40% of migrants under age 22 (Health Ministry 2004). While Guangzhou is a city where younger migrants go as their first stop in a big city, Shanghai is the city where migrants want to go to when they have gained more experience. Shanghai is the

aspirational city that these migrants want to live. Moreover, in a recent online Chinese survey (2012), Shanghai was voted the most favorable city by migrant workers.<sup>12</sup>

Additionally, in a Chinese study, He and Wang (2007) find that Shanghai is attracting migrants through higher wages and Guangzhou through its industries, which signals that Guangzhou has more jobs to offer but lower wages and benefits. Similarly, a 2008 migrant study by Shenzhen Institute of Contemporary Observations found that Pearl River Delta enterprises (where Guangzhou is located) pay lower wages and migrant workers have longer workers there than in the Yangtze River Delta (where Shanghai is located) (National Population and Family Planning Commission 2011). In the Pearl River delta, the 2008 city average monthly wage was ¥3320, but migrant workers got ¥1090, which was 33% of the average local wage. This is compared to the Yangtze River Delta city average monthly wage of ¥3189, with migrants receiving ¥1155, which was 36% of the average local wage. Not only did migrants in the Pearl River Delta earn a lower monthly base wage of ¥100 to ¥150, they also worked longer hours, which suggests that migrants in the Yangtze River Delta were faring better than their Pearl River Delta counterparts (National Population and Family Planning Commission 2011).

Since migrants are generally treated better in Shanghai, there is a general sense that Guangzhou is the first stop to a better life, but not the final destination. More than half of the migrants that I interviewed (thirty-four) had worked in Guangzhou before moving to Shanghai. They perceive Guangzhou as the first stop to gain some urban and work experience. They then move to Shanghai because it's the best city in China. In an interview with a Chongqing girl working at a Shanghainese restaurant, this is what she

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<sup>12</sup> [http://www.chinadaily.com.cn/business/2012-05/02/content\\_15185452.htm](http://www.chinadaily.com.cn/business/2012-05/02/content_15185452.htm)

said about moving to Shanghai. “I was working as a secretary at furniture store in Guangzhou for 2 ½ years. I had a labor contract and had social insurance. I left because I was bored. I came to Shanghai because I want to see Shanghai. It’s *the* city. Guangzhou is not *the* city. Plus I want to open a restaurant in five years. In Shanghai, there are many restaurants, so I figure I can learn a lot about the restaurant business here.” Usually, the migrants that make it to Shanghai are better trained, more resourceful, and more resolute. In a survey by Shanghai Academy of Social Science (2005), they find that close to 6% of Shanghai’s migrants have at least a vocational degree as compared to 0.5% in Guangzhou (Ministry of Health 2003). By self-selection, these migrants are the migrants that have made it. Hence, the ones that come to Guangzhou are less skilled and younger. Knowing this to be the profile of their migrants, the Guangzhou government may not want these migrants to stay in the city.

### ***Attitudes Towards Migrants***

In contrast to Shanghai, Guangzhou de-emphasizes migrants in its population and policy. Comparing statistical yearbooks from both cities, Shanghai has consistently maintained a section on migrants since 2003, whereas migrants are not mentioned in Guangzhou’s reports. Similarly, when comparing the 2000 and 2010 census reporting, Shanghai has a section on migrants. Moreover, in the 2010 report, the increase in migrants is noted as a success of Shanghai’s economy and infrastructure projects because the city has been able to attract so many migrants. Moreover, migrants are noted as the main contributors to Shanghai’s economic development, and they have greatly improved the demographic profile of the city (Shanghai Human Resources and Social Security Bureau 2011).

In contrast, migrants are completely left out of Guangzhou's 2010 official census. Through a local media report, the government announced that there has been an increase in the migrant population, from 2.9 to 4.7 million over the last decade, and that it now makes up 37% of Guangzhou's population.<sup>13</sup> While the city acknowledges that migrants are improving Guangzhou's demographics because 92% of the migrants are between the ages of 15-64, it also sees this increase as a challenge to the city's population management.

While the city is trying to move away from viewing migrants as a management issue to viewing them as a service issue, population management is still the dominant perspective. In an unofficial meeting with Guangzhou's public security officers, they mentioned that migrants are a big headache for them because they are hard to track down, draw on a lot of public resources and pose a security problem to the city as most crimes are still committed by migrants. Moreover, they mentioned that Guangzhou could never expand public schools to migrant children because this will attract too many migrants. They were very surprised to learn that Shanghai has extended public school enrollment to migrant children and marveled at how that could be possible.

In the latest migrant management policy, Guangzhou introduced resident permits in 2010. The government tried to attract migrants to register voluntarily by offering gift baskets that included ¥50 (\$7.7) transport subsidies during the Asian games in 2010. An official with the Guangzhou Migrant Population Administration said the drive is a government effort to gain better knowledge of migrant conditions in the city (Li 2011). The residence permit is supposed to offer a series of welfare benefits such as education,

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<sup>13</sup> [http://news.dayoo.com/guangzhou/201105/17/73437\\_16741194.htm](http://news.dayoo.com/guangzhou/201105/17/73437_16741194.htm)

free inoculation, disease prevention, employment guidance, job training, and legal and community services (Li 2011).

However, the new permit system is a way to tighten the city's management of more than 4.5 million migrants. The permit system comes with fines and increased barriers to gaining accommodations and jobs without such permits (Li 2011). Those without permits are fined ¥50 (\$7.7), and those providing false personal information can incur a fine of ¥500 (\$77). The registration of residence permits is free of charge, but starting from the seventh month after registration, people will need to pay two yuans every month for social services. Thus, this permit system provides the government with a way to monitor this population and raise revenue for the shortfall in local government budgets due to this population's presence in the city.

Guangzhou's government attitude on managing this population has consequences for social program expansions. Ultimately, Guangzhou does not want to attract more migrants with better social programs. However, the government would like to better manage migrants by gathering more information on them. In interviews with scholars at the Guangzhou Academy of Social Sciences and local research reports, Guangzhou views migrants as a troublesome population that it has to manage because they are usually low skilled, less educated, and largely transient (Su et al 2008). As a result, this population is mostly ignored in official government documents and also low on the list of government priorities. The government responds to this population when there is a social crisis such as a labor protest or bad press from tragic incidents such as the Guangzhou migrant student dying in police custody over a lack of permits.

### ***Weak Capacity to Collect Social Insurance Fees***



Guangzhou's private sector dominates its economy. As the earliest city to offer preferential policies for international and overseas Chinese investors from Hong Kong, Taiwan, Macao, and elsewhere, by 1991, joint ventures and foreign-owned businesses accounted for 23% of the total value of industrial goods and services produced in Guangzhou (Ikels, 1996). By 2000, the private sector accounted for 51% of the industrial sector. By 2008, the private sector accounted for 68% of the industrial sector. By 2000, the public sector only accounted for 66% of Guangzhou's GDP (Statistical yearbook).<sup>14</sup> In contrast, Shanghai's public sector accounted for 95.4% in 1990, and accounted for 71% in the 2000 (Statistical yearbook). In 2010, Shanghai's public sector still accounted for 51% of the economy as compared to 47% in Guangzhou (Statistical yearbook). Thus, Guangzhou's economy is more privatized than Shanghai's.

In a 2009 migrant survey, researchers found that domestic private enterprises accounted for the largest share of firms employing the surveyed rural migrant workers in Guangzhou (48.5%), followed by single proprietorships (18.4%) (Huang 2010). These small firms make it harder to collect insurance fees. In an interview with a social insurance official in Guangzhou, he says, "It's hard for us to collect insurance fees. Compared to Shenzhen and Shanghai, which have big firms, we have to collect from thousands and thousands of small enterprises, and lots of small family businesses. We cannot go and knock on every firm's door and inspect them. We don't have enough people. Places like Shanghai have it easy, they can just go to the big firms."

Guangzhou's private economy makes it more difficult for the government to enforce regulations and collect revenue. In the state-owned sector, social insurance fees

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<sup>14</sup> State owned and collectively owned

are part of the operating budget for those firms. However, in the private sector, the government has to convince firms to hand over social insurance fees. As Frazier (2010) rightly notes, collecting all of the social insurance fees requires far greater authority and coercive abilities than many urban governments possess. In terms of government capacity, Guangzhou has a weaker capacity than Shanghai (Thun 2006). Moreover, to encourage investments, the Guangzhou government has a legacy of leaving more profits to private firms by giving them tax holidays. Firms can also negotiate with local authorities to pay a flat fee or pay social insurance fees for a subset of workers on their payroll rather than the 30-40% payroll tax (Frazier 2008). Some private employers use this process to reward their best workers and also to enroll their family members into social insurance programs. In an interview with a 19-year-old boy who lost three right fingers working at a glass cutting factory in Guangzhou, he says, “The boss knows that he’s supposed to contribute to accidental and medical insurance for his workers, but he doesn’t have to do it for all his workers. He just enrolls his family and his favorite workers. I wasn’t the lucky one.” This boy lost his fingers within the first six months of working at this place. After the first two weeks of treatment, his boss refused to pay for his medical treatments and disability claims. It was only through a local migrant NGO that specializes in providing legal advice and services to injured migrants that he was able to continue his treatment and receive a small compensation for his injury.

Furthermore, when labor officials inspect a factory, they are more concerned about child labor law adherence and work safety than social insurance fees compliance (Frazier 2010). In a conversation with the human resource manager at a Guangzhou accessory plant, she mentions, “The labor inspection office rarely comes, maybe when

there's a complaint. But they are really looking for violations on under-age workers. We have to provide proof that all workers are age 16 and over. On social insurance fees, they just want to see a number." In another conversation with a small Guangzhou business owner that runs a printing firm of about twenty people, he says, "We're small fry, a shrimp. The government doesn't care about us. They go after the big firms. Plus, they care about underage workers, and we don't have those workers here. Family doesn't count." Conversations with local scholars at Guangzhou Academy of Social Sciences, Zhongshan University, and Hong Kong Polytechnical University also suggest a similar nonchalant attitude from labor inspectors toward social insurance fee collection.

Given the difficulty of collecting social insurance fees, beginning in 2000, several southern and eastern provinces, most notably Guangdong and Jiangsu, empowered local tax agencies to collect social insurance contributions (Frazier 2010). Prior to this time, social insurance agencies, formally employed under local department of Human Resources and Social Security, had collected social insurance fees from firms, generally with great difficulty. Under the new arrangement, tax authorities collect and deposit social insurance contributions in special accounts with the local departments of finance. Even with this switch, the collection of social insurance fees is still not ideal because tax authorities do not have enough precise data on the number of employees and wage levels to collect social insurance fees. Moreover, in an interview with a manager at Guangzhou accessory factory, she notes that labor inspectors merely review firms' social insurance contributions to make sure that they are paying something and not to enforce mandatory enrollment of all eligible workers.

Guangzhou's difficulty in collecting social insurance fees is a barrier to expanding social insurance programs because any expansion would be an unfunded mandate. Expanding medical insurance to migrants could be met with pushbacks from employers because maintaining cheap migrant wages has been the main comparative advantage for these firms. Hence these firms would do everything in their power to avoid paying social insurance fees. As a result, it would not be surprising that Guangzhou did not expand medical insurance to migrants until much later because it would be met with huge resistance from firms along with encountering an administrative nightmare in fee collection. As a result, Guangzhou may be a slow mover because of the government's weak ability to collect fees.

### ***Relationship with the Center***

Besides the difficulty in collecting social insurance fees, Guangzhou's aspirations and self-image are also important to the city's desire to expand its social programs. This is influenced by Guangzhou's place in the political system. Unlike Shanghai, Guangzhou is not a provincial level city. As mentioned earlier, it is the provincial capital of Guangdong province. In the Chinese political system, the highest party and government officials are appointed by the next higher level; thus, top officials in Guangdong are appointed by Beijing. Guangzhou leaders are then appointed by Guangdong provincial leaders, and not by Beijing. As a result, Guangzhou leaders need to follow the general policy of the province. During the reform era, Guangdong provincial leaders had permission from Beijing to move forward with market reforms, and these leaders prevented Guangzhou from opening its markets while new cities in the province such as

Shenzhen and Zhuhai were given the mandate to grow by leaps and bounds (Vogel 1989).

Additionally, while Guangdong province and Guangzhou city are important to the central government due to their location as a strategic trading port and deep ties with international communities, they are considered the political periphery. While these governments can leverage their economic weight to bargain with the central government for certain privileges, they are still beholden to the whims of central government policies. Moreover, it is important to note that market reform was started in Guangdong with the explicit intention that if the reform program failed, its location in the distant south would not infect the center or the economically important northeast corridor. Hence, the lack of political importance attached to this region and the significance attributed to economic development mean that these local leaders are driven more by economic progress (Li 1997).

As such, Guangdong province went from a politically inconsequential province to a politically important province because of its dramatic economic growth in the 1980s and 1990s. So to maintain its place in the political hierarchy, it is important for the local government to concentrate on economic growth and maintain fiscal freedom from the center. During the fiscal contracting era of 1979-1994, the central government struck a bargain with Guangdong province that it would have freedom to pursue experimental reform policies without interference provided that it would not seek any resources from the central government. Furthermore, the central government also allowed Guangdong to retain all revenue above ¥1.2 billion, an amount that was fixed for five years (Vogel 1989). This freedom was extended to all sub-provincial units. Similarly, Guangzhou

would have a fixed remittance amount to Guangdong, providing that Guangzhou would have the freedom to try different development policies. As the slogan at the time was, “to the outside, more open; to the inside, looser; to those below, more freedom,” Guangzhou was allowed to experiment with all types of policies and fully exploit this fiscal advantage (Thun 2006). The disadvantage was that the city could not look to the provincial government or central government for bailout. The city was left to fend for itself. As Thun (2006) notes in his auto-industry study, the Guangzhou and Guangdong governments wanted to do everything in their power to insure that the central government did not revoke the fiscal contracting arrangement that was the basis for their autonomy. In contrast, Shanghai was used to consulting with the central government on big economic decisions and received injections of resources to develop its economy. Moreover, the central government also kept closer tabs on Shanghai than Guangzhou because the central government believed that Guangzhou had its own money and it did what it would with it. Hence the relationship of the local governments to the center was much more autonomous than that of Shanghai-center relationship.

However, this changed in 1994 when the central government introduced the tax sharing system. Now, local governments are responsible for more than 80% of public services, including social welfare expenditures, but are able to only collect 45% of the revenue. Similar to other cities, including Shanghai, the Guangzhou government started to run a budget deficit after the tax system changed from the fiscal contract system to a tax sharing system in 1994. But Guangzhou is in a better fiscal situation than Shanghai. Between 1994 and 2010, Guangzhou was running an average deficit of 1.6% of GDP as

compared 2.2% in Shanghai. Moreover, Guangzhou actually had a budget surplus in 2009 of ¥4.8 billion (\$738 million).

### *City's Image and Aspirations*

This relationship with the center greatly influences Guangzhou's image and aspiration. During my visit to Guangzhou in the summer of 2010, I noticed that the Asian Games were going to take place there in November 2010, but having lived in Beijing and Shanghai for more than a year, I had heard no mention of this event. Local researchers mentioned that Guangzhou was not allowed to promote this event at the national level because the central government did not want the Asian Games to compete with Shanghai's World Expo in the same summer. This incident allows a glimpse of the relationship between the central government and Shanghai and the central government and Guangzhou. Since the center wants Shanghai to be China's economic and financial center and wants to promote it to be an international city, Shanghai is given the room to expand, innovate, and promote itself as one.

In contrast, Guangzhou is relegated to being a regional economic center. In the 1990s, Guangzhou was to become the economic center in Southern China. In the 2000s, Guangzhou was to be a modern metropolis with a "dragonhead" role in the Guangdong province, exerting influence in southern China and Southeast Asia (Xu and Yeh 2003; Li and Jian 2009). In neither vision was Guangzhou called upon to be the "dragonhead of economic reforms" or "the economic center of China" because these visions were given to Shanghai by the center.

This difference in aspiration has had an important impact on Guangzhou's desire to be an innovator in social policies, and especially medical insurance programs for

migrants. Given the province's desire for fiscal freedom, it does not want to create an additional program for a population that it is not legally responsible for; furthermore, while the Guangzhou government could technically go to the upper levels of government for additional funding if these programs lose too much money, it would be difficult to do this for the migrant population. Additionally, Guangzhou's leadership wants to keep a low profile and not appear on the central government's radar because it fears intervention from the center. Moreover, according to local scholars, Guangzhou's leadership does not have the same political aspirations as the Shanghai leaders (Li 1997; Xie and Sun 2009; Zhang 2007). The next level for Guangzhou leaders to move up to is the provincial level. While the Shanghai leadership automatically gains membership into the Central Committee, Guangzhou leaders do not have the same status. Moreover, the career prospect for most Guangzhou leaders is a promotion to the provincial level government, be it in Guangdong province or in another province. Since the provincial government has not been emphasizing migrant social insurance, the Guangzhou government sees little reason to innovate on social policies when economic growth is still the major factor in determining promotions. Since Guangzhou does not have the aspiration of becoming an international, world-class city, it does not need to divert its energy into policies that do not bring about additional economic growth.

### ***Migrant Medical Insurance***

Given this combination of factors, Guangzhou did not have a medical insurance for migrants until 2009. At the provincial level, Guangdong did have a policy document on expanding medical insurance to migrant workers with formal employment in manufacturing, construction and mining and services industries in 2006 (Wang 2008).



Guangzhou has been able to push back against this order by allowing employers to pay into the UEMI and Flexible Employee medical insurance for migrant workers. Between 2006 and 2009, other priorities took its place. In 2007, there were waves of labor protests pertaining to back wages. Then there was the Labor Contract Law in 2008 that pushed for the formalization of the labor relations. In late 2008, the financial crisis erupted; Guangzhou was hard hit because its industry was concentrated in the export sector, and the government gave a reprieve to firms on labor regulations. Hence, throughout this whole period, the Guangzhou government had to respond to a string of crises, and migrant medical insurance was put on the back burner. In an interview with an official working on the migrant insurance program at the Guangzhou Medical Insurance Bureau, he mentions that by 2009, most of these crises had subsided, and Guangzhou could no longer ignore the provincial and central government orders to draft and implement migrant medical insurance.

### **Major Implications from these Two Cases**

In reviewing the timing and the types of medical insurance programs offered to migrants in Shanghai and Guangzhou, I argue that political economy factors are the drivers for the adoption of migrant medical insurance in Chinese cities. The different economic make up in Shanghai and Guangzhou has created different needs for the types of migrant workers in these cities. Thus, one city may be using social policy via medical insurance to attract additional highly skilled migrants, and the other city may not. Moreover, as these two governments have different fiscal capacities and have been experiencing different fiscal pressures, they may have chosen different social policies towards this population.

I argue that the economic structures and labor compositions of these two cities create different demands for the skill profiles of the desired migrants. While most cities need migrants to fill low skilled positions in manufacturing and service sectors, some cities need higher skilled workers to fit their economic needs. Shanghai may have instituted migrant medical insurance for two reasons; one is to attract highly skilled migrant workers, and the other is to raise additional revenue to fund existing fiscal commitments. The types of industries and services in the local economy determine the labor demand in a locality. In Shanghai, the emphasis on heavy industry and financial services indicates that there is a greater demand for highly skilled workers. In contrast, Guangzhou's emphasis on light industry and retail signals a lesser demand for highly skilled workers.

Contrary to common perception, not all migrants are poorly educated and work in low skilled occupations. As mentioned earlier, approximately 15% of migrants are from other urban areas. These people are usually from small to medium-sized cities, have college educations, and are looking for better economic opportunities in large cities. Shanghai has benefited tremendously from highly skilled migration because close to 21% of its migrants have at least a high school education (Ruan 2009). Young migrants, those age 30 and under, make up 51% of the total migrant population in China, and over 71% of them have at least a high school education (ACFTU Labor Relations Research Center 2011). Moreover, 17% of these young migrants have at least a junior college degree (大专). Thus, these highly skilled migrants can meet the labor demand in Shanghai and elsewhere in two ways. One, these highly skilled migrants are employed directly by employers in heavy industries and financial services. Two, migrant workers are filling

mid-level positions that native workers are vacating in pursuit of better, higher skilled positions.

Although migrants are not concerned about medical insurance per se, they are concerned about their treatment by local governments. While migrants are attracted to different cities due to a number reasons, higher wages and personal networks being some of them, they are also aware of the reputations of different cities. In my interviews with Shanghai migrants, there is a general consensus that the Shanghai government is “better” than other host governments. One Jiangxi woman and her husband moved to Shanghai because her husband had a lot of problems claiming wages in Fujian province. Though the wages in Shanghai may not be necessarily higher, she believes that the legal environment is better in Shanghai, so back wages are less of an issue in Shanghai. Moreover, in Chapter 3, we see that migrants with higher SES are more concerned about medical insurance. Thus a city offering medical insurance to migrant workers could attract higher skilled workers to the locality. In particular, cities with an emphasis on the high value tertiary sector and heavy industry would need highly skilled workers and thereby be more likely to adopt migrant medical insurance to attract those workers.

I also argue that fiscal pressure and the need for additional revenue is a driver for medical insurance adoption. Both Shanghai and Guangzhou have been running a fiscal deficit since 1994, but Guangzhou’s fiscal balance is less severe. While Shanghai’s government deficit in 2010 was ¥42.9 billion, which was 2.5% of its GDP, Guangzhou was running a budget deficit of ¥10.5 billion, which was less than 1% of local GDP. In terms of absolute amounts, Shanghai’s government deficit was close to four times that of

Guangzhou, which signals a higher demand to look for alternative revenue to fill the budget gap.

Moreover, Guangzhou's demographic pyramid is better than Shanghai's. As mentioned earlier, the elderly, those 65 and older, make up only 6.6% of the city's population as compared to 10.1% in Shanghai. Fewer old people translate to less fiscal expenditure needed to take care of those people. Hence, Guangzhou may not be as pressured to raise alternative revenue as Shanghai. Thus, cities that have higher budget deficits may be more pressured to raise additional funds, and thereby more likely to adopt migrant medical insurance.

Given that many local governments are fiscally squeezed, one would expect all cities to be using migrant medical insurance fund to raise extra-budgetary revenue. Although the migrant population is a relatively low risk population that can bring in additional revenue, collecting insurance for this population may be difficult due to its transient nature. Thus, the local government's capacity to collect these funds would be important, and it also hinges on the composition of the firms in the local economy. In Shanghai, the government has a large role in the economy. This may have a large impact on the city's provision of social services. On the one hand, a close relationship between the state and enterprises means the state has more capacity to implement new policies, such as extracting more contributions from firms. On the other hand, having larger firms also means that they have more clout with the government in avoiding these contributions. As referenced in Frazier's (2010) research on pensions, large SOEs could no longer use administrative rank to avoid paying social insurance fees because local governments were responsible for social stability and workers' protests after the 1990s.

Moreover, although there was a clash between the Shanghai government and Baoshan Steel, a large SOE in the city, in 1999 and 2000, the government was able to force these managers to turn over two million yuans in annual pension contributions (Frazier 2010). Thus, depending on the local government, the presence of large firms may be better for government extraction because the government can better monitor and enforce rules because there are fewer companies from which to collect social insurance funds. Having foreign firms that are non-Hong Kong, Taiwan, or Macao-invested firms is more conducive to contribution collection because these foreign firms are bound by their home countries to comply with local social insurance regulations (Frazier 2010). While these factors are not the main factors driving the adoption of medical insurance for migrants, the presence of large firms and foreign firms may play a role in a city's ability to implement such insurance, thereby affecting the willingness of the city to implement such policy.

Additionally, Shanghai and Guangzhou have unique features that cannot be generalized to other cities. For example, Shanghai is administratively both a province and a city. It has more discretionary political power and leeway in developing and implementing new policies than other cities. Moreover, Shanghai's political leaders want to make a splash in creating headlines as the city's leaders are usually promoted to the central government. In contrast, Guangzhou's officials are usually promoted within the province, with the next stop being the provincial party offices. As a result, Guangzhou's leaders need to toe the line within the Guangdong provincial leadership as appointments are made one level down. The differences in administrative rank between these two cities

may also be important in explaining their different approaches to migrant medical insurance.

## CHAPTER 5

### MULTI-CITY DATA ANALYSIS

The historical legacy of the command economy, the *danwei* system, and the *hukou* system has created a social welfare system based on employer contributions. The political structure, characterized by bureaucratic negotiation between central and local governments, has created the space for large local variation in migrant social policy. More importantly, the political and fiscal incentives of local governments are driving the variations in the adoption of migrant social policy. Local governments have incentives to develop and implement social policies that are tailored to their local economic environment. In providing social welfare to migrant workers, local governments are able to attract the necessary workers for their local economy plus raise additional revenue to meet fiscal gaps.

In this chapter, hypotheses drawn from the Shanghai and Guangzhou cases are tested in a dataset of 285 prefecture level and provincial level cities in China. I first lay out my hypotheses. I then describe the data. Next, I present the empirical analysis and results. I then check for robustness with different types of insurance plans. Finally, I examine the effects of policy diffusion, alternative explanations and conclude.

#### **Theory and Hypotheses**

To review, local governments are incentivized by the cadre evaluation system and the fiscal system to develop their local economy and meet all fiscal obligations. As such,

I argue that cities are offering medical insurance to migrant workers for two reasons, to gain human capital and fiscal capital. For human capital, I am referring to the demand for high skilled workers. While most cities need migrant workers to fill low skilled positions in manufacturing and service sectors, some cities demand higher skilled workers to fit their economic needs. With few restrictions on labor mobility, cities are competing for high skilled workers. Besides giving migrant workers urban *hukou* registration, which is the best offer of social welfare benefits, local governments can also attract workers by offering ad hoc social insurance programs to migrants. Even though the urban *hukou* is used by cities to attract high skilled workers, cities have strict quotas on how many people they will accept as urban *hukou* residents because the conversion of a migrant to an urban resident is costly. Moreover, the *hukou* requirements bar most migrants from admittance, thus cities still need to put in place general social programs to attract high skilled migrant workers who do not qualify for *hukou* conversion. Additionally, since the mid-2000s, labor shortages have become more frequent in coastal areas, and factories could not find enough workers to meet their order deadlines. Hence cities need to compete with each other to gain skilled workers through the adoption of medical insurance policy for migrants.

As described in Chapter 4, high skilled workers are needed in both secondary and tertiary sectors. While most cities would like to develop high value added sectors such as heavy industry and financial services, not all cities have the endowment and capacity to pursue this development strategy. While both Shanghai and Guangzhou were industrial centers in the command economy, Shanghai was far more developed and had more central government investments given its political importance and economic history.



Thus, Shanghai was able to develop its heavy industry and financial sectors. This economic composition meant that Shanghai needed high skilled workers that were in short supply in the city. Similar to the argument offered by Wibbels and Ahlquist (2007), where countries will invest in social policies as a way to retain workers by insuring them against the risks of injury or sickness when there is a scarcity in labor, Chinese cities have also been using medical insurance programs to attract and retain high skilled workers. Thus I offer two hypotheses on labor demand and medical insurance adoption:

*H1: The likelihood of a city adopting medical insurance for migrants increases when there is a high proportion of high value added service sector in the economy.*

*H2: The likelihood of a city adopting medical insurance for migrants increases when there is a high proportion of heavy industry in the economy.*

As mentioned in Chapter 2, local governments cannot legally borrow to meet their budget shortfalls, thus revenues have to be generated elsewhere. To gain promotions, local officials need to pursue development strategies that will grow their local economies. However, at the basic level, local officials also need to fulfill their obligations in governance, which include meeting existing fiscal commitments, such as paying benefits to current pensioners. Unless they meet this basic requirement, they run the risk of removal from office because not meeting these fiscal commitments can spell social upheaval from important social groups, thus risking the party's political legitimacy. Hence, in cash strapped local governments, local officials need to search for an alternative revenue source to meet these fiscal obligations, and thus medical insurance funds for migrant workers become an attractive option.

As described in Chapter 2, the 2010 national social insurance balance was ¥2.3 trillion (\$354 billion). In many localities, social insurance revenues exceed local government tax revenues (Frazier 2010). In terms of the medical insurance fund, the 2010 national balance was ¥505 billion (\$78 billion). As for migrant medical insurance funds, as argued in Chapter 4, Shanghai's comprehensive insurance fund had a revenue of ¥13 billion (\$2 billion) in 2010, which was close to 5% of Shanghai's budget revenue. Moreover, Shanghai has been running a budget deficit since 1994, averaging around 2.2% of local GDP. In 2010, Shanghai had a budget deficit of ¥43 billion (\$6.6 billion). The comprehensive insurance fund can cover close to 30% of this gap.

Thus, local governments can enrich their local coffers by setting up migrant medical insurance funds or expanding existing medical insurance funds to migrant workers. Even though these funds are officially earmarked for social insurance purposes, misuse of these funds has been rampant in Chinese cities. Based on personal interviews, using these funds for the general government budget is not uncommon. Moreover, as witnessed by the Shanghai pension scandal in 2006 where ¥32.9 billion (\$4.2 billion) was diverted to real estate and infrastructure projects, social insurance funds have been used as private war chests by local governments. Similarly, in Guangzhou, an estimated ¥890 million (\$136 million) in social insurance funds had been diverted to illegal uses and 85% of this amount was invested real estate projects (Frazier 2010, 107). As such, the use of social insurance funds by local governments for legal and illegal goals is not unusual.

In the case of medical insurance funds for migrants, the fund payout rate is very low because migrants are young, healthy and mobile. Thus, I hypothesize that cash

strapped local governments looking to raise additional revenue are more likely to have medical insurance programs for migrant workers.

*H3: The likelihood of a city adopting medical insurance for migrants increases when the city has a large fiscal deficit.*

## **Data**

The data used in this chapter includes all 285 Chinese prefecture-level and provincial level cities. These cities include urban districts and rural counties. Prefectural level and provincial cities are the appropriate unit to use in this study because medical insurance policies are made at the prefectural level and above. While medical insurance accounts can be pooled at the county level, the policy is unified at the prefectural level. A county level city cannot deviate from the official policy set by a prefectural level city because a county level city is usually ranked below a prefectural level city. A county level city also governs sub-districts and towns, which are non-urban areas. In my research, I am concerned about urban governments' inclusion of migrant workers in their medical insurance programs because the majority of migrant workers move to urban areas, and not to another rural area.

## ***Dependent Variable***

For my dependent variable on a city's adoption of medical insurance program for migrant workers, I did a thorough search for policy documents, government press releases and announcements, media reports, and local researchers' reports regarding the existence of a medical insurance program to include rural migrant workers (农民工) and outside workers (外来务工). As described in Chapter 3, cities have expanded medical insurance to migrants through urban employee medical insurance (UEMI), flexible

employee medical insurance, migrant worker major illness insurance, and urban basic resident insurance (UBRI). In some cities, employers are offered a choice between two or more of these insurance programs. Technically, UEMI is supposed to cover “all workers” engaged in labor relations with any work unit, but migrant workers fall by the wayside because they are not “urban” workers but “peasant” workers, thereby not entitled to the same protection. Recent labor regulations have tried to rectify this difference by giving migrant workers full “urban worker” status but this has not been adequate. Additional policy measures are needed to cover this population, either through amendments to the original policies on UEMI, flexible employee medical insurance, and UBRI or through migrant worker major illness insurance policies. These insurance schemes vary in their comprehensiveness (inpatient only vs. inpatient and outpatient), reimbursement rates, annual deductibles, benefit caps, and employer/employee contribution rates.

Although cities do offer different insurance programs to migrants, I am interested in the adoption of any of these programs. Thus, for my analysis, medical insurance is coded as a binary variable (1, 0) for every city, 1 for cities that offer any medical insurance programs to migrant workers, and 0 for cities that do not. Examples of this search and coding process are: Shanghai has a policy document on migrant comprehensive insurance. This document, “The Measure on Shanghai’s Outside Workers Comprehensive Insurance 2002,” is coded in the dataset as 1 for Shanghai, with a starting year of 2002. In contrast, most cities in Sichuan Province do not have policy documents readily available online or in Shanghai libraries. However, a local researcher, Hu Wu, has written extensively about the types of medical insurance programs available to

migrant workers in those cities. For those cities, this article is used to code the dependent variable on the adoption of medical insurance. For other cities where there are no researcher reports and policy documents available, media reports are used to code the supply of medical insurance for migrant workers. Tianshui City, Gansu Province, is an example of this type of city. For this city, an article was published in *Tianshui Daily* on August 30, 2006 regarding migrant workers and medical insurance. The details in this newspaper article are used to code this city.

In cities where there are multiple policy documents, information from the most recent document is used to code the details of the policy but the date of adoption is based on the earliest policy document because I am most interested in when the city *first* adopted an insurance policy for migrant workers. For example, Shanghai had policy documents regarding its comprehensive insurance for migrants in 2002, 2004, and 2009. Shanghai is coded as 1 for policy adoption and 2002 for the date of the adoption.

Cities with no policy documents, media reports, press releases or research reports available are coded as 0 for having no medical insurance for migrant workers. There may be cases where some cities with medical insurance for migrants are coded 0 (having no insurance programs), but this exhaustive and expansive search should result in a very small number of cities in this category. A summary table of the dependent variable is presented below. Of the 285 cities, 173 (61%) cities offer medical insurance programs to migrant workers.<sup>15</sup>

Since my search and coding only deals with the existence of policy/programs to include migrant workers in medical insurance, this is not an assessment on the successful

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<sup>15</sup> All sources used to code the dependent variable can be found in Appendix B.

implementation and enrollment of rural migrants in these programs. Whereas Shanghai publishes yearly statistics on rural migrants enrollment in their comprehensive insurance program, many governments do not publish nor mention these statistics in their government reports. However, I do not believe this is a big limitation in my data because I am interested in the supply of medical insurance programs to migrant workers. The successful implementation of these programs is a separate issue, which I have not explored in the dissertation. However, in future research, I may explore the link between successful implementation of these programs and fiscal deficits. Some cities have strengthened the government's oversight over social insurance in order to collect more funds into these programs (Frazier 2010). However, these funds are usually used to pay out to current urban retirees, while pay out to migrants remains low (Zhou and Gao 2009; China Labor Bulletin 2012; Economist 2012).

**Table 5.1 Medical Insurance by Province**

Province	Medical Insurance for Migrant Workers			
	No (0)	Yes (1)	Total	Percent (Yes)
Anhui	12	2	14	14%
Beijing	0	1	1	100%
Chongqing	0	1	1	100%
Fujian	2	7	9	78%
Gansu	6	6	12	50%
Guangdong	9	12	21	57%
Guangxi	6	8	14	57%
Guizhou	2	2	4	50%
Hainan	0	2	2	100%
Hebei	4	7	11	64%
Heilongjiang	6	6	12	50%
Henan	0	18	18	100%
Hubei	6	6	12	50%
Hunan	9	4	13	31%
Inner Mongolia	4	5	9	56%
Jiangsu	7	6	13	46%
Jiangxi	4	7	11	64%
Jilin	3	5	8	63%
Liaoning	4	10	14	71%
Ningxia	3	2	5	40%
Qinghai	0	1	1	100%
Shaanxi	2	8	10	80%
Shandong	8	9	17	53%
Shanghai	0	1	1	100%
Shanxi	3	8	11	73%
Sichuan	0	18	18	100%
Tianjin	0	1	1	100%
Tibet	1	0	1	0%
Xinjiang	0	2	2	100%
Yunnan	6	2	8	25%
Zhejiang	5	6	11	55%
<b>Total</b>	112	173	285	61%

***Independent Variables***

For my independent variables, I used government statistics from the *China City Statistical Yearbook 2011* and the *China Statistical Yearbook For Regional Economy*

2011. The *China City Statistical Yearbook* provides city level data on population and employment, economic and social development, environment and basic facility. The *China Yearbook for Regional Economy* also provides city level data on major socio-economic statistical indicators, covering population and employment, domestic trade, foreign trade, tourism, finance, insurance, and education. China's National Bureau of Statistics publishes both yearbooks. I accessed these two statistical yearbooks from Renmin University's School of Economics online forum (bbs.pinggu.org).

Overall, official Chinese statistics suffer from problems of missing data and the manipulation of data by the local governments that gather the data and then pass it up to the National Bureau of Statistics. However, local statistics bureaus do have to follow guidelines and classifications set out by the National Bureau of Statistics. For my key explanatory variables, the **Percent of High Skilled Service Labor**, the **Percent of Heavy Industry** and **Government Balance**, these limitations do not majorly affect my results.

#### Main Explanatory Variables

To examine H1, the relationship between high value added service sector and a city's likelihood to offer medical insurance to migrant workers, I constructed a variable, **Percent of High Skilled Service Labor**. Ideally, this variable will be based on the economic output of the tertiary sector, but a detailed breakdown of this sector is not available for most cities. Thus, I created this variable using employment data from the *China City Statistical Yearbook*. This variable is calculated as the sum of workers engaged in the banking and insurance, real estate, and scientific research and technical research sectors divided by the total workers engaged in the tertiary sector. The variable



is presented in percentage points. The employment data is based on the number of registered urban employees. This number does not include part time, temporary, and informal (no labor contract) workers. This data limitation should not have a major impact on my results because most high skilled service workers are employed full time in the formal sector.

To examine H2, the relationship between heavy industry and a city's likelihood to offer medical insurance to migrant workers, I created a variable, **Percent of Heavy Industry**, based on the proportion of heavy industry in the gross industrial output value of the local economy. This variable is expressed in percentages. Heavy industry includes, but is not limited to, mining, quarrying and logging, smelting and processing of metals, chemical materials, petroleum refining, machine building, and car manufacturing. Gross industrial output value is the total volume of industrial products sold or available for sale in value terms during a given period (1 year period of 2010). It includes the value of finished products. Though double counting across enterprises can occur, this limitation does not affect my results because cities would have to systematically double count for reasons that have to be correlated with the availability of migrant medical insurance.

To examine H3, the relationship between a government's fiscal balance and its likelihood to offer medical insurance to migrants, I created a **Government Balance** variable. This variable measures the difference between government revenue and expenditure. Some extrabudgetary funds, including social insurance fees, are included in the revenue measure, and social insurance payouts are included in the expenditure measure. This variable is presented in billions of yuans. The **Government Balance**

variable is created as the difference between government revenue and expenditure. This variable is presented in billions of yuans. Government revenue includes tax revenue, fees and surcharges, inter-government transfers, repayment from capital construction loans and social insurance funds. Government expenditure includes, but is not limited to, operating expenses of the government departments, public security, education, cultural and media, pensions for the disabled, social assistance programs, public health, and social insurance payments. Since governments are not allowed to borrow to meet their budget deficits, I would expect higher revenue and lower expenditure numbers because cities would be inclined to show a more balanced local budget to the central government. All local governments would have the same incentive to report these numbers in the same way. However, despite this assumed trend, most governments are still running budget deficits, thus this data limitation has not affected my results but merely shifted the scaling of this variable.

### Control Variables

To isolate the effects of my main explanatory variables, three groups of control variables are used, general, labor and firm composition, and globalization. The first group accounts for regional fixed effects, government capacity and demographic features. There are seven control variables in this group. Geographic location of a city is important because there are regional effects that we need to take into account. To control for this effect, geographic grouping of provinces are used to construct fixed effect variables, **East, North, Northeast, Northwest, South central, and Southwest**. East includes Anhui, Fujian, Jiangsu, Jiangxi, Shandong, Zhejiang, and Shanghai. North includes Beijing, Hebei, Inner Mongolia, Shanxi, and Tianjin. Northeast includes

Heilongjiang, Jilin, and Liaoning. Northwest includes Gansu, Ningxia, Qinghai, Shaanxi, and Xinjiang. South Central includes Guangdong, Guangxi, Hainan, Henan, Hubei, Hunan. Southwest includes Chongqing, Guizhou, Sichuan, Yunnan, and Tibet. In my analysis, Southwest is excluded due to its perfectly collinearity with the other five regional categories.

**Provincial Capital** is a dummy variable for provincial capitals because these cities usually have more economic and political leverage than other cities within a province. In the social welfare literature, there is an emphasis on the relationship between the level of urbanization and the expansion of social programs; hence urbanization is included in this analysis. **Urbanization** is measured as the ratio of completed construction area in city districts to the total district area in a city. Since we also expect wealthier city to be able to offer more social services, **GDP per capita** is included in the model. It is the local GDP over the total permanent population, which includes the migrant population. This variable is expressed in ten thousands of yuans. **Unemployment Rate** captures the registered urban unemployment rate. The level of unemployment is important to migrant insurance adoption because a city will not want to attract outside workers if a large proportion of its residents are unemployed. **Percent of Migrant** captures the proportion of migrants in a city. The migrant population is calculated as the difference between total permanent population and total *hukou* population. This migrant population is then divided over the total permanent population. Some cities are experiencing depopulation because there are more *hukou* residents living outside of their city. In these cases, their migrant population is set to 0. **Government Social Security Expenditure** is included to capture the effect of government capacity in

a city. This variable includes personnel and management fees pertaining to social security programs, welfare payments and government subsidies to disadvantaged groups such as the disabled, destitute and laid off SOE workers. Social security fund payouts are not included in this variable. The variable is expressed in billions of yuans.

The second group of controls includes four variables measuring labor and firm composition. In the Shanghai case study, labor and firm composition matters because they affect a local government's ability to bargain and collect social insurance fees from firms. **Percent of Collective Sector Labor** captures the proportion of urban workers engaged in the collective sector. Traditionally, the collective sector has employed migrant workers; hence this is a good proxy measure for migrant public sector employment. **Percent of Private Sector Labor** is the proportion of urban workers engaged in the private sector, and many migrants work in the private sector. **Percent of Large Enterprises** captures the proportion of industrial output that is created by large enterprises. **Percent of Foreign Enterprises** captures the proportion of industrial output created by foreign enterprises that are not from Hong Kong, Taiwan and Macao.

The third group of controls is for globalization. In the welfare literature, globalization has been touted as having a large positive effect on social welfare programs. In China's case, cities with higher level of export and foreign direct investment (FDI) are more likely to have and need large migrant population to fuel their economy, thus adopting medical insurance for this population will be appropriate. **Export** is the total value of exports, expressed in units of \$1 billion. **FDI** is the total value of foreign direct investment, expressed in units of \$1 billion. All variables are summarized in Table 5.2.

**Table 5.2 Summary Statistics of Variables**

<b>Variable</b>	<b>Obs</b>	<b>Mean</b>	<b>Std. Dev.</b>	<b>Min</b>	<b>Max</b>
Medical Insurance Adoption	285	0.61	0.49	0.00	1.00
Percent High Skilled Service Labor	281	3.15	1.70	0.74	13.62
Percent Heavy Industry	285	0.71	0.17	0.00	1.00
Government Balance (¥1B)	285	-7.99	6.36	-64.80	7.49
East	285	0.27	0.44	0.00	1.00
North	285	0.12	0.32	0.00	1.00
Northeast	285	0.12	0.32	0.00	1.00
Northwest	285	0.11	0.31	0.00	1.00
Southcentral	285	0.28	0.45	0.00	1.00
Provincial Capital	285	0.09	0.29	0.00	1.00
Urbanization	284	9.04	11.14	0.13	95.31
GDP per capita (¥10000)	285	3.29	2.12	0.55	13.81
Unemployment Rate	283	3.37	0.75	1.00	5.70
Government Social Security Expenditure (¥1B)	285	2.25	3.09	0.16	36.26
Percent Migrants	285	0.04	0.11	0.00	0.78
Percent Collectives Sector Labor	283	0.94	1.02	0.08	8.10
Percent Private Sector Labor	283	0.08	0.07	0.00	0.49
Percent Large Enterprises	285	0.26	0.23	0.00	0.92
Percent Foreign Enterprises	285	0.09	0.11	0.00	0.84
FDI (\$1B)	271	0.66	1.51	0.00	11.12
Export (\$1B)	285	5.47	20.24	0.00	204.18

## Results

Since my dependent variable is a binary variable, I test my hypotheses using a logistic regression model. Support for my high skilled labor demand argument comes from the **Percent of High Skilled Service Labor** and **Percent of Heavy Industry** variables, and support for my fiscal incentive argument comes from the **Government Balance** variable. I first tested my key variables in a model without any control variables. In this preliminary analysis, two key variables are statistically significant. As shown in Table 5.3, the coefficient on **Percent of High Skilled Service Labor** is positive

and highly significant, indicating that a city is more likely to adopt medical insurance for migrants when a greater proportion of tertiary labor is engaged in high skilled services. The **Government Balance** variable is negative and significant, which suggests that local governments with higher balances are less likely to adopt medical insurance for migrants. In this preliminary analysis, **Percent of Heavy Industry**, is not significant, but I have not controlled for factors such as regional fixed effects and labor and firm composition that could affect the adoption of medical insurance. Moreover, this preliminary model can only explain 7% of the variation in the local adoption of medical insurance for migrants. A fully specified model (Table 5.4) can explain 16% of the variation, and the three main explanatory variables are statistically significant with the expected relationships.

**Table 5.3 Adoption of Medical Insurance for Migrants (Main Variables Only)**

<b>Variables</b>	<b>Coefficient</b>	<b>Standard Error</b>	<b>Odds Ratio</b>
Percent High Skilled Service Labor	0.42***	(0.11)	1.53***
Percent Heavy Industry	0.44	(0.74)	1.55
Government Balance	-0.05*	(0.03)	0.95*
Constant	-1.50**	(0.64)	0.22**
N		281	
Pseudo R-squared		0.07	
Log Likelihood		-175.48	

\*\*\* p<0.01, \*\* p<0.05, \* p<0.1

As reported in fully specified model (Table 5.4), the coefficient on **Percent of High Skilled Service Labor** is again positive and highly significant at the 5% level. Based on this analysis, a 1% increase in the proportion of workers engaged in high skilled services is associated with a 37% increase in the odds of medical insurance adoption for migrants in that city. Similarly, **Percent of Heavy Industry** is positive and significant, demonstrating that a city is more likely to adopt medical insurance for migrants when there is a greater proportion of heavy industry. Substantively, for every 10% increase in

the proportion of heavy industry increases the odds of a city adopting migrant medical insurance by 52%. Combined, these results confirm my argument that a city is likely to adopt migrant medical insurance programs as a result of a greater demand for high skilled workers. As such, medical insurance programs are used as a strategy to attract high skilled migrant workers.

My results also show that fiscal incentives are at work here. In the fully specified model, **Government Balance** has increased in significance. As indicated by the negative coefficient on the **Government Balance** variable, cities with smaller government balances are more likely to expand medical insurance programs to migrants. Moreover, for an one billion yuan increase in government balance, the odds that a given city will adopt medical insurance for migrants decrease by 13%. In other words, governments with healthy fiscal budgets are less likely to adopt medical insurance programs for migrants, but those governments with larger deficits are expanding medical insurance to migrants. Thus, this analysis strongly supports my argument that local governments are looking at migrant medical insurance funds as a way to raise revenue, which could be used to meet fiscal shortfalls or other purposes.

**Table 5.4 Adoption of Medical Insurance for Migrants (Fully Specified Model)**

<b>Variables</b>	<b>Coefficient</b>	<b>Standard Error</b>	<b>Odds Ratio</b>
Percent High Skilled Service Labor	0.32**	(0.16)	1.37**
Percent Heavy Industry	1.65*	(0.99)	5.20*
Government Balance	-0.14**	(0.06)	0.87**
<b>Controls</b>			
Provincial Capital	1.57	(0.97)	4.80
Urbanization	0.05***	(0.02)	1.06***
GDP Per Capita	0.05	(0.11)	1.05
Unemployment Rate	-0.47**	(0.23)	0.62**
Government Social Security Expenditure	-0.34	(0.22)	0.71
Percent Migrant	-3.95	(3.44)	0.02
<b>Labor and Firm Composition</b>			
Percent Collective Sector Labor	0.25	(0.18)	1.28
Percent Private Sector Labor	-2.74	(3.42)	0.06
Percent Large Enterprises	-0.87	(0.84)	0.42
Percent Foreign Enterprises	0.19	(1.82)	1.21
<b>Globalization</b>			
FDI	0.25	(0.35)	1.28
Export	0.06	(0.04)	1.06
Constant	0.36	(1.16)	1.43
N		269	
Pseudo R-squared		0.161	
Log Likelihood		-150.6	

Model includes regional fixed effects

\*\*\* p<0.01, \*\* p<0.05, \* p<0.1

My control variables behave largely as expected. Regional fixed effects are significant in medical insurance adoption. As expected, urbanization is highly significant and increases the likelihood of medical insurance adoption. Moreover, since local governments would not want to upset local constituents by offering social programs to outsiders when there is high unemployment. Thus, higher unemployment rate is correlated with a decreased likelihood that a city will offer medical insurance programs to migrants.



While variables on labor and firm composition and globalization largely exhibit the expected effects, they are not statistically significant. Percent of collective labor, percent of foreign enterprises, FDI and export have positive coefficients, which indicate that there is an associated increase in the likelihood of medical insurance adoption with their presence. However, the percent of large enterprises has a negative effect on medical insurance adoption. While my Shanghai and Guangzhou case studies indicate that large firms can increase the likelihood of a city adopting medical insurance programs for migrants, testing this across other prefecture level cities, the effect is actually negative. A plausible explanation is that large firms can have more bargaining power with the local government and thus are more able to avoid social insurance contributions and prevent the adoption of migrant medical insurance programs.

Contrary to the social welfare literature arguing that economic growth and resources are necessary to the development of social policies, this analysis shows that the economic resources of a city has little association with a city's probability of offering medical insurance to migrants. Many scholars have argued that economic performance is crucial for social policy adoption because it affect the fiscal capacity of the state (Haggard and Kaufman 2008, Carnes and Mares 2009). A richer city will offer migrant medical insurance because it has the fiscal capacity to do so. However, my analysis indicates that GDP per capita is not significant in determining a city's likelihood to adopt medical insurance for migrants.

Although not shown here, similar analyses have been run with GDP and GDP growth yielding similar results. Hence, although GDP has an overall importance to any city, it is not the driving factor in the adoption of medical insurance for migrants in a city.

Moreover, as illuminated by my case studies, both Shanghai and Guangzhou are rich cities with large GDP and high GDP per capita, but one is a leader and other is a laggard in migrant medical insurance adoption. It is not to say that economic development and wealth are not important but that economic development is a result and not the cause of medical insurance adoption. I argue that economic development is the goal of local leaders. To achieve higher level of economic growth, local governments need to reshape their labor force to fit local labor demand using medical insurance programs.

Additionally, as presented in Chapter 3, while a minority of migrants, those with high skilled and/or high socio-economic status, are concerned about medical insurance and are attracted to cities with better social insurance benefits, the majority of migrant workers, especially low skilled workers, have limited demand for medical insurance. In migrants' list of concerns, medical insurance is not their primary concern. Moreover, the combination of their youth, health and mobility make them more willing to forgo medical insurance for higher wages. Thus, the power resource theory's assertions that bottom up demands are necessary for social policies are not relevant in the Chinese migrant case. A further affirmation of this finding is made with this data analysis where the proportion of migrants in a city is not statistically significant.

### **Different Types of Medical Insurance**

There are four types of medical insurance plans that a city can offer. Currently, my dependent variable is set to 1 if a city offers any of them. To check the robustness of my findings, I constructed two alternative dependent variables. One is **UEMI**, where it is set to 1 if the city offers Urban Employee Medical Insurance (UEMI) to migrants. If UEMI is offered in combination with any other plans, it is still coded as 1. Two is **Major**

**Illness** where it is set to 1 if the city offers migrant major illness medical insurance. If this plan is offered in combination with any other plans, it is still coded as 1.

In the UEMI model (Table 5.5), the **Percent of Heavy Industry** and **Government Balance** variables are still statistically significant, and the **Percent of High Skilled Service Labor** variable is no longer significant. However, the substantive effect of heavy industry is much larger, the coefficient has increased 96% from 1.65 to 3.23. In this model, we find that the coefficient on the **Percent of Collective Sector Labor** variable is positive and significant, which indicates that a higher proportion of collective labor increases the probability of a city to adopt UEMI for migrants. The coefficients on the **Percent of Private Sector Labor** and **Percent of Large Enterprises** variables are negative and significant, which signal that a higher proportion of private sector labor and a higher proportion of large enterprises are associated with a decrease likelihood of that city to adopt UEMI.

The results are not unexpected because UEMI is the more inclusive and expensive medical insurance plan where both migrant workers and employers need to contribute to this fund. A high proportion of heavy industrial firms are in the public sector. In my fieldwork, these workers are more likely to have labor contracts and the associated social insurance programs. As a result, to attract workers for this sector, the local government will need to expand the existing UEMI to migrants because these jobs are generally associated with better benefits. Plus heavy industrial firms are typically capital intensive and have more difficulty relocating, so the government will have an easier time extracting larger contributions from this sector. At the same time, because UEMI is more expensive, we will expect a bigger pushback from large enterprises and the private sector,

hence it is expected that these variables have negative effects on the likelihood of medical insurance adoption.

It is also reasonable to expect that government balance will be important in the offering of UEMI because these plans automatically pool the new contributions with the existing urban employee medical insurance funds. Thus, it will be very easy for a city government to use migrant contributions in the UEMI for other populations and for other funding purposes.

In the Major Illness model, the coefficient on the **Percent of High Skilled Service Labor** variable is highly significant and positive, and the **Percent of Heavy Industry** and **Government Balance** variables are no longer significant. Urbanization continues to exert a positive and significant effect on the adoption of medical insurance. Government social security expenditure is significant and negative, which suggests there are administrative costs to running this program that could decrease the likelihood of adopting such program.

In contrast to UEMI, the **Percent of High Skilled Service Labor** variable is important in the offering of major illness insurance, a cheaper insurance package, because firms engaged in the tertiary sector are typically smaller firms and in the private sector. Since big capital investments are not necessary for these firms, they are more open to relocation; hence local governments are more inclined to offer a cheaper insurance to these companies. Moreover, the highest skilled workers in any city will most likely be offered an urban *hukou*, thus the offering of a lesser medical insurance scheme will not detract the best workers from coming to that city.

In sum, it is reasonable that the significance level of my key explanatory variables

fluctuates between these insurance types because my original dependent variable (any type) has more variation. The alternative coding of the dependent variable reduces the variation in my dependent variable because each rendition places more observations into the 0 category. For my original dependent variable in offering any type of insurance, the mean is 0.61. With UEMI, the mean is reduced to 0.26. With major illness, the mean is 0.44. Given that I have a small dataset of 269 observations, it is important to note that my key variables are still significant with the expected directional effects, though fluctuating in significance level between these alternate models. Overall, the story remains that the demand for high skilled workers and government revenue are important to the local adoption of medical insurance for migrant workers.

**Table 5.5 Likelihood of Offering Different Types of Medical Insurance to Migrants**

<b>Variables</b>	<b>UEMI Coefficient (Std. Err.)</b>	<b>Major Illness Coefficient (Std. Err.)</b>
Percent High Skilled Service Labor	0.11 (0.14)	0.34** (0.14)
Percent Heavy Industry	3.23** (1.33)	0.02 (0.98)
Government Balance	-0.06* (0.04)	-0.02 (0.04)
<b>Controls</b>		
Provincial Capital	0.91 (0.63)	-0.19 (0.62)
Urbanization	-0.00 (0.01)	0.03** (0.01)
GDP Per Capita	0.12 (0.11)	0.07 (0.11)
Unemployment Rate	-0.34 (0.22)	-0.23 (0.21)
Government Social Security Expenditure	-0.14 (0.11)	-0.23* (0.13)
Percent Migrant	-0.82 (2.44)	-3.71 (2.71)
<b>Labor and Firm Composition</b>		
Percent Collective Sector Labor	0.33** (0.16)	-0.05 (0.18)
Percent Private Sector Labor	-7.19** (3.30)	4.93 (3.17)
Percent Large Enterprises	-2.70** (1.16)	0.47 (0.88)
Percent Foreign Enterprises	2.51 (1.96)	-0.62 (1.74)
<b>Globalization</b>		
FDI	0.29 (0.22)	0.19 (0.20)
Export	0.01 (0.01)	-0.00 (0.02)
Constant	-3.59** (1.41)	0.47 (1.08)
N	269	269
Pseudo R-squared	0.131	0.139
Log Likelihood	-136.6	-158.7

Model includes regional fixed effects  
 \*\*\* p<0.01, \*\* p<0.05, \* p<0.1

### **Alternative Hypothesis: Policy Diffusion**

Thus far, my analysis has only considered internal factors relevant to the city. However, the pressure for policy adoption can come from the outside, where policy innovation spreads from one government to another (Shipan and Volden 2008). In Collier and Messick's (1975) study of social welfare programs, they show that policy adoption can be influenced by actions of other governments. In Weyland's study (2005), he finds that pension privatization has spread through nine Latin American countries following Chile's pension policy. Researchers have identified four causal factors for this occurrence: coercion, competition, emulation, and learning (Simmons et al 2006). In Shipan and Volden's (2008) antismoking policy study, they discover that conditional on internal city characteristics, some diffusion mechanisms are more important than others.

In my interviews with scholars and officials, Chinese cities do study and learn from policies adopted by nearby or important cities. To test whether or not external factors play a role in the expansion of medical insurance to migrant workers, I focus on the learning and imitation diffusion mechanisms. In the learning hypothesis, policy makers learn from experiences of other governments because given a problem, it is much easier to choose an alternative that has been tested and proven successful elsewhere than to create a new solution (Shipan and Volden 2008). So when policy makers see that multiple governments have tried a policy, they are more likely to adopt such policy. To see whether or not there is a learning process occurring between cities, I created a **Learning Over Time by Population** variable. This variable is calculated by identifying the cities that have adopted migrant medical insurance programs prior to 2006, summing up the populations of those cities, and dividing by the overall city population within the

province. This variable allows us to look at the learning process as a horizontal diffusion process because in 2006, the Ministry of Human Resources and Social Security issued an order requiring local governments to expand medical insurance to migrant workers. Thus, policy adoptions post-2006 could be seen as a vertical diffusion process.

Additionally, imitation can also happen between cities. In the literature, larger, wealthier and more cosmopolitan cities are looked upon as leaders, and smaller communities may aspire to imitate these leaders (Shipan and Volden 2008). In China, provincial capitals are considered the regional leaders because they are more developed and urbanized. So to examine the imitation effect, I created an **Imitation** variable. It is set to 1 if the provincial capital in their province has adopted medical insurance programs for migrants.



**Table 5.6 Diffusion Effect on Migrant Medical Insurance Adoption**

	<b>Variables</b>	<b>No Diffusion Coefficient (Std. Err.)</b>	<b>Imitation Coefficient (Std. Err.)</b>	<b>Learning Coefficient (Std. Err.)</b>
<b>Diffusion</b>	Learning Over Time By Population			2.50** (1.21)
	Imitation (Provincial Capital)		0.74 (0.63)	
<b>Labor and Fiscal</b>	Percent High Skilled Service Labor	0.32** (0.16)	0.30* (0.16)	0.30* (0.16)
	Percent Heavy Industry	1.65* (0.99)	1.55 (0.99)	2.10** (1.03)
	Government Balance	-0.14** (0.06)	-0.13** (0.07)	-0.14** (0.07)
<b>Controls</b>	Provincial Capital	1.57 (0.97)	1.56 (0.98)	1.85* (1.03)
	Urbanization	0.05*** (0.02)	0.05** (0.02)	0.05** (0.02)
	GDP Per Capita	0.05 (0.11)	0.10 (0.12)	0.06 (0.12)
	Unemployment Rate	-0.47** (0.23)	-0.38 (0.25)	-0.35 (0.24)
	Gov't Social Security Expenditure	-0.34 (0.22)	-0.28 (0.24)	-0.39 (0.25)
	Percent Migrant	-3.95 (3.44)	-3.79 (3.40)	-3.99 (3.46)
<b>Labor and Firm Composition</b>	Percent Collective Sector Labor	0.25 (0.18)	0.24 (0.18)	0.32* (0.19)
	Percent Private Sector Labor	-2.74 (3.42)	-2.66 (3.42)	-3.24 (3.45)
	Percent Large Enterprises	-0.87 (0.84)	-1.01 (0.87)	-1.03 (0.88)
	Percent Foreign Enterprises	0.19 (1.82)	-0.22 (1.87)	0.41 (1.87)
<b>Globalization</b>	FDI	0.25 (0.35)	0.21 (0.36)	0.32 (0.36)
	Export	0.06 (0.04)	0.06 (0.04)	0.06 (0.04)
	Constant	0.36 (1.16)	-0.71 (1.48)	-0.48 (1.23)
	N	269	269	269
	Pseudo R-squared	0.161	0.165	0.173
	Log Likelihood	-150.6	-149.9	-148.3

Models include regional fixed effects

\*\*\* p<0.01, \*\* p<0.05, \* p<0.1

As shown in Table 5.6, **Imitation** does not have a significant effect on the adoption of medical insurance policy, and my main explanatory variables, the **Percent of High Skilled Service Labor** and **Government Balance** remain statistically significant.

But these results do support the hypothesis on diffusion through learning. The positive and significant coefficient on **Learning Over Time by Population** indicates that the adoption of migrant medical insurance is more likely when a greater proportion of people in other cities within the province are covered by similar programs. At the same time, my key explanatory variables, **Percent of High Skilled Service Labor**, **Percent of Heavy Industry** and **Government Balance** remain statistically significant. Moreover, the coefficient on the **Percent of Heavy Industry** variable increases by 27%, from 1.65 to 2.10, which indicates that there is a larger effect on the likelihood of a given city adopting migrant medical insurance with an one unit increase in the proportion of heavy industry.

In sum, there is evidence that horizontal diffusion through learning is happening across Chinese cities in migrant medical insurance adoption. This is not unexpected as Chinese policymakers do look at what the next city is doing to find solutions to their own problems. In my interviews with policymakers and scholars, when asked the question why they chose a particular medical insurance plan for adoption, in Guangzhou, they mentioned studying the medical insurance models in Shenzhen and Zhuhai because they were nearby and were early adopters of migrant medical insurance. In Shanghai, researchers and policymakers mentioned studying the Singaporean insurance model prior to creating their own comprehensive insurance program for migrant workers. Although there is support that external factors can effect policy adoption, internal characteristics of a city remain important in determining the adoption of migrant medical insurance. Moreover, the city's need for high skilled workers and extra funding are still the key factors affecting the expansion of migrant medical insurance.

### **Additional Explanations for the Adoption of Medical Insurance for Migrants**

Besides the demand for migrant workers, two alternative explanations could also exist to explain the relationship between high skilled workers and the adoption of medical insurance for migrants: demands from firms and the accidental consequence of the types of firms located in the region. In the varieties of capitalism literature (Hall and Sockice 2001, Mares 2003, Quadagno 1987, Estevez-Abe et al 1999, Swenson 1999, Thelen 2001), firms that require specific skilled and high skilled workers have a big incentive to favor social protection because they want trained workers to remain at their firm for a long time. Since firms in heavy industry and high value service sector require specific skilled and highly skilled workers, they are more likely to value low turnover and formal labor relations. Thus, firms in these sectors may be pushing local governments to adopt medical insurance policy to attract and retain migrant workers in their locality. Hence medical insurance policy is adopted because local governments want to attract high value firms that are demanding better social policy for migrant workers.

Another explanation for the relationship between high skilled workers and the adoption of medical insurance for migrants is one of accidental consequence. Under Chinese labor law, formal labor relations is required between employer and employees through a written labor contract. The labor contract requires the provision of social insurance. As a result, the adoption of medical insurance exists because firms operating in the heavy industry and high value service sectors are more likely to have formal labor relations and thereby have provisions for social insurance. So the causal mechanism is not a demand for migrants nor firms, but a phenomenon that exists through the compliance with the existing labor law.

My explanation on the demand for high skilled migrant workers and these two additional explanations on the demand from firms and the accidental consequence are not mutually exclusive. All three mechanisms could be at work at the same time. In a locality, high skilled workers could be in short supply, so local governments would need to put in social policy to attract more workers. Since high skilled workers are most likely to be employed by firms that value low turnover and formal labor relations, these firms could be lobbying the local government to provide social protection to attract and retain these workers. Thus, to attract firms in high value sector, local governments are putting in social insurance programs for migrant workers. Also, firms in heavy industry and high skilled service sector are more likely to provide social insurance because it is part of their legal compliance. So, the relationship between high skilled workers and the adoption of medical insurance for migrants could potentially be a happy accident. In my future research, I will delve more deeply into these two alternative explanations.

### **Data Limitations**

Due to data limitations, an implication that is not tested in this analysis is the effect of the aging population on migrant medical insurance adoption. Cities are more likely to offer migrant medical insurance when it needs outside workers. As described in Chapter 4, Shanghai needs outside workers because it has an aging native population and a declining birth rate. If internal migration did not happen, Shanghai would not have had enough native workers to fuel its industries and grow its economy. Thus, a city would need to attract outside workers if its native demographic structure signals an impending labor shortage. Moreover, an aging native population also means that the city has a growing fiscal obligation because as this population ages, they will need more social

benefits from the state. Thus, the age structure of the city would be a good additional measure on the demand for outside workers.

Although not shown in this analysis, I have tested this implication using the natural growth rate of the *hukou* population as a proxy variable for outside labor demand. The variable is the ratio of natural increases in the local *hukou* population (number of births minus number of deaths during one year) to the average population for the same period. But this variable is not statistically significant, and it also reduces the significance of my key variables. The reason for this may be that this is not a good measure because the relative number of births and deaths do not have any effect on the number of workers for a long time, at least not until those newborns enter the workforce 16 years from now.

Ideally, the number of retirees, the percentage of age 65 and older, and the percentage of working age population (age 16-64) would be good measures of the need for outside workers. Due to data limitations, I have not included these measures in this analysis. The 2010 census has these statistics available at the provincial level and for provincial level cities, but this data is not available for all prefecture level cities. When this city level data becomes available in the future, this research will be augmented.

## **Conclusion**

In Chapter 4, the Shanghai and Guangzhou cases suggest that having a big economy, high economic growth, a wealthy populace, and a large migrant population do not result in the adoption of medical insurance for migrant workers. In testing this across other prefecture-level and provincial level cities, wealth and migrant population are not found to be significant in affecting the adoption of migrant insurance. Instead, cities are

more likely to offer medical insurance to migrants as a response to local labor needs and fiscal incentives. Hence, a high proportion of high skilled service labor and a high proportion of heavy industry are correlated with an increased likelihood of a city having medical insurance for migrants.

Additionally, cities have a higher likelihood of adopting medical insurance for migrants when they are running budget deficits because medical insurance funds can be a way to meet their fiscal shortfalls. Medical insurance funds for migrant workers are cash generating programs for local governments because very few migrants access these funds because most migrants are young and healthy. Moreover, if migrants are injured at the worksite, occupational injury insurance, another insurance fund, will pay the claims. Thus cities with high budget deficits are more likely to offer medical insurance to migrant workers.

In checking for external factors affecting the adoption of medical insurance, I do find some evidence that learning is happening across cities, which is not surprising given that these cities do not make decision entirely independently of each other. Cities in a province with more people with migrant insurance programs are more likely to offer an insurance plan. At the same time, my key argument on labor demand and fiscal needs remain important in this analysis. Thus, while policy diffusion does exist, internal characteristics of the city are still the main drivers of medical insurance expansion.

In sum, while this investigation does not rule out the possibility that the demands from firm and the need for legal compliance from high value firms are at work in determining the adoption of medical insurance for migrant workers, my analysis has shown that local governments have been using social policy as a development strategy to

attract the necessary workers for local economic development and raise extra revenue. Empirically, both mechanisms are at work here because local leaders are incentivized to grow the local economy through reshaping their labor force and to look for alternative ways to meet fiscal commitments.

## CHAPTER 6

### CONCLUSION

This dissertation examines the adoption of medical insurance for migrant workers in Chinese cities. Given that migrants are generally considered a politically inconsequential group to urban governments, what accounts for the expansion of medical insurance to this group in some localities and not others? Using an inductive approach to derive theory from case studies in Shanghai and Guangzhou, I argue that policy legacies matter a great deal because past policies of the command economy, the *danwei* system and *hukou* system, have created a social welfare system based on employer contributions where there are only two options for expanding social welfare to migrant workers, *hukou* conversion and ad hoc social program expansion. Moreover, the political structure, characterized by bureaucratic negotiation between central and local governments, has created a space for variation in local policy and promoted competition between local governments. More importantly, I argue that the cadre evaluation system and the fiscal system have created political and fiscal incentives that motivated the expansion of medical insurance to migrants as a development and revenue raising strategy.

More specifically, I argue that Shanghai and Guangzhou have taken different paths to provide medical insurance to migrants as a result of labor competition and fiscal generation. For Shanghai, the emphasis on heavy industry and financial services has created a need for high skilled workers, which is in short supply in Shanghai. This labor



demand has generated a need to attract outside workers. Moreover, given its growing yearly budget deficit, partly driven by a rapidly aging population, an alternative revenue source, through social insurance funds, is required. Under this environment, medical insurance for migrants may be both a strategy used to attract high skilled workers and a way to generate additional revenue to plug the fiscal gap because migrants are considered a relatively low risk, low cost population (young, healthy and mobile) to include in the insurance pool. And, Shanghai had implemented a comprehensive insurance for migrants that encompassed pension, medical and occupational injury insurance since 2002. In contrast, Guangzhou's economy has focused on light industry and retail services, which requires low skilled workers. For the most part, migrant workers are generally low skilled, thus there has been a lesser need to attract this type of workers (however, this is changing in Guangzhou as labor shortages among low skilled workers is appearing given the rapid development of inland cities). Finally, though Guangzhou is also running a budget deficit, it is less severe in absolute amount and in terms of proportion of local GDP, thereby signaling less pressure to raise additional funds. Also, Guangzhou did not adopt medical insurance for migrants until 2009, three years after the 2006 central government order on migrant medical insurance.

These findings were tested in a dataset on migrant medical insurance adoption between 1997 and 2010 across 285 prefectural-level and provincial level cities. My results show that cities are more likely to adopt migrant medical insurance as a response to local labor needs and fiscal incentives. A higher proportion of high skilled service labor and a higher proportion of heavy industry are correlated with an increased likelihood of a city having medical insurance for migrants. Additionally, cities have a

higher likelihood of adopting medical insurance for migrants when they are running budget deficits.

Overall, my findings suggest that economic wealth and migrant demands are not driving the adoption of migrant medical insurance in Chinese cities. As the Shanghai and Guangzhou cases illuminate, having a big economy, high economic growth, a wealthy populace, and a large migrant population do not necessarily result in the adoption of medical insurance for migrant workers. In testing this across other prefecture-level and provincial level cities, wealth and a large migrant population are not found to be significant in effecting the adoption of migrant insurance. Instead, cities are more likely to offer medical insurance to migrants as a response to local labor needs and fiscal incentives. Thus, migrant social programs are really about the state building and not about the migrants.

### **Contributions to Existing Literature**

My research expands our current understanding of welfare state development in developing and authoritarian states. While we understand a great deal about the causes and effects of social policies in developed countries, that are also most often, democracies, our knowledge of social policies in developing countries, and more specifically authoritarian countries, is limited (Skocpol 1992; Skocpol and Ikenberry 1983; Pierson 1994; Wilensky 1975; Al et al 1996; Collier & Messick 1975; Flora and Alber 1981; Immergut 1992; Derthick 1979; Esping-Andersen 1990). While there are plenty of evidence that democracies is highly associated with increased social spending (Przeworski et al 2000; Lake & Baum 20001; Avelino et al 2005; Haggard & Kaufman 2008) due to the need to cater to a broader electoral base in democracies, there is a

historical oddity that Esping-Andersen (1990, 15) notes, “the first major welfare states initiatives occurred prior to democracy.” In Europe, non-democratic regimes, namely Bismarck in Germany and von Taaffe in Austria, were the ones that pioneered social insurance legislations (Carnes & Mares 2009). Moreover, in studying the origins of social programs in developing countries, researchers find that a large number of social insurance programs were initially adopted under non-democratic governments, with twice as many social insurance programs adopted by authoritarian regimes than democratic regimes (Carnes & Mares 2009). This is particularly important because only 12% of the world’s population lives in full democracies, and over 36% of the world’s population lives under authoritarian rule (Economist Intelligence Unit 2010). Moreover, 82% of the world’s population lives in developing countries. Thus, by understanding the variation and factors leading to social insurance provision in China, I am expanding our knowledge in a relatively undeveloped area of research. Moreover, this dissertation adds to our understanding of how social welfare is being delivered to a fifth of the world’s population in a rapidly developing economy under an authoritarian political system.

Since much of our understanding on welfare state is based on democratic regimes, the most important proponent for the development of social programs is heralded as societal pressures (Korpi 1983; Esping Andersen 1990; Stephens 1979; Therborn 1984; Garrett 1998). But in authoritarian regimes, citizens lack the right to vote and cannot press their interests with the state easily. Hence societal pressure is limited. Moreover, in contrast to other East Asian and Eastern European countries where democratization was touted as the factor driving the expansion of social programs (Peng and Wong 2010; Calder 1986) , democratization has yet to take place in China. In my investigation, I find

that demands from social groups have not been necessary for the development of social programs in authoritarian regimes. Rather, it is the political logic of the state that is more important. Political and fiscal incentives of local leaders drive the adoption of medical insurance programs for migrant workers. While social pressures are important because local governments are concerned about social instability, demands from the targeted group are not necessary. In the case of Chinese migrants, local governments may be using funds designated for this population to buy off another, more important, segment of the population. The state may be providing medical insurance for migrants as a way to raise money for the general social insurance funds. This money can be used for current pensioners and for other purposes. In China, social policy is expanding to outside groups without political liberalization and with limited social pressure.

When we look at the literature on authoritarian governments, cooptation through social policies and programs is offered as main explanation for the expansion of social welfare states because autocratic leaders face threat to political survival (Wintrobe 2000; Gandhi and Przeworski 2007; Acemoglu and Robinson 2006; Boix 2003; Olson 1993; Bueno de Mesquita et al 2003; Svolik 2012). But this explanation is too simplistic because the state is assumed to be an unitary actor fighting over political challenges from the masses and within the ruling elite. Though Svolik (2012) places the infighting among ruling elites as the most dangerous threat to an autocratic leader's political survival, he still perceives the ruling elite as a unitary unit. Similarly, the selectorate theory treats the winning coalition as an unitary actor with a single preference. In exploring the expansion of medical insurance for migrants, we see that the authoritarian government is not an single actor, but a collection of actors with competing agendas and incentives within the

system. So social policy can arise for a number of reasons that are not the direct outgrowth of cooptation. But rather, social policy concession could be a compromise between the central government and local governments over political control or a development and fiscal strategy pursued by local governments (as postulated in this dissertation).

Besides expanding our understanding of the authoritarian state as a collective rather than an individual, my research also informs our view on the discussion of public goods versus private goods. In the selectorate theory (Buono de Mesquita et al 2003), the authors argue that public goods are used to coopt the masses and the private goods are used to coopt the ruling elite. In this case, public goods and private goods are clearly divided and separated. However, in authoritarian regimes, public goods can be private goods. In China, social insurance, commonly viewed as a public good, can also be a private good because this is considered extrabudgetary revenue that can be accrued to public officials within the system. Extrabudgetary funds can be diverted into infrastructure projects, can be used as collaterals for bank loans, and can also be used to fill the pockets of officials (Frazier 2010; Jia and Zhao 2008; Oi & Zhao 2007). While it is unclear that migrant medical insurance fund has been used as a private good, other social insurance funds in Shanghai and elsewhere have been used a private good. So it is reasonable to assume that this fund can be used in the same way, especially since migrants is a population that has the least political leverage in any city. Thus, the development of medical insurance for migrants can simultaneously be a public good, where the fund is used on migrant workers and/or another social group, and a private good for corrupt purposes.

Furthermore, my analysis of the local variation in policy expansion in China allows us to better understand the linkages between economic development and social policy (Wilensky 1975; Flora & Alber 1981; Cameron 1978; Katzenstein 1985; Collier & Messick 1975; Adsera & Boix 2002; Haggard & Kaufman 2008). In my case studies, I find that two Chinese cities that had similar levels of economic growth and development differed in their provision of medical insurance to migrants. Thus, I hypothesize that economic factors alone do not explain the development of social welfare programs in China. Instead of economic growth being the driver of social programs, I argue that social programs may be used as a means to accelerate economic development. Chinese local governments may be using social policies, as a way to attract much needed skilled labor to develop their local economies because government officials are evaluated on their ability to generate economic growth. Moreover, fiscal deficit, *not* fiscal surplus, could be a key factor in social policy extension because overstretched local governments could use migrant insurance funds as extrabudgetary revenue to meet current fiscal commitments.

Finally, many quantitative studies in the welfare literature have been conducted. These studies are flawed because they undertake cross-country comparisons but do not sufficiently control for differences between systems (Castles 1993; Flora and Alber 1981; Coughlin 1979; Jackman 1975; Collier and Messick 1975; Hewitt 1977; Myles 1984; Cutright 1965; Wilensky 1975; Schneider 1982; Haggard and Kaufman 2008; Mares 2003; Weyland 2005). It is necessary to control for the diversity in political, economic, and social structures between countries, but large measurement problems prevent these studies from doing so. Since there is significant variation in urban migrant medical

insurance adoption within China, this project can study the factors that drive social policy expansion, while keeping these structures constant because the cities under examination operate under the same political, economic and social system.

## **Limitations and Future Research**

### ***New Social Insurance Law***

Due to time and resource constraints, my dissertation only covers medical insurance policy adoption to the end of 2010. In this section, I briefly review the Social Insurance Law as it pertains to medical insurance, pensions, and migrants. I also outline Shanghai and Guangzhou's response to this law, and theorize the general adoption of this law across Chinese cities.

In October 2010, China adopted the Social Insurance Law, which came into effect in July 2011. The new law specifies five social insurance, pension, medical, occupational injury, maternity, as a common right for all citizens (including migrants). More importantly, this law clarifies that these insurance funds can be transferred between localities. In the past, if an employee changed his work location, the person generally could not transfer his social insurance accounts to the new location. Under the law, the individual portion of pension and medical insurance contributions can be transferred between different locations if he moves from one location to another. Additionally, 12% of employer pension contributions can be transferred to the new location. The employer portion of medical insurance does not transfer. Furthermore, the social insurance contributions years, which determine entitlement benefits, will accumulate despite the change in the individual's work location. The worker also has the option to transfer his urban retirement account into the rural retirement system. The medical insurance operates

in a similar manner, allowing for the transfer of a worker’s individual account between different urban areas as well as transfers into the rural medical scheme. Additionally, the law also requires social insurance and public health agencies to establish a medical expense settlement system. In this new system, an individual no longer has to pay for medical costs upfront and request for reimbursement later. This allows people to enjoy basic medical insurance coverage across localities.

Despite these provisions, the law still functions mainly as broad principles because most of the implementation details are left to provincial and local governments. While the law requires the inclusion of migrants in these social insurance schemes, the law makes no specification on *how* migrants are to be covered in these insurance plans. To implement this new law, local governments need to reform their current social insurance schemes to fully incorporate migrants into their system. Not surprisingly, the pace at which Shanghai and Guangzhou have moved to implement this law differs, with Shanghai again being the leader. To date, no specific plans have been adopted in Guangzhou to incorporate migrants into their social insurance plans.

In Shanghai, detailed plans were drawn to implement this social insurance law. By June 2011, several notices were issued with procedures to merge the comprehensive insurance into urban employee medical insurance over a five-year transitional period. By April 2015, all migrant workers will be fully incorporated into Shanghai’s social insurance system.

**Table 6.1 Adjustments to Comprehensive Insurance**

Year	Contribution Base	Pension		Medical		Occupational Injury
		Employer	Individual	Employer	Individual	Employer
July 2011-March 2012	40%	22%	8%	6%	1%	0.5%
April 2012 – March	45%					



2013						
April 2013 – March 2014	50%					
April 2014 – March 2015	55%					
April 2015 onward	Same as UEMI					

With the new social insurance law, I am expecting more uniformity in the structure of insurance schemes, but the adoption rate will vary because the fundamental structure of the political and fiscal system has not changed. The law is an additional responsibility given to local governments. I expect to see push back from different governments depending on other incentives. Overall, I expect my theory on labor demand and fiscal balance to still hold despite the passage of this new law because the economic incentives in this system remain the same. Despite recent reforms to the cadre evaluation to emphasize balanced growth (Wang 2011, Cai 2012), officials are still evaluated by a system that places economic development before social welfare. Thus, local government will continue to use medical insurance for development as they see fit, though we may see more cities adopting insurance for migrants as a result of coercion through vertical diffusion (Shipan and Volden 2008). Moreover, local budget deficits and debt are growing rapidly, which will further increase the importance of extrabudgetary funds.

Moreover, the law still holds local government responsible for setting up, managing and delivering social welfare. Although 42 out of the 98 clauses in the law are related to methods of collection and management of these funds, an outside audit has not been set up to monitor these funds. Moreover, the punitive damage for organizations or individual making fraudulent claims is restricted to 200-500% of the amount of the claim. Thus, as long as it is in the interest of local governments to misuse these funds, they will

continue to do so. Despite some improved management and oversight since the Shanghai pension scandal in 2006, the National Audit Office in 2012 discovered that local governments had misused ¥1.7 billion (\$272 billion) in social insurance funds (China Labor Bulletin 2012). The office revealed that local governments had spent ¥595 million (\$95 million) on government operating fees, ¥114 million (\$18 million) to balance official books, and ¥294 million (\$47 million) to build training centers and stadiums. In addition, ¥86 million (\$14 million) was used to build offices, and ¥30 million (\$5 million) was used to purchase cars (China Labor Bulletin 2012). Nearly a third of the money was used for unauthorized financial investments (China Labor Bulletin 2012). In sum, these insurance funds have been used as discretionary slush funds for local governments.

With the social insurance law, we may see more *hukou* reforms. Under this law, health insurance funds do not transfer. More linkages are established between hospital systems and social insurance bureaus so that a worker can receive medical treatment in another locality, but these funds are still held by the respective local government. Pensions are another story. Prior to the law, when a worker leaves, only his contribution follows him, the employer contribution component, which is the majority of the premium, stays at the original local government. With this new law, 12% of employer contributions get transferred to the new locality. Currently, some provinces (Guangdong and Fujian) are reforming their *hukou* policy to make it easier for migrants within the province to convert to urban *hukou*, thereby slowing the outflow of migrants (and pension contributions) to other provinces.

### ***Pensions***

One limitation of this dissertation is that it only covers medical insurance. Similar to other countries, China's pension funds account for the largest portion of the social insurance funds. In 2010, pension revenue constituted 70% of the social insurance funds. To date, the government had spent ¥1.05 trillion (\$168 billion) in pension payout to 63 million retirees (MHRSS 2011). The national coverage rate for rural and urban pension schemes was 55% in 2011 (Economist 2012). The pension program has rapidly expanded to cover migrant workers. In 2010, 32 million migrants were covered under the different urban pension schemes, which was about 15% of the migrant population (MHRSS and Economist 2012).

For local governments, the expansion of pension funds to migrants is about revenue generation. In Frazier's study (2010), he finds that local governments have been establishing and enlarging urban pension schemes to raise extrabudgetary revenue. Pension funds, more than other funds, are susceptible to diversion to more pressing needs, especially towards today's pensioners, which include workers who were made to retire in their 40s from SOEs in the 1990s (Selden and You 1997). As reported by the Chinese Academy of Social Sciences, individual pension accounts are only worth ¥270 billion (\$43 billion) even though over ¥2.5 trillion (\$400 billion) has been paid into them (Economist 2012). Since employer contributions for migrants are pooled into the general account, this money can be easily used by the government towards paying off today's pensioners or future pensioners in the city, and not necessarily migrants.

Moreover, an increasing number of retirees will also drive the expansion of pension insurance to migrants. As the population in a city ages, the local government will be under additional fiscal pressure to provide social benefits. Since the current Chinese

system has been made into a pay as you go system because the government has diverted the current funds to other usage, the city will want to expand the pension fund to cover migrants because they are young and mobile. Migrants' youth means that local governments will not need to pay benefits to this population for several decades. Migrants' mobility means that the original city may not be responsible for this population's retirement. Despite the New Social Insurance Law, 85% of employer contributions still remain with the original local government when the worker moves. As a result, local governments still have a huge incentive to expand pension coverage to migrant workers.

At the same time, I do not expect the demand for skilled labor to drive the adoption of pension insurance. Migrants are resistant towards pension insurance programs. Given their youth, migrants are less concerned about retirement, and they do not trust local governments with this fund. We see this sentiment in the wave of "tui bao," where large number of migrants reclaims their pension contributions from local governments in the mid-2000s. As a result, local governments will have a hard time attracting migrants through pension insurance programs.

### ***Data Limitations***

Due to data limitations, the effect of the aging population on migrant medical insurance adoption in Chinese cities is not included in this study. In Shanghai, the implications from an aging population have played an important role in the development of the city's social insurance programs. An aging population entails a contraction in the working age population, which affects the supply of native workers and the demand for outside workers. An aging population also increases the budgetary pressure of local

governments because these people will need additional social benefits in the future.

Ideally, I would like to include the age structure of these cities in this study. The 2010 census has these measures at the provincial level, but currently, this data is not available at the city level. When this city level data becomes available, I hope to augment my current research findings on migrant medical insurance adoption.

In conclusion, China has made significant progress towards expanding social welfare, albeit driven by political and fiscal incentives rather through the benevolence of the state. Building a social safety net will become even more important in the future. Though migrants are *currently* exerting little pressure on local governments to expand medical insurance because they are young, healthy and poor, this phenomenon may change in the near future. Currently, 61% of cities are offering this insurance to migrants. The New Social Insurance Law will add pressure on local governments to expand social insurance programs to migrants. Though many of these insurance schemes provide only shallow coverage, this can potentially lower the cost of living for migrants in host cities. Plus as more migrants learn about this insurance, they will press for additional benefits. Thus, we can envision a scenario where this new medical insurance system creates a new consciousness regarding social benefits among migrants.

Moreover, we are already seeing a cohort effect in the first generation of migrants and the new generation of migrants. The first generation of migrants migrated to the cities in the early 1980s. They are now in their mid-40s. Though they still have ties to the countryside, they have lived most of their adult lives in urban areas and may want to retire at their host cities. Also, these people are beginning to think about medical care

and retirement issues. Thus, we should see increasing demands from these older migrants on urban governments for social welfare benefits.

Additionally, the new generation of migrants has little to no farming experience and wants to stay at their host cities. These migrants were born in the 1980s and 1990s, and they see little difference between themselves and urban residents. Some have spent part of their childhood in their host city with their parents who were first generation migrants. These young migrants are generally better educated and earn higher incomes than their parents in the city. To them, moving to the city is less about economic opportunities and more about experiences and aspirations. They want to move to the city to “experience life and realize their dreams” (体验生活, 实现梦想) (ACFTU Labor Relations Research Center 2011, 7). Compared with older migrants, these migrants have a stronger rights consciousness and are more willing to push for their social rights. Thus, they are more likely to make demands on the government for medical insurance and other social insurance programs. Hence, this population’s lack of social demands may be a temporary phenomenon. As migrants become more vocal and press their demands with the state, they will become a social group that can pose a threat to the regime. In addition to the political and fiscal incentives, the government will need to expand social welfare as a way to coopt this population into the system. Thus, expanding the social welfare system will continue to be an important agenda for China.

## APPENDICES

## APPENDIX A

### RESEARCH METHODOLOGY

My dissertation uses a mixed method approach in which a historical analysis of China's social welfare system as well as two city case studies are used to inductively develop theory and hypotheses to explain subnational variation in medical insurance provision for migrant workers. My argument is then tested on a dataset of 285 Chinese prefecture level and above cities, covering medical insurance policies for migrants between 1997 and 2010. I conducted this research between February 2009 and July 2010. My case studies rely on data from interviews as well as published statistical yearbooks, national and local government reports on migrant workers, social insurance policy (focusing on medical insurance), and population management, government policy documents (internal and publicly available) concerning migrant workers and social insurance, surveys on migrant workers, and reports from academic organizations and non-government organizations (NGOs).

#### **Interviews**

To understand the local scholarly debate and context on migrant workers and medical insurance policy, I interviewed researchers at Peking University, Tsinghua University, Renmin University and the China Academy of Social Sciences in Beijing, the Shanghai Academy of Social Sciences, Fudan University, and East China Normal University in Shanghai, the Guangzhou Academy of Social Sciences and Zhongshan University in Guangzhou, and Hong Kong Polytechnic University in Hong Kong.



In terms of elite interviews, in Shanghai, I interviewed officials at the municipal health insurance bureau, municipal health bureau, and the Huangpu district level health insurance center. In these interviews, I asked questions about the origins and implementation of Shanghai's comprehensive insurance policy, the rationale behind the changes to this policy, views on migrants in Shanghai, and future trends in medical insurance policy for migrants. In Guangzhou, I interviewed officials at the municipal human resources and social insurance bureau, the municipal reform and development bureau, and the municipal public security bureau. In these interviews, I asked questions about their views on migrant workers, impetus and rationale behind providing medical insurance for migrants, and their thoughts on Shanghai's comprehensive insurance.

To understand the employers' perspective on social insurance policy, I conducted several firm level interviews. In Shanghai and Guangzhou, I interviewed human resource managers at two labor subcontracting companies, a packaging company, a glass manufacturing company, a home furnishing company, two clothing retail companies, a property management firm, a printing company, and an accessory-manufacturing firm. Additionally, I interviewed a labor lawyer at a domestic electronic retailer and the owner of a small labor consulting company. With the exception of the labor consulting company, migrants make up between 10-80% of these firms' workforce. Although the labor consulting company did not directly employ any migrant workers, the owner was able to offer insights into labor and social welfare issues across a number of firms. These firms were not randomly selected, but I was introduced to these firms through personal acquaintances. I asked to be introduced to firms that employed some migrants in their workforce. Interviewees were asked the general structure of the firm, its products and

services, characteristics of the workforce, labor contract implementation and labor disputes, and social insurance benefits. These interviews were mostly conducted in the human resource managers' offices and lasted between 1-2 hours. I conducted all my interviews in Mandarin or Cantonese.

I also visited a number of migrant communities and migrant NGOs in Beijing, Shanghai, and Guangzhou. I visited and interviewed five migrant NGOs in Beijing, four NGOs in Shanghai, and two NGOs in Guangzhou. In these interviews, I asked about their organization's objective and activities, the statistics of the migrant community they serve, their assessment of migrant needs and concerns, and the health situation and insurance coverage of migrants.

I also interviewed more than sixty migrants about their lives in their host cities (Beijing, Shanghai, Guangzhou) and their experiences and expectations of the healthcare system. I did not conduct additional migrant interviews after these sixty plus interviews because my interviewees' answers were converging into the same story. The interviews were semi-structured, covering their employment, personal assessments of their health, medical insurance coverage, treatment for illness, attitudes toward the health care system, major concerns in their livelihoods, and attitudes toward urban citizenship. Depending on the interviewee, the interview lasted between half hour to one hour. Over 70% have their spouse and children living with them at their host city. They work in services, manufacturing, and construction. Most of them are between the ages of 18-45. 63% of them are women because I mostly visited these communities during the day when the men were working. I try to include more men in my study by interviewing some migrants outside their worksites during their lunch breaks. While my interview sample is not

representative of the migrant population, trends can still be drawn from these interviews. More importantly, these interviews allow me to tease out migrants' needs and expectations from the healthcare system.

To understand the health care situation from the health care professional perspective, I also interviewed a number of physicians and hospital administrators at a third tier hospital, two secondary tier hospitals, a first tier hospital, a rural community clinic, a private first tier hospital and six private migrant clinics in Shanghai. To professionals working at hospitals, I asked questions regarding general hospital statistics, types of insurance accepted, procedures for reimbursements, protocols for the insured and uninsured, and any special health programs for migrants. To private migrant clinics, I asked questions about the doctor's certification, typical migrant illnesses, procedures performed and cost of treatment.

These interviews are used to provide contextual background to my case studies and guide me towards formulating potential hypothesis on medical insurance for migrant workers in Chinese cities. Understanding the limitation of interviews in making generalization in my cases studies, I also employed other kinds of data to support my general theory. The data compiled from my interviews were compared with information found in published statistical yearbooks, government surveys, reports and policy documents, scholarly research in English and Chinese, and articles in the Chinese media. Examples of these include *China Statistical Yearbooks 2008-2012*, State Council's *China Rural Migrant Worker Research Report 2006*, China National Population and Planning Commission's *Report on China's Migrant Population Development 2010 and 2011*, Ministry of Health's *Research on Health Reform Issues in China, 2003*, Ministry of

Human Resources and Social Security's "Notice Concerning the Development of Rural Migrant Workers Participating in the Medical Insurance," Shanghai Academy of Social Sciences' *The Reconstruction of Shanghai People*, and *Green Book of Population and Labor (2011): Challenges during the 12<sup>th</sup> Five Year Plan Period: Population, Employment and Income Distribution*.

### **Multi-City Dataset**

For my multi-city dataset, the unit of analysis is prefecture level and above cities. This is the total number of prefectural level and above cities (283 prefecture cities plus 2 prefectures in Tibet and Xinjiang) as designated by the National Bureau Statistics found in *China City Statistical Yearbook 2011*. This is the appropriate administrative unit to use in this study because medical insurance policies are made at the prefectural level and above. While medical insurance can be pooled at the county level, the policy is unified at the prefectural level. A county level city also cannot deviate from the official policy set by a prefectural level city because a county level city is usually ranked below a prefectural level city. Moreover, a county level city governs sub-districts and towns, which are non-urban areas. In my research, I am concerned about urban governments' inclusion of migrant workers in their medical insurance programs because the majority of migrant workers move to urban areas, and not to another rural area.

For my dependent variable on a city's adoption of medical insurance program for migrant workers, I did a thorough search for policy documents, government press releases and announcements, media reports, and local researchers' reports regarding the existence of a medical insurance program to include migrant workers (i.e. the expansion of urban employee medical insurance, flexible employee medical insurance, migrant

worker major illness insurance and/or urban basic resident insurance). I also recruited the help from five local graduate students from Shanghai's JiaoTong University to gather this data because they had more access and knowledge to conduct document research in China. Examples of this search and coding process are: Shanghai has a policy document on migrant comprehensive insurance. This document, "The Measure on Shanghai's Outside Workers Comprehensive Insurance 2002," is coded in the dataset as 1 for Shanghai, with a starting year of 2002. In contrast, most cities in Sichuan Province do not have policy documents readily available online or in Shanghai libraries. However, a local researcher has written extensively about the types of medical insurance programs available to migrant workers in those cities. For those cities, this article is used to code the dependent variable on the adoption of medical insurance. For other cities where there are no researcher reports and policy documents available, media reports are used to code the supply of medical insurance for migrant workers. Tianshui City, Gansu Province, is an example of this type of city. For this city, an article was published in *Tianshui Daily* on August 30, 2006 regarding migrant workers and medical insurance. The details provided on Tianshui's provisional measure on the medical insurance for migrant workers is used to code for this city. Cities with no policy documents, media reports, press releases or research reports available are coded as 0 for having no medical insurance for migrant workers. There may be cases where some cities with medical insurance for migrants are coded 0 (having no insurance programs), but this exhaustive and expansive search should result in a very small number of cities in this category. Since my search and coding only deals with the existence of policy/programs to include migrant workers in medical insurance, this is not an assessment on the successful

implementation and enrollment of rural migrants in these programs. Whereas Shanghai publishes yearly statistics on rural migrants enrollment in their comprehensive insurance programs, many governments do not publish nor mention this statistics in their government reports. However, I do not believe this is a big limitation in my data because I am interested in the supply of the medical insurance programs to migrant workers. The successful implementation of these programs is a separate issue, which I have not explored in the dissertation. However, in future research, I may explore the link the between successful implementation of these programs and fiscal deficits. Some cities have strengthened the government's oversight over social insurance in order to collect more funds into these programs (Frazier 2010). However, these funds are usually used to pay out to current urban retirees, while pay out to migrants remains low (Zhou and Gao 2009; China Labor Bulletin 2012; Economist 2012).

For my independent variables, I used government statistics from the *China City Statistical Yearbook 2011* and the *China Statistical Yearbook For Regional Economy 2011*. The *China City Statistical Yearbook* provides city level data on population and employment, economic and social development, environment and basic facility. The *China Yearbook for Regional Economy* also provides city level data on major socio-economic statistical indicators, covering population and employment, domestic trade, foreign trade, tourism, finance, insurance, education. China's National Bureau of Statistics publishes both yearbooks. I accessed these two statistical yearbooks from Renmin University's School of Economics online forum ([bbs.pinggu.org](http://bbs.pinggu.org)).

Overall, official Chinese statistics suffer from problems of missing data and the manipulation of data by the local governments that gather the data and then pass it up to

the National Bureau of Statistics. However, local statistics bureaus do have to follow guidelines and classifications set out by the National Bureau of Statistics. For my key explanatory variables, the percent of high skilled service workers, the percent of heavy industry and government balance, these limitations do not majorly affect my results. I created a variable of the proportion of high skilled service labor using employment data from the City Statistical Yearbook. This variable is calculated as the sum of workers engaged in the banking and insurance, real estate, and scientific research and technical research sectors divided by the total workers engaged in the tertiary sector. The variable is presented in percentage points. The employment data is based on the number of registered urban employees. This number does not include part time, temporary, and informal (no labor contract) workers. This data limitation should not have a major impact on my results because most high skilled service workers are employed full time in the formal sector.

I created a variable of the proportion of heavy industry based on the proportion of heavy industry in the gross industrial output value of the local economy. This variable is expressed in percentages. Heavy industry includes, but is not limited to, mining, quarrying and logging, smelting and processing of metals, chemical materials, petroleum refining, machine building, and car manufacturing. Gross industrial output value is the total volume of industrial products sold or available for sale in value terms during a given period (1 year period of 2010). It includes the value of finished products. Though double counting across enterprises can occur, this limitation does not affect my results because cities would have to systematically double count for reasons that have to be correlated with the availability of migrant medical insurance.

The government budget balance variable is created as the difference between government revenue and expenditure. This variable is presented in billions of yuan. Government revenue includes tax revenue, fees and surcharges, inter-government transfers, repayment from capital construction loans and social insurance funds. Government expenditure includes, but is not limited to, operating expenses of the government departments, public security, education, cultural and media, pensions for the disabled, social assistance programs, public health, and social insurance payments. Since governments are not allowed to borrow to meet their budget deficits, I would expect higher revenue and lower expenditure numbers because cities would be inclined to show a more balanced local budget to the central government. All local governments would have the same incentive to report these numbers in the same way. However, despite this assumed trend, most governments are still running budget deficits, thus this data limitation has not affected my results. If anything, this trend in the data would suggest that the magnitudinal effect of my government balance is larger than it appears in the analysis.

In sum, given the limited access and availability of data in China, I used a mixed method approach to answer my research question on the provision of medical insurance for migrant workers. My analysis uses interviews, primary and secondary source material, and an original city dataset. While there are limitations in using interviews to make generalization, the interview data is compared with other sources. Though limitations exist in published Chinese statistics, they do not hugely impact my results.



## APPENDIX B

### DATA SOURCE FOR DEPENDENT VARIABLE

Below are the sources used to construct the dependent variable in the multi-city dataset on the adoption of migrant medical insurance.

Beijing's "Provisional Notice On Outside Workers Participating In Basic Medical Insurance," September 1, 2004. (北京市外地农民工参加基本医疗保险暂行办法).

Beijing's "Basic Medical Insurance Policy," April 1, 2001. (北京市基本医疗保险规定)

"Beijing 'S Migrant Workers Medical Insurance Benefits To Align With Urban Employes Beginning In April," March 20, 2012. Central Government Website. (北京 : 4月起农民工医保待遇向城镇职工看齐) [Http://Www.Gov.Cn/Fwxx/Jk/2012-03/20/Content\\_2095637.Htm](http://Www.Gov.Cn/Fwxx/Jk/2012-03/20/Content_2095637.Htm)

"Towards A Unified Medical Insurance For Migrant Workers." *Baoding Yingcai Wang*. April 12, 2012. "农民工入职工医保有待全国统一, 保定英才网 [Http://0312.Job1001.Com/Viewarticle.Php?Id=43014](http://0312.Job1001.Com/Viewarticle.Php?Id=43014)

Tianjin's Urban Employee Medical Insurance Policy. November 1, 2001. (城镇职工基本医疗保险规定) [Http://Www.Med66.Com/Html/2005/1/DI0375434281711500268.Html](http://Www.Med66.Com/Html/2005/1/DI0375434281711500268.Html)

"Tianjin Migrant Workers Medical Insurance Policy." No. 71. September 1, 2006. (天津市农民工医疗保险办法, 津政发〔2006〕71号)

"Tianjin To Launch An Integrated Policy On Medical And Occupational Injury Insurance For Migrant Workers," Central Government Website, July 23, 2008. (天津市出台《农民工参加医疗工伤综合保险办法》). [Http://Www.Gov.Cn/Gzdt/2008-07/23/Content\\_1053642.Htm](http://Www.Gov.Cn/Gzdt/2008-07/23/Content_1053642.Htm)

Chongqing's "Provisional Notice On Flexible Workers Medical Insurance Pooling." April 1, 2004. (重庆市灵活就业人员医疗保险市级统筹暂行办法, 渝府发[2003]87号) [Http://Djmzjz.Blog.163.Com/Blog/Static/9160040200912884416602/](http://Djmzjz.Blog.163.Com/Blog/Static/9160040200912884416602/)

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