

**Politics of Inclusion and Exclusion :
Dual Pension Regimes in China**

by

Yujeong Yang

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Doctoral Committee:

Professor Mary E. Gallagher, Chair
Associate Professor Yuen Yuen Ang
Associate Professor Lan Deng
Professor Allen D. Hicken

Yujeong Yang

yujeong@umich.edu

ORCID iD: 0000-0003-4193-42672018

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To my family

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List of Abbreviations

ACFTU All China Federation of Trade Unions

CLDS China Labor Dynamics Survey

ESRC Economic System Reform Commission

GLF Great Leap Forward

ILO International Labor Organization

LCL Labor Contract Law

MoL Ministry of Labor

MOLSS Ministry of Labor and Social Security

NBS National Bureau of Statistics

NGO Non Governmental Organizations

NSSF National Social Security Fund

OLS Ordinary Least Squares

PAYG Pay As You Go

SOE State Owned Enterprise

UEBP Urban Employment-based Basic Pension

URRP Urban and Rural Residency-based Pension

Abstract

This dissertation is an attempt to understand the politics of welfare inclusion and exclusion in an authoritarian developing country—China. This dissertation empirically focuses on the expansion of two Chinese pension programs—the residency-based pension program and the employment-based pension program—across mainland China’s 31 provinces over 2005-2015 and examines local variation in the composition of beneficiaries and the types of benefits of the pension programs.

This dissertation argues that the different membership composition of political insiders—a group of individuals who have right to political representation or participation in a geopolitical community and to whom state actors are held accountable—is key to understanding the variation in welfare inclusion strategies evidenced by subnationally different pension expansion patterns. When political insiders overlap largely with those who secure stable employment positions (labor market insiders), a narrow yet generous welfare inclusion mechanism based on one’s employment positions develops. This welfare regime selectively benefits those who have both political and labor market power. When political insiders do not largely overlap with labor market insiders, a broader yet shallow welfare regime that distributes welfare benefits on the basis of citizenship develops, encompassing political insiders who lost their positions as labor market insiders. Structural changes including labor informalization and growing labor mobility play a pivotal role in changing the extent to which political and labor market insiders overlaps and thereby inducing changes in welfare inclusion strategies.

Applying this theory in the Chinese contexts, the changing level of overlap between individuals with local citizenship defined by their *hukou* registration (political insiders)

and those who have formal and secure employment positions (labor market insiders) is the key to explain the emergence of dual pension regimes and subnationally diverging coverage of the two pension programs—employment-based pension program and the residency-based pension program. In places where most informal employment positions are passed onto local residents and the long-maintained overlap between political and labor market insiders is shattered, welfare programs that encompass a broader segment of society with modest benefits develop. These localities experience a rapid expansion of the residency-based pension program. In places where a large number of informal employment are externalized to non-local workers coming across different provinces and the overlap between political and labor market insiders remains intact, on the other hand, the employment-based pension regime persists.

This dissertation project tests these propositions both qualitatively and quantitatively. On the qualitative side, I conducted interviews with government officials, labor NGO activists, firm managers, and scholars in Beijing, Jiangsu, Shanghai, Guangdong, and Sichuan provinces during the fall of 2015 and spring of 2016. On the quantitative side, I analyzed two data sets. First, I compiled a dataset of pension coverage and other demographic and economic aspects of mainland China's 31 provinces over the period of 2005-2015. The second is individual-level survey data of Chinese labor dynamics conducted in 2012 and 2014 matched by yearbook statistics on the local political economy.

Chapter 1

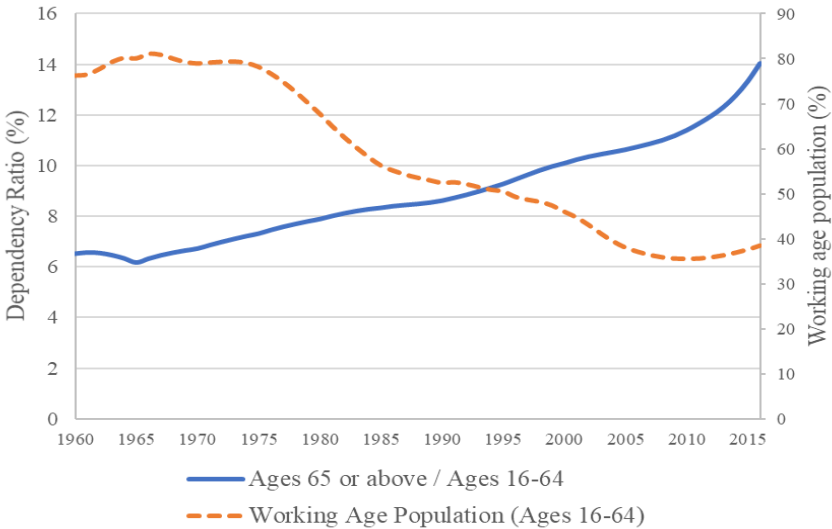
Introduction

This dissertation is an attempt to understand the politics of welfare inclusion and exclusion in an authoritarian developing country—China. This dissertation empirically focuses on the development and expansion of two Chinese pension programs—the residency-based pension program and the employment-based pension program—across space and over time. I track local variation in the scope and composition of beneficiaries and the types of benefits they receive. I explain the subnational variation in welfare inclusion strategies focusing on the diverging membership composition of political insiders—those who have right to political representation and participation in a geopolitical community and to whom local state actors are held accountable—of each locality. Structural changes, such as labor informalization and labor mobility, are the main factors that shuffle the composition of political insiders and thereby induce changes in welfare inclusion strategies.

Among many social insurance programs, this dissertation focuses on pension (old-age social insurance). Pension touches upon the most serious political and social challenge that China faces. The Chinese population is aging rapidly, at a rate that ranks the fastest in the world. The working-age population is expected to drop from 925 million in

2011 to 830 million in 2013 and to 700 million by 2050 (Zhao, 2016). The ratio of old-age population (ages 65 or above) to working-age population (ages 15-64) has been increasing, while the share of working age population (ages 15-64) in total population has been decreasing rapidly (See Figure 1.1). The dependency ratio is currently 14 percent (as of 2016) but it is expected to increase to 38 percent by 2050 (Holzmann et al., 2012).

Figure 1.1: China as an Aging Society (1960-2016)



Source: World Development Indicators

Despite the challenges coming from the demographic change, however, the social safety net designed to protect this growing number of elderly population has only been incompletely and unevenly developed. While the Chinese central government has attempted to include a broader segment of society into the pension system, the extent to which pension coverage expands has differed sub-nationally. The type of pension programs developed in each localities has also differed.

In certain Chinese localities, the overall pension coverage has exploded with the rapid expansion of the residency-based social insurance program. The welfare benefits from the residency-based pension program is modest, but it covers a broader segment

of society. A large number of workers with precarious employment-positions have been included into the local social safety net. While a small number of workers in these localities are still covered by the employment-based pension program that provides generous welfare benefits, the coverage of the employment-based pension program has remained very low in these localities. Other Chinese localities, on the other hand, have concentrated generous welfare benefits to a small number of workers with stable employment positions by further developing the employment-based pension program. The coverage of the residency-based pension program has not expanded much in these localities despite the increase in the number of workers without secure employment positions. A large number of workers without secure employment positions in these localities have been excluded from the social safety net.

Why does the pattern of welfare inclusion and exclusion vary widely sub-nationally in a country with a centrally designed unitary social insurance system? I explain the variation in welfare inclusion and exclusion patterns evidenced by sub-nationally different pension coverage by focusing on the locally diverging extent to which political insiders overlap with labor market insiders.

In the Chinese context, those who are born in a geopolitical community and have local citizenship (*hukou*) have been considered as political insiders of the geopolitical community. Although no Chinese individual has an explicit right to select, remove, or change local political leaders, individuals with local *hukou* have implicit right to political representation and participation in their geopolitical communities. Local state actors are held accountable to these local residents by the top-down career incentives. The exclusive provision of public goods and social welfare for local residents is a form of political representation by local state actors ([Manion, 2014](#)). Under the Chinese locally delineated citizenship system, those who come from other localities can hardly be treated as political insiders or legitimate members of local community even when they reside in

the local community for many years. In order to earn local citizenship, the non-locals have to prove that they have high market competitiveness and skills. Only a handful of elite non-locals are allowed to transfer their hukou and to be treated as “insiders”. Most of migrants lacking local hukou have been considered as “outsiders”(Fan, 2002).

Another social division that affects individual’s welfare status is one’s labor market status. The Chinese welfare system has long benefited labor market insiders—those workers with stable and secure employment positions—in the state sectors. The rapidly changing labor market status of political insiders (local residents) caused by urbanization, marketization, and deindustrialization, however, have incentivized some Chinese localities to develop a new welfare program that embraces labor market outsiders as well. The diverging labor market status of local residents (political insiders) and local states’ differing ability to exclude labor market outsiders from their geopolitical communities are the keys to understanding the diverging development and expansion patterns of the Chinese pension programs.

In places where most local residents (political insiders) secure their positions as formal workers (labor market insiders) and where non-local workers (political outsiders) take a large portion of informal employment positions (labor market outsiders), local governments are likely to develop a narrowly targeting yet generous welfare regime, based on the employment-based pension program. In places where local residents (political insiders) are dispersed across formal and informal labor markets and where only a small portion informal employment positions can be tossed onto political outsiders, local state actors develop welfare programs that can broadly embrace local residents who lost their positions as labor market insiders, such as the residency-based pension program.

This dissertation makes a contribution to five strands of literature in comparative politics. First, this research explains why authoritarian leaders use different welfare provision strategies—why some authoritarian governments selectively provide gener-

ous welfare benefits to a narrow segment of society while others incorporate a broader segment of society using universal welfare programs with shallow benefits. Previous studies have suggested that autocrats are likely to use exclusive and generous welfare provision strategy when they are brought to power by a narrow coalition of interests whereas they use inclusive yet fragmented welfare provision strategy if they are brought to power by a broad coalition of interests (Mares and Carnes, 2009). Yet the question of when the leaders are brought to power by a narrow coalition versus a broad coalition has not been sufficiently discussed. Moreover, these explanations do not adequately explain changes in the countries where the institutions for bottom-up coalitions are only weakly developed, like in China. In my dissertation, I provide an alternative explanation by showing how Chinese local state actors, motivated more by the top-down accountability rather than by bottom-up political incentives, change their welfare inclusion or exclusion strategies depending on the scope and membership composition of political insiders in their jurisdictions.

Second and relatedly, in explaining how structural conditions influence welfare provision, previous literature focuses extensively on individual-level preferences and coalition dynamics. Existing studies have extensively discussed how individual worker's welfare preference diverges as labor market structure changes (Berens, 2015b; Carnes and Mares, 2013a; Rehm, 2009) and how individuals with differential welfare preferences form political coalitions to create pressure on government to adopt welfare policies that best serve their welfare interests (Berens, 2015a; Carnes and Mares, 2013b). The explanation focusing exclusively on the individual-level welfare preferences, however, only insufficiently unravels the link between structural changes and welfare policies for the following three reasons. First, it does not properly explain how changes in welfare policies happen in countries where institutions to politicize individual's welfare preferences are insufficiently developed or political coalitions in support of certain policies are likely to

operate in a restrictive and limited space. Second, not all individuals experiencing labor informalization demand for inclusion or welfare expansion, especially if they have little experience receiving welfare benefits from the state or if they do not know what they were excluded from (Dillon, 2015). Third, social policies, like any other policy, are not solely an outcome of bottom-up political demands. In many countries, social insurance programs have been developed as a part of states' development strategies and have been used as policy tools to help governments achieve their policy goals (Haggard and Kaufman, 2008; Wibbels, 2006). State actors may also have differing welfare preferences which shape independently of individual citizen's welfare demands or preferences. This dissertation project enriches the literature on welfare dynamics by elucidating how structural changes affect state actors' welfare inclusion strategies and top-down welfare provision strategies.

Third, this dissertation reconciles the controversy over the impact of labor market dualization (or labor informalization) on welfare configuration. A strand of the literature contends that labor informalization contributes to the expansion of universal social insurance programs that incorporate both labor market insiders and labor market outsiders into the social welfare system (Barrientos and Lloyd-Sherlock, 2002; Carnes and Mares, 2013a). Another strand of the literature, however, contends that labor informalization has only an ambiguous impact on the expansion of universal social insurance programs and rather consolidates employment-based social insurance programs that prioritize labor market insiders over outsiders (Berens, 2015a). The two strands of literature provide opposite expectations as they expect different types of political coalition to emerge as a result of labor informalization. One expects a coalition formation between labor market insiders and outsiders for welfare expansion while the other expects that internal division deepens between the two types of workers to delay welfare expansion. Yet as can be seen in the China case, the impact of labor informalization on welfare configuration can

vary even in a country where institutions for coalition formation or civil organization are only weakly developed. This dissertation project examines how other social institutions that stratify workers interact with the division created by labor informalization (the division between labor market insiders and outsiders) in conditioning the impact of labor informalization on welfare configuration.

Fourth, this dissertation is one of a few attempts to examine the role of labor mobility on the emergence of divergent welfare regimes. A large number of studies discuss the role of capital mobility in building welfare states and increasing the role of government in welfare provision. Theories of embedded liberalism, for example, elucidate how national governments increase welfare spending and the size of government to protect the losers of economic globalization from economic turbulence and the maintain electoral support for continued trade openness (Rodrik, 1998b; Ruggie, 1982). Yet capital is not the only movable factor. Another factor of production, labor, is becoming increasingly movable with the opening immigration policies and developing transportation. Instead of recognizing labor mobility as a factor explaining changes in welfare systems, however, previous literature discussed more about how the development of welfare systems in destination countries facilitate labor mobility across national borders (Borjas, 1999; Levine and Zimmerman, 1999; Nannestad, 2007). Due to the growing labor mobility, labor markets in some societies are no longer composed of workers of the same citizenship and political entitlement. The influx of workers of differential citizenship (political outsiders) in labor markets changes the state's accountability or responsiveness toward worker demand for protection from globalization or labor market dualization. This dissertation project examines the impact of labor mobility on welfare configuration by probing how the growing labor mobility influences local welfare configurations in China where citizenship institutions are locally defined and domestic migrant workers are deprived of equal citizenship rights in the hosting localities. Lastly, in exploring local

variation in Chinese welfare development, previous studies have focused extensively on the variation in welfare expenditure (Huang, 2015; Lin, 2015; Lin and Tussing, 2016; Rati-gan, 2017). Variation in welfare expenditure reveals how the level of welfare benefit that each participant of the welfare program receives from the state differs sub-nationally. In order to better discuss how the benefit level differs, however, the issue of whether the given welfare expenditure is distributed across a broader segment of society or is concentrated to a smaller number of elite citizens should be first addressed. Moreover, the extent to which Chinese local residents are covered by social insurance programs of the country varies substantially across different localities in China. The question of who are protected by and who are excluded from the social welfare programs of a country is a fundamental political question. This dissertation project updates our understanding of Chinese local welfare regimes by shifting the focus of the research from local variation in how much is spent for welfare provision (welfare expenditure) to who are protected and excluded from welfare programs (welfare coverage).

1.1 Puzzle

Authoritarian welfare regimes are known to be less universal and inclusive than democratic welfare regimes (Knutsen and Rasmussen, 2017). In many autocracies, only a small number of privileged citizens—be it wage workers, soldiers, urban workers with formal employment positions—are incorporated into the social welfare system. Such narrow and preferential cooptation of certain subgroups of society through welfare provision has helped authoritarian leaders retain their power and enhance the regime stability (Dillon, 2015; Knutsen and Rasmussen, 2017; Mares and Carnes, 2009).

Yet some authoritarian states have started to develop welfare programs that encom-pass those who used to be regarded as irrelevant for regime survival and were excluded

from the social welfare system, such as the poor, (rural) precarious workers, low-income families, and various forms of labor market outsiders. Some authoritarian countries have even shifted their welfare provision patterns from narrow and targeted provision to broad and inclusive provision ([Haggard and Kaufman, 2008](#); [Mares and Carnes, 2009](#)). This is puzzling given the effectiveness and efficiency of the narrow and exclusive welfare provision strategies many authoritarian leaders adopt. Moreover, authoritarian leaders are constrained less by popular demand than democratic leaders are. Why do some authoritarian leaders expand the welfare coverage while others stick to the narrow and exclusive welfare provision strategies?

Some focus on differences in leader selection institutions in authoritarian regimes to explain the variation in welfare provision patterns ([Bueno de Mesquita et al., 2003](#); [Clark et al., 2011](#)). In order to stay in power, all political leaders must secure support from the winning coalition—a group of individuals whose support is necessary for a ruler to attain power. The winning coalition members can be replaced with selectorate members—a subset of population with a power to select and remove political leaders of a society. In authoritarian regimes where the size of selectorate is small, leaders find it harder to replace winning coalition members and their political fates become susceptible to a winning coalition member's retraction of support. In this case, autocrats need more resources to be used to keep their winning coalition members loyal. A need for more resources incentivizes authoritarian leaders to expand the scope of social provision to a broader segment of society so that they can increase the general social productivity. In authoritarian regimes where the winning coalition members can be easily replaced with selectorate members due to a large size of selectorate, leaders have less incentives to broadly provide public goods or to increase the social productivity. This explanation provides important insight to understand variation in authoritarian welfare regimes. It does not, however, account for changes in welfare policies in a country over time or a

sub-national variation in welfare policies in a country with a regionally identical political institution.

A variant of the literature on authoritarian welfare regimes suggests that autocrats are likely to use inclusive yet fragmented welfare provision strategy if they are brought to power by a broad coalition of interests (Mares and Carnes, 2009). Yet this research does not specify when and how the scope and composition of such coalition changes. It does not sufficiently explain why and how welfare inclusion strategies change in non-democracies where bottom-up representation mechanisms and institutions for coalition formation are only weakly developed.

Some might say that the variation in welfare inclusion pattern is purely attributable to different levels of economic development of each society. Affluent societies in which most workers have secure employment positions are likely to develop generous welfare programs simply because these societies have enough wealth to provide to such generous welfare benefits. Economically less developed societies in which many workers have poorly paid, precarious, informal employment positions may have no choice but to provide shallow benefits to a wider range of constituents. Yet this explanation does not account for the reason why economically less developed societies expand the social welfare coverage despite the limited resources they have and why economically affluent societies stick with generous yet narrow welfare inclusion strategies rather than expanding the coverage of the social welfare system.

Others might attempt to account for variation in welfare inclusion pattern by looking at the divergent state-business relations. Societies with higher bargaining power over firms are more likely to transfer the social welfare burden to firms and develop the narrowly inclusive yet generous welfare regime based on the employment-based welfare programs. Societies with a weaker bargaining power against firms are more likely to internalize the social costs by providing the citizenship-based social insurance program

to reduce the financial burden on firms. This is a feasible explanation, but it is laid on an assumption that only firms with weak bargaining power over governments will involuntarily provide employment-based welfare benefits. In fact, studies have found that firms have heterogeneous welfare preferences and some productive firms with higher bargaining power over governments have vested interests in providing employment-based welfare benefits (Mares, 2005).

So, why do some authoritarian states include a broader segment of society into the social safety net using the shallow welfare programs and who benefits from this broad yet shallow programs? Why do some authoritarian states opt to a narrow welfare regime that selectively rewards a small number of privileged recipients? What explains the variation across and within authoritarian welfare regimes?

1.2 A Sub-national Approach

This dissertation project sets out to explain the puzzle by examining sub-national variation in pension regimes in a country where the leader selection institutions and social insurance structures are identical across different sub-national units yet the coverage of the two pension programs sub-nationally varies—China.

Like many other authoritarian countries, China used to resort to narrow and exclusive welfare provision strategies. The welfare system that selectively favored urban State Owned Enterprise (SOE) workers was the key for Chinese leaders to constrain the explosive urbanization and prevent regime instability, while saving costs (Dillon, 2015; Wallace, 2013). Recently, however, Chinese pension coverage has increased rapidly as the residency-based social insurance program expanded in certain localities in China, incorporating those who used to be excluded. Yet not all provinces experience the same pattern of pension expansion. Some Chinese localities still maintain a pension regime

based primarily on the pre-existing employment-based pension program that concentrates generous welfare benefits to a small number of privileged beneficiaries.

The sub-national variation shown in China case parallels welfare variation in many developing non-democratic countries. Some non-democracies maintain exclusive and narrow welfare regimes while others shift to universal welfare regimes. In examining variation in welfare regimes, however, a sub-national approach has several advantages over a cross-national approach.

First, many quantitative studies in the welfare literature focus on cross-country comparison (Clark et al., 2011; Haggard and Kaufman, 2008; Knutsen and Rasmussen, 2017; Mares and Carnes, 2009; Weyland, 2005), but without sufficiently controlling for differences between political and economic contexts. Controlling different political, economic, and social conditions is important given that social insurance and welfare programs are embedded in various political contexts (leader selection processes and regime types), market systems (coordinated market v.s. liberal market), and development strategies (export-oriented model v.s. import-oriented model). The cross-national comparison of authoritarian welfare regimes is even harder given the heterogeneity and opacity of the political and social structure of authoritarian countries. A sub-national approach enables us to control for these factors and to focus on the variables of interests.

Secondly, cross-national comparison of the coverage or expenditure level of welfare programs has been challenging due to the nationally divergent social welfare systems and structures. Due to the heterogeneity among social welfare systems and different structures of social insurance programs, many previous studies comparing welfare programs of different countries focus on the adoption status of certain social insurance programs as the main indicator of interest. However, the adoption status of certain social insurance programs, which is coded as a binary variable, provides important yet limited information about the country's welfare configuration and distribution patterns.

The centrally imposed unitary social insurance systems in China enables a meaningful comparison of welfare coverage or expenditure at the sub-national level. A large number of sub-national units—31 provinces and 288 prefectural level cities—also makes it possible to carry out a large-N analysis.

Third, the role and responsibility of the Chinese sub-national governments in welfare provision are parallel to those of national governments of other welfare regimes. While Chinese social insurance programs are designed uniformly by the central government, how they actually are implemented can vary depending on the local state actors' policy priorities and preferences (Ratigan, 2017). The Chinese fiscal systems are sub-nationally decentralized and local government has the primary responsibility for funding and implementing social policies (Wong, 2010). The localized citizenship institutions and localization of population management have further empowered the role of local governments as welfare providers. The localized citizenship institution defined by the Chinese hukou system limits non-local workers' access to local public goods and welfare provision. Local governments can decide whether and how to embrace non-local workers into the local public safety net. Chinese local government also are responsible to manage the entry of non-local workers into the local labor market.

1.3 Pension Programs in China

Aside from the fact the pension programs touch upon one of the most urgent social issues in China—aging problem—there are two other important reasons why this dissertation focuses on the Chinese pension program in examining the logic of welfare inclusion and exclusion.

First, pension requires a higher level of commitment from both welfare providers and participants. Pension places a greater financial burden on the state as the benefits

of pension programs are higher than any other social insurance programs. Pension expenditure is one of the costliest component of any welfare regimes. In China, pension expenditure and revenue exceed all other individual categories of spending and revenues by local governments (Frazier, 2010). For participants as well, they have to contribute certain amounts of premium for a certain amount of time. Unlike other social insurance programs that provide the participants the immediate benefits in need, pensions will be paid in the longer time frame. Most participants cannot receive the full benefits until they retire. A longer time frame required for pension benefits, however, makes pension participants trust the leaders to provide future resources. For this reason, it has been widely used as a policy tool to coopt citizens in many other developing non-democracies as well (Knutsen and Rasmussen, 2017).

Second, pension is a great window to see how local government's welfare expansion strategies change and are influenced by other social actors, including the central state, businesses, workers of differential citizenship, and local retirees. When it comes to other social insurance programs (such as social assistance program), the main challenge is rested on whether or not the ruling elites are willing to expand the benefits to the politically disadvantaged populace. When it comes to pension, the main challenge is rested not only on the state's willingness to expand pension coverage but also on their ability to coordinate different social groups with diverse political and economic interests (Shou, 2017). Especially for the employment-based pension program, local states have long struggled not to lose their initiatives in managing the pension programs to the central state (Frazier, 2010). At the same time, local governments have balanced between their duties to enforce firms to pay for the pension funds and comply with the national pension guideline and their roles to facilitate firms' investment in their localities by accommodating firms' interests. As local governments accommodate the interests of employers, however, certain groups of workers or residents have been excluded from the

welfare protection. By examining how local governments expand the pension coverage while coordinating the interests between the different levels of government, employers, workers, and those who are excluded from the social provision, this dissertation can further probe how authoritarian leaders' welfare provision strategies shape.

1.4 Main Arguments

This dissertation argues that changing composition of political insiders is the key to understanding the variation in welfare provision strategies. Structural changes, such as labor informalization and growing labor mobility, play a pivotal role in shuffling the composition of political insiders. Depending on the extent to which political insiders overlap with labor market insiders, the state develops different types of welfare programs. When political insiders overlap largely with labor market insiders, employment-based social insurance program that selectively benefits those who have both political and labor market power develops. When political insiders do not largely overlap with labor market insiders, a citizenship (residency)-based social insurance program develops to embrace political insiders who lost their positions as labor market insider.

I define political insiders as a group of individuals who have right to political representation or participation in a geopolitical community and to whom state actors are held accountable. In this regard, the concept of political insiders remotely approximates the concepts of selectorate or pivotal supporters. Yet contrary to the two other concepts, political insiders may not necessarily have direct power to select or change the leaders. Labor market insiders indicate those who have stable and secure employment positions.

In the Chinese context, individuals with local citizenship defined by their hukou registration are the political insiders of a geopolitical community. Chinese local state actors are held accountable to individuals with local citizenship defined by the hukou system,

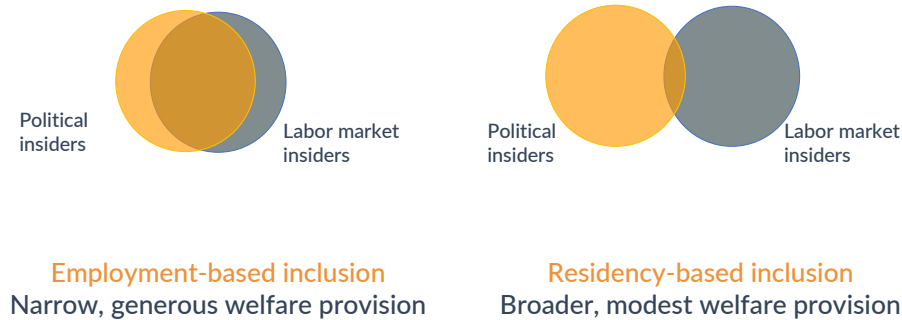
despite the fact that Chinese local residents lack any practical power to select, remove, or change state actors. The decentralized political system and localized citizenship institutions make Chinese local state actors carry the primary responsibility to take care of local residents' livelihoods. How local state actors improve local residents' livelihood and maintain social stability by satisfying the welfare needs of local residents has become an important factor the central government cares in evaluating local state actors' performance (Lin and Tussing, 2016; Manion, 2014). This top-down political incentives make local state actors care about the welfare needs of local political insiders and alter their welfare inclusion strategies depending on the changing composition of political insiders in their geopolitical communities.

Labor market insiders indicate those workers with secure employment positions. In both democracies and autocracies, securing support from has been critical for the survival of leaders. Even social democratic parties in developed democracies consider labor market insiders as their core constituencies and pursue policies that selectively benefit insiders, but not outsiders (Rueda, 2006). In many authoritarian regimes, including China, the creation of labor market insiders and a generous welfare provision to this privileged worker group have played an important role in legitimizing and stabilizing the authoritarian ruling.

In many societies, including China before the economic reform, most labor market insiders were the same population as political insiders. The overlap between labor market insiders and political insiders enabled the state to pursue narrowly targeting welfare inclusion strategies that distribute welfare benefits on the basis of one's employment position. The increase of informal employment positions, however, has shattered the overlap between political insiders and labor market insiders. In societies where political insiders are no longer equated with labor market insiders, the state develops broadly targeting welfare inclusion strategies that embrace those political insiders who lost their

positions as labor market insiders. Figure 1.2 summarizes the main theoretical framework of this dissertation project.

Figure 1.2: Summary of the Main Argument



Applying this in the Chinese context, urban SOE workers have long maintain their positions as political insiders and labor market insiders in the geopolitical community they belong. The restricted labor mobility and the urban economy based primarily on SOEs have further consolidated their positions both as political insiders and labor market insiders. The employment-based welfare programs were effective tools to selectively target these narrowly defined group of political insiders who are also labor market insiders.

This long-maintained overlap between political and labor market insiders, however, has been shattered in some Chinese localities with the growing labor mobility and labor informalization. With labor informalization, a growing number of urban local workers lost their positions as labor market insiders. The influx of non-local workers followed

by growing labor mobility has broken the concept that all workers are local residents (political insiders).

These two structural changes have re-configured and changed the membership composition of political insiders in different localities in China. In localities where a large number of workers are imported from other localities and informal employment positions are passed onto these non-local workers, urban local workers are shielded from the shock of labor informalization and retain their positions as labor market insiders. As the link between the two insiders remain intact, local state actors maintain the narrow welfare provision strategies. In these localities, the employment-based pension program persists despite the high level of labor informalization. In localities with fewer non-local workers to absorb the shock of labor informalization, many local workers (political insiders) lose their positions as labor market insiders and become informal workers (labor market outsiders). In these localities, local leaders develop the universal pension program to provide shallow yet broader welfare benefits to labor market outsiders who still maintain their positions as political insiders. The inclusiveness of the broader welfare regime centered on the residency-based welfare regime is, however, bounded by the locally defined citizenship institutions in China. The residency-based welfare regime, for example, is inclusive only to political insiders who have legitimate local citizenship and does not give a permission to political outsiders to enroll in the welfare program.

The similar pattern stands out at the individual-level as well. Individuals who are labor market outsiders are less likely to enroll in the employment-based pension program. Yet, informal workers who are local residents are more likely to enroll in the residency-based pension program. This will provide them minimal yet important social protection against market turbulence. Informal workers who are non-local, however, are less likely to enroll in the residency-based pension program and are more likely to remain uninsured.

1.5 Organization of the Dissertation

This dissertation includes an introduction chapter, a theory chapter, a descriptive chapter, three empirical chapters, and a concluding chapter. The chapters are organized as the follows.

Chapter 2 spells out a theory that explains the development of divergent welfare regimes in authoritarian regimes and its application in the context of sub-national China. I argue that structural transformation, such as labor informalization and growing labor mobility, alters authoritarian state actors' welfare provision strategies by reshuffling the membership composition of political insiders to whom state leaders are held accountable. When political insiders are generally the same population as labor market insiders, state actors choose to narrowly incorporate those who have both political and economic power in a geopolitical community using the employment-based social insurance programs. Yet structural changes, such as labor informalization or growing labor mobility, change labor market status and composition of political insiders. When political insiders are dispersed across different labor market sectors, state leaders use a welfare inclusion strategy that broadly encompasses those political insiders who lost their positions as labor market insiders.

Chapter 3 discusses how the local state actors and the central government have competed and interacted in constructing and implementing the Chinese pension system. This chapter spells out the two pension programs—the residency-based pension program and the employment-based pension program—serve different groups of citizens and how the funding structures and redistributive implications of the two pension programs differ. This chapter shows that existing institutions and political legacies—such as decentralized fiscal relations between the central and local government, local welfare systems buttressed by the Chinese local citizenship institutions (hukou system), and ca-

reer evaluation mechanisms emphasizing economic performance—generated different policy preferences and interests than the central state actors in implementing pension policies and have empowered local state actors to resist the central government’s attempt to centralize the pension system.

Chapter 4 examines how different types of “outsiders” are created in different localities across China. Using the two rounds of individual-level survey conducted in various localities in China, this chapter examines the size of informal employment and scale of labor mobility by sub-national level and explores how the two social categories that construct “outsiders” interact with each other. The main arguments and findings of this chapter can be summarized as the following: 1) while the division of workers by their employment position has long persisted since the pre-reform period, marketization has further fragmented and institutionalized the division between formal and informal workers and the division within informal workers by creating different types of informal employment positions; 2) the growing labor mobility and institutional reforms have increased the saliency of local v.s. non-local division over urban v.s. rural division in further stratifying the welfare status of Chinese labor market outsiders (informal workers); 3) due to locally divergent patterns of labor mobility, the extent to which non-local worker overlaps with informal workers or the extent to which local workers are shielded from labor informalization have varied across localities, contributing to the creation of different types of welfare outsiders.

Chapter 5 examines how the emergence of different types of ‘outsiders’ discussed in the previous chapter has induced local states to adopt different pension development strategies. By examining sub-national variation in pension coverage among China’s 31 provinces during the period of 2005-2015, this chapter provides empirical evidence to support the hypotheses that the reshuffling of the scope and composition of political insiders caused by labor informalization and growing labor mobility explains the diverg-

ing coverage of the two pension programs across localities. Labor importing localities that can externalize the shock of labor informality to non-local workers maintain the welfare regime based primarily on the employment-based pension program. This pension regime would selectively and exclusively benefit formal workers, most of whom are local, with generous welfare benefits, Yet a growing number of informal workers who are mostly coming from other localities would be left outside the welfare system. Labor exporting localities where the shock of labor informalization is absorbed mostly by local workers, on the other hand, develop a welfare regime based on the residency-based pension program. This pension regime embraces a growing number of labor market outsiders who still maintain their positions as political insiders by providing shallow yet broader benefits. Using Ordinary Least Squares (OLS) regression and negative binomial regression analyses, this chapter shows that the findings stand both at provincial and prefectural level.

Chapter 6 asks why, despite the expansion of the pension coverage, some workers remain uncovered by pension system of the country and investigate who these uninsured workers are. Analyzing two rounds of individual-level survey data on China labor dynamics, this chapter examines how the impact of labor informality on individual's pension participation pattern varies by their local citizenship status.

Chapter 7 concludes with a summary of major findings, limitations of the research, and future directions of the current dissertation project.

Chapter 2

Theory

2.1 Introduction

This chapter elucidates a theory that explains local variation in the Chinese welfare regime, ranging from a narrowly targeted, generous, employment-based welfare regime to a broadly encompassing, modest, residency-based welfare regime. I explain the local variation by adopting a state-centric view in the context of dynamic structural conditions. Structural dynamics influence state actor's social policy preferences and welfare provision strategy by altering the composition and scope of the social groups state actors are held accountable to.

Even in the absence of electoral systems, Chinese workers with legitimate local citizenship (hukou) have been considered as political insiders who have right to political representation or participation in a geopolitical community. Structural changes, such as labor informalization and increasing labor mobility, have shuffled the membership composition of political insiders in local communities and thereby induced changes in local welfare inclusion strategies. Before China experienced the two structural changes, labor market insiders—formal sector workers—were by and large the same population as po-

litical insiders—local residents. Chinese local state actors have rewarded those who have both political and labor market power by developing a welfare system that selectively benefits local formal workers. The spread of informal employment positions, however, has shattered the overlap between political insiders and labor market insiders. Increasing labor mobility has also influenced the extent to which the two groups of insiders overlap with each other, while giving some local state actors a political option that they have not had before—ignoring welfare demands from informal workers and even evicting them from the local jurisdiction if necessary.

In Chinese inland areas where most workers are locally supplied, local governments develop the residency-based welfare system, characterized by broad coverage and shallow benefits, in response to labor informalization. State actors in these localities cannot simply evict the growing number of informal workers (economic outsiders) from the welfare regime because they are local residents (political insiders). Chinese coastal areas that import a large number of non-local workers, on the other hand, have reacted differently to labor informalization. In these localities, political insiders (local residents) maintain their positions as labor market insiders thanks to the growing number of non-local workers who absorb the shock of labor informalization for local workers. As the overlap between local workers (political insiders) and labor market insiders remains intact, state actors in these localities cling to the existing exclusive employment-based welfare system that mainly benefits labor market insiders who are at the same time political insiders.

Unlike state actors in Chinese inland areas, state actors in labor importing coastal localities are less interested in embracing labor market outsiders. A large proportion of labor market outsiders in these areas are non-locals to whom local officials are not held accountable. State actors in labor importing localities are less averse to ignoring non-local informal workers and can even evicting them from their jurisdiction when necessary. The mass eviction of migrant workers in Beijing exemplifies how local au-

thorities are not hesitant to and are able to get rid of non-local workers from their jurisdictions (Shepherd and Thomas, 2017; Zhuang and Cai, 2017). The growing level of labor automation also reduces local officials' incentives to embrace low-skilled workers without local citizenship as their labor can be easily automated by robots. Instead, these localities selectively embrace those non-local workers with high skill and talent. The point-based hukou transfer policies and exclusive social welfare policies help these local governments attract high-quality human capital and retain them as permanent local residents (political insiders) of the localities (Friedman, 2017). These fragmented and locally divergent social insurance provision strategies help local authoritarian states maintain their political legitimacy, hold their control over social insurance funds, and retain the type of workforce best needed for their local economy.

In the subsequent sections, I first discuss different approaches taken by the previous literature to explain different types of welfare regime. Each view emphasizes the role of structural factors, power dynamics between interest groups, and state actors' preferences and interests, respectively. After discussing the limitations of each approach, I elucidate how authoritarian welfare regimes, in particular, local welfare regimes in China, can be better understood by bridging the structural view and the state-centric view. To further discuss authoritarian state actors' welfare preferences and interests, section 2 discusses why and under what conditions authoritarian leaders are interested in providing welfare benefits. Section 3 discusses to whom authoritarian leaders provide social benefits and how the type and configuration of the welfare beneficiaries change. This section concludes by proposing a theoretical framework to understand why authoritarian states coopt different types of groups using divergent social policies. In this section, I argue that structural changes, such as labor informalization and growing labor mobility, alter the scope and characteristics of social groups authoritarian leaders need to coopt. Sec-

tion 4 applies the theoretical framework to understand local variation in Chinese welfare regimes.

2.2 Theories of Social Policies

The question of why governments develop different social policies benefiting different groups of population is an important political issue. Previous scholarship has tried to answer these questions focusing on the impact of structural factors, power dynamics between interest groups, and political dynamics between state-actors holding divergent welfare preferences. Yet most of existing theories are predominantly developed in the context of developed democracies. This chapter examines each approach to discuss what approaches are most relevant to explain the development of sub-nationally diverging welfare regimes in an authoritarian developing country—China.

2.2.1 Structural Explanation

The earliest literature on social policy focuses on structural conditions—such as the size of economy, the level of economic globalization, and labor market structure—to explain variation in welfare regimes across countries.

Economic development, for example, is expected to develop welfare states by bringing new social needs for quality lives and by raising state capacity to meet these needs (Huber and Stephens, 2001). This view stems from the modernization theory that economic modernization will eventually bring about political and social modernization, leading to the emergence of democracy and welfare states. However, an explanation solely based on the level of economic development does not explain why countries with similar level of economic development have a widely different level of social spending (Adsera and Boix, 2002; Mares, 2005).

In recent years, a growing number of studies have shifted their attention to the role of trade openness as a key to explain the expansion of welfare states. The embedded liberalism theory, for example, explains that economic openness creates a social pressure for more social spending and expanded welfare provision from those who are threatened by economic volatility ([Avelino et al., 2005](#); [Rodrik, 1998a](#); [Ruggie, 1982](#); [Quinn, 1997](#)). In consequence, governments with a high level of trade openness are expected to increase the size of the government and the amount of welfare spending.

A more recent variant of structural approach updates the link between trade openness and welfare spending by shifting the focus of research from cases of developed economies to those of developing economies. Instead of merely looking at the level of trade openness, this new theory examines how the level of trade openness, the size of domestic market, abundance of labor, and asset inequality jointly determine the development strategy of developing countries ([Wibbels, 2006](#); [Wibbels and Ahlquist, 2011](#)). Social policies are important components of development strategies that help states shape and retain a labor force adequate to their particular development projects.

In a large, labor-abundant, and low-inequality developing economy, the state often prefers an export-oriented development model as a mode of participation to the global economy. In a concern for increased labor cost, countries pursuing the export-oriented development strategy repress demands for broad social insurance provision ([Wibbels and Ahlquist, 2011](#)). Hence, contrary to the expectation from the embedded liberalism theory, trade openness in these countries does not necessarily lead to the expansion of social provision. On the other hand, countries characterized by large domestic market, scarce labor, and high inequality pursue import-substitution strategy. Protecting domestic workers from market turbulence and stabilizing domestic consumption are important parts of this internally-oriented development strategy. As a result, countries with the in-

ternal orientation tend to increase social spending level and develop inclusive social insurance programs.

This strand of studies further innovates the literature by examining the impact of structural conditions and development strategies not only on the level of social spending but also on the type of social policies developed. While existing studies with the structural view focus extensively on the level of welfare spending, an attention only on the aggregate level of welfare spending does not fully capture the role of structural changes on welfare distribution ([Esping-Andersen, 1990](#)). According to the new theory, developing countries with export-oriented development strategy place more emphasis on developing social policies that improve human capital, such as education and health ([Rudra, 2005, 2007](#)). These social insurance programs help the state keep labor costs low while attracting foreign investment by improving the productivity of human capital. Countries pursuing import-substitution strategy, on the other hand, place a greater emphasis on developing social insurance programs protecting workers from market fluctuation, such as minimum income guarantee or unemployment insurance ([Rudra, 2007](#)).

A more recent variant of the structural view shifts the focus of the literature from trade openness to domestic industrial structure. Industrial restructuring characterized by the shrinkage of manufacture and the rise of service jobs has transformed the skill sets needed in the labor market. The poor transferability of skills across sectors has increased demands for a higher level of social spending. Governments expand their welfare spending to accommodate those who lost jobs in the interim of industrial restructuring and deindustrialization ([Iversen and Cusack, 2000](#)).

Variants of studies focusing on structural conditions show how social policies of a country are influenced by changes in its macro-economic structure. A structural factor (or even multiple structural factors) alone, however, does not shape or affect government's decisions on the level and patterns of social spending. Political dynamics

and interactions affect the way structural factors shape welfare policies. Depending on political dynamics and political motives political actors have cultivated, governments' reaction to similar structural conditions may vary widely. In authoritarian states, in particular, social policies are shaped by political agenda and motives that are not necessarily related with their structural conditions (Mares and Carnes, 2009). Moreover, studies focusing on structural factors under-explore how the preferences of different political actors—including state actors, workers at different labor market positions, and employers—influence the way social policies shape and change.

2.2.2 Social-Pressure Based Explanation: Power Resource Theory & Cross-Class Coalition Theory

As an attempt to understand the political mechanisms linking structural factors to social policies, a later version of literature on social policies has started to emphasize political dynamics between different social actors.

A so-called power resource perspective assumes that demands for welfare expansion come mainly from workers who want to be compensated and protected from market turbulences (Esping-Andersen, 1990; Korpi, 1983). Employers, on the other hand, are expected to oppose welfare expansion, because they want to preserve their control over workers by making workers dependent on the market (Esping-Andersen, 1985, 1990). In this regard, the power resource perspective explains the increase in the generosity and coverage of welfare programs as a consequence of an increased organization capacity of labor organizations or left-leaning parties (Esping-Andersen, 1985, 1990; Korpi and Shalev, 1979). The empowerment of capital or conservative parties, on the other hand, is expected to shrink welfare spending and welfare coverage. Studies based on Western European countries have found that labor strength, measured by union density, the share

of seats held by left-leaning parties, and a presence of strong social democratic party in government, has a strong association with the level of welfare distribution of a society (Esping-Andersen, 1990; Huber and Stephens, 2001).

Yet this perspective is built on a simplistic assumption that workers (and employers) have a monolithic welfare preference. Not all employers, for example, oppose increase of welfare spending. In fact, in many parts of the world, including East Asian development countries, employers have played an important role in establishing welfare states and supporting the expansion of social policies (Haggard and Kaufman, 2008). Employers' organizations in some European countries have even initiated the introduction of social insurance and welfare programs in their societies (Soskice and Hall, 2001; Swenson, 2004; Thelen, 2001).

Based on these observations, a new variant of the social policy theory updates the literature by correcting the overly simplified assumption of the power-resource theory. It explores the possibility of a cross-class political coalition between labor and capital. This cross-class coalition theory finds that employer's welfare preferences are not necessarily homogeneously against the introduction or expansion of welfare policies. Expanded social policies and welfare programs do impose heavier financial burdens on employers. Yet, for certain types of firms, the benefits come from social policies outweigh the costs imposed on them. In this case, employers strategically support welfare expansion and the establishment of welfare states. Whether firms benefit from the expansion of social policies varies widely depending on the size of firms, skill composition of workforce, and the relative risk profile of the firms (Mares, 2005). Larger firms are more likely than smaller firms to benefit from the expansion of social policies. Firms in need of skilled workers are likely to support the introduction of social policies for workers as social welfare programs help them retain skilled workers and help workers invest in improving their skills and qualification. Firms with a higher likelihood of workplace

accidents have supported the introduction of compulsory work-injury insurances. Social insurance and welfare policies can sometimes be used as a tool to recruit and attract workers in a tighter labor market (Rickne, 2013).

Both power resource theory and cross-class coalition theory, however, insufficiently discuss how welfare preferences of workers or labor organization may vary depending on the sectors or labor market status of workers. Power-resource theory, in particular, underestimates the possibility that workers or left parties have diverging welfare preferences. Workers of all types are assumed to share the same welfare interest as workers employed in the formal sector, protected by labor unions, and supported by the major leftist parties (Esping-Andersen, 1990; Rueda, 2006, 2015). In fact, empirical findings show that workers in the informal sector and with precarious employment positions have a widely divergent welfare and social insurance preferences from formal workers (Berens, 2015a; Carnes and Mares, 2013a, 2015). Moreover, social democratic parties in many European societies have not been univocal in supporting universal provision of welfare for all worker (Shefter, 1977). After the postwar periods, left parties have used social policies to selectively reward their core supporters—those who have stable and secure employment positions (labor market insiders)—at the expense of workers with unstable and precarious employment positions (labor market outsiders) (Rueda, 2006). While the cross-coalition theory moves one step further by acknowledging the divergences in employers' welfare preferences, it still pays an insufficient amount of attention to diverging welfare preferences of workers or left parties over the patterns of welfare distribution.

Another related limitation of these theories of social policy is that both are developed predominantly in democratic contexts. In both theories, workers' interests are represented by left parties or labor unions. Worker's political strength is expected to grow as social democratic parties or labor unions develop. The cross-class coalition theory also

posits a political alliance of employers and workers as a precondition for expansion of social policies. Workers are also assumed to have organizational capacity and autonomy to form a political coalition. A study of social insurance systems in Latin America, for example, finds that the coalitional realignment of workers of differential labor market status is the main driver behind the development of non-contributory social insurance programs in this region (Carnes and Mares, 2013b). These explanations have a limited applicability in countries where workers have limited political power and representation mechanisms and where party systems are ill-developed to stand for different interest groups (both employer and employees). In many autocracies and emerging democracies, institutional mechanisms to empower workers as political actors are still only weakly developed, if not suppressed. Explanations based on bargaining between employers and employees represented by party systems cannot adequately explain political dynamics that enabled the expansion and development of social policies in countries with repressive political systems and limited representation mechanisms.

2.2.3 State-Centric Explanation

Most theories mentioned above assume that policymakers would design social policies based either on structural conditions or on the class-struggles (or coalitions) occurring in their societies. In other words, policymakers are viewed as impartial agents who hold indifferent and unified views on social policies. Policymakers are expected to design and implement policies based on external conditions. In reality, however, policymakers and state actors may have diverging ideas and preferences over social policies, formed independently from external social pressure. While structural conditions and societal pressures create a list of policy options, it is ultimately the policymakers that play a pivotal role in selecting specific sets of policies and deciding the patterns of redistribution. In this regard, the state-centric approach emphasizes varying policy preferences

of individual bureaucrats (Skocpol et al., 1985) or politics between these policymakers (Hecló, 1974) as main factors explaining variation in social policies.

This approach emphasizes that individual bureaucrats' policy preferences or policy-making processes are not mere reflection of social economic conditions or external social pressures. Rather, individual bureaucrats' policy preferences and their policy making processes are bounded and shaped by their experience with existing policies and institutional legacies (Pierson, 1995; Skocpol et al., 1985; Weir and Skocpol, 1985). A comparative study of policy response of three countries to the Great Depression shows how past policy experience shapes individual bureaucrats' policy preferences and how diverging policy preferences of state actors bring about widely diverging policy outcomes. During the Great Depression, Britain did not adopt Keynesian Macroeconomic policies whereas Sweden and the United States experimented with Keynesian policies. Britain's diverging policy response to the same structural change (Great Depression) is attributable to British policymakers' diverging experience with past policies (Weir and Skocpol, 1985). Their prior experience with a limited unemployment insurance made British policymakers reluctant to introduce large scale programs that Keynesian Macroeconomic policies pursue. In the absence of similar historical legacy or institutional experience, Swedish and US policymakers were open to experiment with Keynesian Macroeconomic policies and to embrace the changes these policies bring about.

The state-centric view also emphasizes how political dynamics and competition between bureaucrats shape social policies (Hecló, 1974). A study of Chinese urban basic health insurance programs analyzes how political competition between different bureaus and conflicts between central and local bureaucrats have shaped the health insurance system of the country (Duckett, 2003, 2004). Another study of Chinese pension system examines how the policy preferences of the central reformers and local officials have diverged over the unification of the Chinese pension system. It further shows how the

bureaucratic conflict between the central reformers and local officials in collusion with local economic elites resulted in the fragmentation of the Chinese pension programs (Frazier, 2010).

The state-centric view also shows how diverging welfare preferences and interests of state actors often result in different patterns of policy implementation and uneven level of enforcement of social policies. A study of the Argentinian national food program shows how local politicians implemented the program differently depending on their reliance on support from the poor constituents, the main beneficiaries of the food program (Weitz-Shapiro, 2012). In South American countries, local politicians have strategically varied the enforcement level of the regulation on street vendors depending on the extent to which they need support from those who benefit from the lax enforcement of the regulation (Holland, 2015). In doing so, it improves our understanding of cross-regional variation in the development of social policies and the variation across social policy areas (Mares and Carnes, 2009).

The role of state bureaucrats as agenda setters and stakeholders may loom even larger in developing nondemocracies where institutional mechanisms to represent individuals' interests are less developed. Despite the relevance of the state-centric view in updating our understanding of social policies in authoritarian regimes, a vast majority of the studies with the state-centric view is still by and large developed in context of (emerging) democracies. To better understand the under-explored dynamics behind sub-national variation in the development of welfare policies and the variation across social policy areas in developing non-democracies, a closer look at the changing bureaucratic incentives is further required.

2.2.4 Summary

This section reviews how previous literature explains development of different social policies and discusses what approach(es) can provide the most adequate explanation for sub-national variation in welfare regimes and social insurance development in China. Like in many other societies, structural changes generate a demand for new types of social policies and reshape welfare preferences of different political actors—such as Chinese workers of different labor market positions, Chinese employers in different industrial sector, and state actors of different bureaucratic levels. The changing power dynamics between the state, business, and workers may also explain increasing demands for social security and the increased role of the central government in welfare provision. Yet, China is an authoritarian country where institutional representation mechanisms are weakly developed, if not are suppressed. Coalitions among workers (or employers) of similar welfare preferences or cross-class coalitions may not have an explicit or clear impact on social policy development in China.

In the Chinese context, the political and incentives of state-actors, namely the bureaucratic incentives of central and local policymakers, play an even more decisive role in explaining the divergent patterns of development of a social insurance program. A fragmented bureaucratic structure, decentralized fiscal system, and the historical institutional legacies have further fragmented Chinese local policymakers' welfare interests and preferences.

Yet Chinese local political actors' welfare interests and preferences are not static. Rather, their preferences and interests change and reshape as they experience major structural changes in their economy. In this regard, I adopt the state-centric approach combined with structural view as the most appropriate theoretical framework to understand sub-national variation in Chinese localities.

Before discussing how structural changes have reshaped the welfare preferences of Chinese local states, it is necessary to explore what bureaucratic incentives authoritarian leaders have in providing welfare benefits to workers in the first place. The section below discusses why and under what condition authoritarian leaders are incentivized to protect workers despite the fact that workers under authoritarian regimes lack suffrage to select or remove authoritarian leaders from their offices.

2.3 Authoritarian Welfare Provision: Who Distributes Welfare Benefits and Why?

2.3.1 Authoritarian Incentives for Welfare Provision

To understand welfare interests and preferences of authoritarian state leaders, it is necessary to understand why and under what conditions authoritarian leaders provide welfare benefits to citizens in the first place. Unlike political leaders in democracies, authoritarian leaders are known to be constrained less by public demands or electoral competition. Insulated from the median citizens, leaders in non-democracies are believed to be able to ignore demand for more social spending and to spend less on social spending ([Nooruddin and Simmons, 2009](#)). For this reason, many argue that non-democracies will have less extensive and generous social policies than democracies. Indeed, empirical evidence suggests that democracies are better than non-democracies in providing particular social insurance programs and welfare benefits ([Acemoglu and Robinson, 2006](#); [Ansell, 2010](#); [Boix, 2003](#); [Lake and Baum, 2001](#); [Przeworski et al., 2000](#)).

A new variation of the literature, a so-called selectorate model, further theorizes the reason why authoritarian states are less likely to provide public welfare than democratic states ([Buono de Mesquita et al., 2003](#)). According to the theory, a society is composed of

three groups—the winning coalition, selectorate, and the rest. The winning coalition is a group of individuals whose support is necessary for a ruler to attain power. The winning coalition is a subset of the selectorate—a subset of population with a power to select and remove political leaders of a society. Those who do not belong to the selectorate group (and the winning coalition) are assumed to be largely irrelevant for the political fates of leaders. Leaders of any regime types, both democracy and autocracy, are indistinguishable in that they pursue the same goal—to maintain their power in office—and in that they can achieve this goal by ensuring loyalty of a subset of population—the winning coalition. The only factor that separates democracy from non-democracy is the size of winning coalition and selectorate. Due to the large size of the winning coalition, it is cost-efficient for democratic leaders to use public goods to buy support from their winning coalition. Autocracies, on the other hand, have a smaller winning coalition. Autocrats find it more efficient to reward the small winning coalition members selectively by using private goods than to provide them with public goods. In other words, the institutional framework in autocracies disincentivizes authoritarian leaders to provide public goods to a broader segment of society.

Against the common expectation, however, empirical evidence shows that some authoritarian states strive to provide public welfare and expand social coverage. Empirical evidence finds that non-democracies are no worse than democracies in providing certain type of social insurance benefits, such as pensions ([Knutson and Rasmussen, 2017](#)). History also attests that the first major welfare state emerged in non-democracies, prior to the wave of democratization ([Esping-Andersen, 1990](#)). These studies show that the threat against authoritarian regimes comes not only from elites (winning coalition) but also from the below through social unrests and mass mobilization. Authoritarian leaders concerned about regime stability and the potential of mass upheaval are incentivized to provide public welfare to a broader segment of society ([Acemoglu and Robinson, 2006](#);

[Bueno de Mesquita et al., 2003](#); [Svolik, 2013](#); [Gandhi and Przeworski, 2006](#); [Kim and Gandhi, 2010](#); [Wintrobe, 2000](#)).

While the literature remains inconclusive about whether the threat against the regime comes mainly from the winning coalition or from the below, most of studies of authoritarian welfare provision agree that autocrats' concern for regime survival and their incentives to remain in power is the main motive behind autocrats' provision of public welfare. The underlying assumption is that authoritarian state actors are unitary in a sense that they have identical and homogeneous preferences in regard to different social policies.

Yet the authoritarian state is made up of different actors with different policy goals and incentives, just like democracies are. While regime stability and political survival are the shared goal pursued commonly by state actors at every level and position, this is not the sole factor that shapes authoritarian state actors' policy preferences and interests. Their policy preferences and interests differ widely depending on the political institutions, historical legacies, and local contexts they are embedded in. In Russia, for example, some local governors tolerated or even mobilized labor protests as a way to attract an attention from the central governments so that they could secure more fiscal transfer ([Robertson, 2007](#)). This shows that local state actors in non-democracies do actually have their own interests and preferences, which at times may challenge regime stability. In political settings where fiscal and political structures are decentralized, the political influence of local actors can loom even larger. In Venezuela, for example, local governors have played a decisive role in distributing land and implementing the land distribution policies. The extent to which the center's policies are accomplished has varied widely depending on how local governors enacted the policies ([Albertus, 2015a,b](#)).

2.3.2 The Chinese State: Fragmented Political Structure and Diverging Welfare Preferences

China provides another example of state actors having heterogeneous views and preferences on welfare systems and social policies. The Chinese bureaucratic structure is fragmented between the center and local levels. While the central government decides the general direction of policies and regulations, it is the local state actors that tailor the central directions according to local conditions and implement the policies in practice (Lieberthal and Oksenberg, 1990). In this process, Chinese local states breed their own policy preferences, which at time are against those of the central government.

In designing and implementing social policies, preserving regime stability is undeniably an important shared goal between Chinese central and local state actors. Yet, unlike the simplified prediction of the previous literature, Chinese local policymakers are not solely motivated by the goal of preserving regime stability. As much as it is an important goal for them to preserve regime stability, local state actors are also motivated to maximize local interests at the expense of the others. This self-interested development strategy of local governments often comes into conflicts with the central government's policies that pursue common interests of the Chinese society as a whole.

The long-delayed establishment of unified social insurance system epitomizes how policy preferences between the central government and local state actors diverge. As the society is aging rapidly and social instability coming from incomplete social safety net looms larger, the establishment of unified social insurance system has become an important political task for the Chinese central policymakers to preserve their power and regime stability. Yet, the Chinese local governments have vehemently resisted the central government's attempt to integrate the social insurance system. The decentralized fiscal system started since 1994, localized citizenship institutions (*hukou*) in China, and

the recent reform of the hukou system have all incentivized local state actors to delay the unification of the social insurance system.

The decentralized fiscal system had each sub-national government collect and manage tax revenues independent from the intervention of upper-level governments. Social insurance funds sent to the local social pooling system has been one of the most importance sources of local extra-budgetary revenue. Local state actors' reluctance to lose their grip on social insurance funds has incentivized them to resist the central government's attempt to centralize the pension fund management. Localities with sound fiscal structures have resisted the centralization of the pension fund even more vehemently as it implies that they have to share the social burden of poorer and underdeveloped localities with less sound fiscal structure and that they would pay out social insurance balance for the poorer localities (Frazier, 2010; Lin, 2015). Despite the benefits that the integrative social insurance funding management system would bring for the regime stability, self-interested local state actors in developed areas have little incentive to cooperate with the central government to build an integrative social insurance funding system.

The competition between different subnational units has also complicated the unification of the Chinese social insurance system. A high level of regional inequality in China incentivized Chinese local officials to cultivate local protectionism and favoritism in enacting social policies. The localized citizenship institutions, defined by the hukou system, have made Chinese local officials prioritize locals over non-locals in providing welfare benefits (Wang, 2005; Wang et al., 2015). The local welfare protectionism and chauvinism have been intensified with the recent reform of the hukou policy that made the possession of local resident status a pivotal criterion for welfare entitlement (Shi, 2012). Worrying that the return of non-local workers to their hometown would result in their loss of social insurance funds, localities relying heavily on non-local workforces have become the main opponents of the regional integration of the social insurance funds

(Lin, 2015; Lin and Tussing, 2016). A detailed discussion on how the central-local relations, decentralized fiscal system, and political legacies have shaped local politicians' welfare preferences and consolidated the current fragmented pension system will follow in Chapter 3 of this dissertation.

2.3.3 Summary

The literature on authoritarian welfare provision provides an important insight regarding why authoritarian leaders are motivated to provide welfare benefits to those who have no power to affect their political fates. Preserving regime stability and preempting social unrest are the most important motivation behind the authoritarian provision of welfare benefits to those who do not have political power. However, authoritarian leaders are far from unitary actors. Authoritarian state actors of differential positions and administrative levels have heterogeneous policy preferences. Their policy preferences and interests vary widely depending on their positions and institutional constraints they are embedded in. While preserving regime stability through welfare policies is the shared goal of most authoritarian leaders, it is not the sole driver behind authoritarian welfare politics. Different state actors may have different ideas and preferences regarding whom to coopt, what benefits to provide, and how to distribute the benefits to better achieve the shared goal.

In China, for example, preserving regime stability is the utmost political goal for both central and local leaders. Yet, due to the fragmented political structure and political legacies that define their interests, such as the hukou system and decentralized fiscal system, local leaders have different political goals and preferences than central leaders in designing welfare programs and implementing them. The varying welfare preferences and diverging local conditions have also complicated the coordination across different local actors, delaying the unification of social insurance systems of the country. The

goals and preferences of local state actors are not necessarily against their shared goals of preserving regime stability. Yet local leaders' failure to coordinate with other localities or their incomplete compliance with the central regulation may also result in the destabilization of the regime.

2.4 Whom to Benefit?

In general, authoritarian states are less universal in welfare coverage than democracies (Bueno de Mesquita et al., 2003; Knutsen and Rasmussen, 2017). Many authoritarian states coopt a smaller portion of population through exclusive yet generous benefits. Yet other authoritarian states incorporate a broader segment of society by providing shallow benefits widely. How do authoritarian regimes decide whom to coopt through social provision and whom to exclude? What explain the changing scope and configuration of welfare beneficiaries under authoritarian regimes?

A variant of the selectorate theory proposes a way to understand why some authoritarian leaders extend the scope of welfare provision to a broader segment of society while others maintain narrow and exclusive welfare regime. The key to distinguish the two types of autocrats lies in the relative size of winning coalition to the size of selectorate. The theory posits that members of winning coalition are replaceable with any members from the pool of selectorate. Replacing winning coalition members becomes harder as the size of winning coalition relative to the size of selectorate increases. Leaders with a smaller size of selectorate find it harder to replace winning coalition members than autocratic leaders with large selectorate. Knowing it is hard to buy support from their winning coalition members, autocrats with smaller selectorate will need more resources to be used to reward their winning coalition members. Autocrats in need of more resources, then, expand social services and the scope of social provision to a broader seg-

ment of society in order to increase the general social productivity. The increased social productivity achieved through a broader provision of social welfare helps autocrats hold their grip on power by buying support from their winning coalition members ([Bueno de Mesquita et al., 2003](#)).

As succinct as the theory seems, this theory has limitation in explaining the changing configuration of welfare beneficiaries in authoritarian regimes. First, it is hard to define who constitutes the winning coalition, selectorate, or the rest (non-enfranchised) in authoritarian regimes. In democracies where universal suffrage and electoral rules have long been institutionalized, the concept of winning coalition or selectorate can be defined in a relatively straightforward way. In authoritarian contexts, however, election is not the only path through which leaders are removed and retain the power. Many authoritarian leaders around the world have been removed by various non-institutional mechanisms, such as mass uprising or assassination. This unexpectedness and vicissitudes of leader selection (removal processes) make the distinction between selectorate, winning coalition, and the non-franchised blurry ([Gallagher and Hanson, 2015](#)). The murkiness of leader selection and removal processes in authoritarian regimes renders the selectorate theory less applicable in explaining who authoritarian leaders try to coopt using social policies and when they extend the scope of welfare beneficiaries.

Relatedly, the actual beneficiaries of authoritarian welfare programs do not often align with the concept of selectorate or winning coalition. The welfare beneficiaries defined in the literature of authoritarian welfare states, which at times are labeled as critical supporters ([Knutson and Rasmussen, 2017](#)) or pivotal supporters ([Mares and Carnes, 2009](#)), roughly approximate the concept of winning coalition in the selectorate theory in that they are the group of individuals whose support is critical for the regime and leaders' political fates. Yet not only are these welfare beneficiaries conceptually

different from either winning coalition or selectorate, the configuration of authoritarian welfare beneficiaries varies widely across different authoritarian welfare regime.

These welfare beneficiaries consist of heterogeneous groups of individuals, ranging from land owners, civil servants, former army veterans, waged workers, business owners, and industrial workers (Knutsen and Rasmussen, 2017; Mares and Carnes, 2009). The Chinese welfare regime has provided exclusive and selective welfare benefits to urban (state-sector) workers at the expense of rural workers. Namely, the selectorate theory does not sufficiently explain which subgroups of authoritarian society are blessed with welfare provision and why they have become the target of authoritarian welfare cooptation.

I provide an alternative theoretical framework to understand why and under what condition authoritarian states coopt different types and scopes of subgroups as welfare beneficiaries. Before providing the theoretical framework, the subsection below reviews how the configuration and scope of welfare beneficiaries differ across two distinctive authoritarian welfare regimes—the narrow and collusive welfare regime versus the broad and fragmented welfare regime.

2.4.1 Coopting the Privileged: Collusive Welfare Provision Strategy

Many authoritarian leaders use restrictive welfare cooptation strategies that funnel resources to a small number of privileged groups of society, while preventing the resources from being wasted to the irrelevant groups (Knutsen and Rasmussen, 2017; Mares and Carnes, 2009). This narrow, selective, and exclusive provision of rents in a form of welfare benefit ensures these privileged groups' loyalty to their leaders. This narrow welfare regime targets groups possessing economic power and resources and establishes a collusive relationship between the regime and the welfare beneficiaries. While each authoritarian regime may have different economic 'insiders' depending on their economic

structures, wage earners in formal sector, also known as labor market insiders, have been one of the core groups commonly targeted by many authoritarian leaders. In Latin America, wage earners in the formal sector have been provided generous welfare benefits including pension, health benefits, and employment insurance (Mares and Carnes, 2009). While the autocrats in this region were not hesitant to reduce their spending on welfare programs that mainly affect the lower-income class and precarious workers, they were more cautious about cutting their spending on social security and welfare spending designed for these labor market insiders (Huber et al., 2008). The government of Taiwan in the 1950s instituted a system that selectively and exclusively benefited workers coming from mainland China, at the expense of Taiwan-native workers (Mares and Carnes, 2009). In Brazil and China, as well, formal sector workers have been the key beneficiaries of the generous welfare programs (Dillon, 2015). Various social institutions and laws developed in these societies have also consolidated the narrow inclusivity of the welfare system. The Chinese Labor Contract Law (LCL), for example, ensures one of the highest level of protection for workers and high legal standards, but this high level of protection is available only to those who have signed labor contracts—formal workers (Gallagher, 2017).

These privileged welfare beneficiaries under the narrow collusive authoritarian welfare regime are conceptually far from the selectorate in democracies in a sense that they do not necessarily possess institutional power to choose or remove leaders. Nevertheless, authoritarian leaders still have incentives to reward this group of population with generous welfare benefits. Although these individuals lack electoral power to remove or choose leaders of a society, they are political insiders with a legitimate membership in a geographically delineated political community. It is hard for authoritarian leaders to achieve their political or economic goals without earning implicit or explicit support from these individuals. The Peruvian government, for example, has coopted middle-

class rural laborers with land redistribution, not because they have electoral power to remove the leaders from office but more because these groups had the greatest capacity to organize anti-regime resistance (Albertus, 2015a). Their economic power, strengthened by the state's exclusive provision of rents and welfare benefits, further corroborates their position as political insiders.

The collusive relationship formed between the state and welfare beneficiaries helps authoritarian leaders ensure regime stability most efficiently by inducing welfare beneficiaries to moderate their demand for better working conditions, higher wages, collective power of labor. In Brazil and China, for example, the privileged workers blessed with the generous welfare programs have turned into the main opponent of welfare expansion for labor market outsiders rather than become leaders of a labor coalition for further redistribution and labor collective rights (Dillon, 2015). Coopting these workers with generous welfare benefits and making them as privileged insiders have been efficient and beneficial for many authoritarian leaders.

2.4.2 Embracing the Underprivileged: Broader yet Modest Welfare Provision

While the narrow and targeted welfare provision strategy is commonly observed in many authoritarian regime, some authoritarian regimes embrace a broader segment of society rather than narrowing down the beneficiaries of welfare programs to those who have power in labor market. A growing number of authoritarian states has started to design welfare programs that can encompass to a broader segment of society that includes the poor, (rural) precarious workers, low-income families, and various forms of labor market outsiders. The Chinese central government, for example, has recently introduced redistributive programs and social protection measures for the urban poor,

who have been widely excluded from the existing welfare system (Hurst, 2011). Chinese local governments in underdeveloped regions have particularly striven to develop social insurance programs for lower-income families and those with unstable employment position (Ratigan, 2017).

In contrast to the narrow and collusive welfare regime that ensures the exclusive seizure of welfare benefits by the privileged group, the broader yet modest welfare regime allows proliferation of different organizations and subgroups distributed across various economic, political sectors. Due to the heterogeneity of these groups, states are required to accommodate widely different welfare needs. Accordingly, social policies in this broader yet modest welfare regime are less coordinated and more fragmented than those in the narrow collusive welfare regime (Mares and Carnes, 2009). In China, the introduction of the residency-based social insurance program has added a new layer to the existing welfare system predominantly built on the employment-based social insurance programs. This has led to the dualization of the Chinese social insurance (pension) system, although the extent to which the new layer of social insurance system replaces the existing employment-based social insurance system varies across localities.

The use of this broader and fragmented welfare provision strategy does not, however, mean that the privileged welfare beneficiaries under the existing narrow collusive welfare regime are excluded from the welfare system. The welfare proliferation model continues to coopt the existing privileged beneficiaries, while it introduces a new layer of program that embraces and benefits those who have been excluded from the existing narrow collusive welfare model. In China, for example, formal sector workers are still enjoying their privileged position, although the type and contents of welfare benefits have changed a lot. While Brazil in the early 1970s has extended social security entitlements to rural workers and informal workers, these new beneficiaries of welfare

programs are provided with shallower welfare benefits than the welfare beneficiaries under the existing narrow welfare regime ([Haggard and Kaufman, 2008](#)).

2.4.3 Theoretical Framework: Politics of Welfare Inclusion and Exclusion

As discussed, authoritarian leaders use divergent welfare provision strategies and benefit different groups of population using their social policies. Yet the question of why some authoritarian governments choose welfare provision strategy based on narrow and collusive cooptation while others adopt broader, fragmented, yet shallow welfare provision strategy has not yet been sufficiently addressed ([Mares and Carnes, 2009](#)).

[Mares and Carnes \(2009\)](#) suggest that the membership of the pivotal supporters, which approximates the concept of winning coalition in the selectorate theory, can explain variation in authoritarian welfare provision strategies. They contend that narrow and collusive welfare provision is likely when political leaders are brought to power by a narrow coalition of interests whereas leaders brought to power by a broad coalition of interests are likely to pursue broad and fragmented welfare provision strategy. Yet this explanation does not account for changes in welfare provision strategies in authoritarian regimes in which institutions for bottom-up coalition formation are only weakly developed.

I further develop a theory of authoritarian welfare inclusion and exclusion by arguing that it is the changes in the membership composition, rather than the changes in size, of political insiders that explain the variation in authoritarian welfare provision strategies. Political insiders indicate those who have right to political representation or participation in a geopolitical community. It is important for state actors to earn the explicit or implicit support from political insiders and contain grievances from them by rewarding them

with various welfare benefits. In this regard, the concept of political insiders remotely approximates the concepts of winning coalition or pivotal supporters. Yet contrary to the two other concepts, political insiders do not necessarily have direct power to select or change the leaders. State actors can be held accountable to political insiders even in the absence of electoral mechanisms if they can govern more stably and improve their career trajectories by holding accountability to political insiders.

Each political insider may have varying policy preference and interest depending on their socioeconomic status. Hence, changes in the composition of political insiders have a direct impact on welfare preferences of the political insiders. The importance of membership composition of insiders has also been suggested by earlier studies built on the selectorate theory. [Milner and Kubota \(2005\)](#), for example, suggest a possibility that the enlargement of the selectorate influences welfare provision strategies not just because it changes the relative size of winning coalition to the selectorate but because it allows representation of more diverse interests and thereby expands policy options for leaders. [Steinberg and Shih \(2012\)](#) contends that varying interests, not the size or proportion, of the local selectorates (or constituents) explains different levels of political support for the undervalued exchange rates.

Structural changes, such as labor informalization and labor migration, play a significant role in shuffling the membership composition of political insiders by altering the labor market status of political insiders. Depending on the extent to which political insiders overlap with labor market insiders—those workers with secure employment positions ([Rueda, 2006](#)), authoritarian state actors are incentivized to take different approaches in embracing political insiders. When political insiders largely overlap with labor market insiders, authoritarian leaders use the exclusive yet generous welfare inclusion strategy to embrace political insiders who also have labor market competitiveness. When political insiders overlap less with labor market insiders, authoritarian leaders

use a broad, diversified, and fragmented welfare inclusion strategy to embrace political insiders who lost their positions as labor market insiders.

As discussed, one of the main welfare beneficiaries under many narrow and collusive authoritarian regimes has been the group of wage workers in the formal sector. In many of these welfare regimes, the concept of labor market insider has been inseparable from the concept of political insider. The high level of overlap between individuals with political power and individuals with labor market power has incentivized state leaders to concentrate the generous welfare benefits to this small number of insiders equipped both with political and economic resources.

The spread of informal and precarious employment position, however, has shattered the overlap between labor market insiders and political insiders. Political insiders could no longer be equated with labor market insiders. The dismantling of the overlap between political and labor market insiders has pressured state actors to develop a new welfare provision strategy. To embrace political insiders but who lost their positions as labor market insiders, many states have developed more encompassing welfare programs. A large number of Latin American states, for example, have either developed universal social insurance programs or even shifted the narrowly targeting employment-based social insurance program to universal social insurance program as they experience labor informalization ([Carnes and Mares, 2013a, 2015](#)).

The increasing labor mobility has also smashed the long-maintained overlap between economic and political insiders. Some scholars have predicted national welfare states to be incompatible with the free movement of labor ([Freeman, 1986](#)). The free movement of labor across borders and growing labor immigration have challenged the concept of closed welfare states based on national citizenship ([Bommes and Geddes, 2003](#); [Matten and Crane, 2005](#); [Rose, 1996](#)). With the influx of immigrant workers in the labor market, labor market insiders could no longer be equated with political insiders. Whether to

grant an equal access to welfare programs to non-citizen workers has become a critical political issue in many parts of world including Europe and the United States.

Labor mobility has also influenced how a state experiences and responds to labor informalization. With the growing level of labor mobility across borders and influx of immigrant workers, some states could externalize the shock of labor informalization to (im)migrant workers—political outsiders. As informal jobs are passed on to non-citizens, most political insiders in these societies could maintain their positions as labor market insiders. As the overlap between political insiders and labor market insiders remains intact, state actors have found little incentive to broaden their welfare coverage to embrace labor market outsiders who are not political insiders. Instead, these societies have consolidated the narrow and exclusive welfare provision strategy, further demarcating the distinction between (political and labor market) insiders and outsiders.

In other words, structural changes can alter welfare inclusion and exclusion strategy by transforming the membership composition of political insiders. In society where political insiders are hit by labor informalization and fail to maintain their positions as labor market insiders, the narrow collusive welfare provision strategy cannot persist. In this case, state actors incorporate a broader segment of society in to the welfare system by introducing new social policies that embrace labor market outsiders. In societies where the shock of labor informalization is externalized to those who have no political membership in the community—political outsiders, state actors have little incentive to broaden the coverage of welfare programs.

2.5 Understanding Chinese Local Welfare States

I argue that Chinese local governments develop different pension expansion strategies depending on the membership composition of political insiders. Localities in which

political insiders maintain their positions as labor market insiders and a large number of labor market outsiders can be expelled at the local state's will, a narrow yet generous pension regime centered on the employment-based pension program develop. Conversely, localities in which political insiders are dispersed across different labor market sectors develop a broader yet modest pension regime centered on the residency-based pension program in order to embrace labor market outsiders who are still political insiders.

Chinese locally delineated citizenship institution, defined by hukou system, is the key to understanding why localities develop different welfare inclusion strategies and who constitutes political insiders and outsiders in Chinese local contexts. In the Chinese context, "local" residents are political insiders of a geopolitical community who have implicit yet important political influence on local governance. Not all individuals residing in a locality are called as "local" residents. In order to be recognized by local authorities as "local" residents, one should possess local household registration (hukou). Local residents in China are, obviously, different from democratic constituents in that they do not have electoral power to change or select the leaders. Nevertheless, the top-down political incentives have made Chinese local state actors held accountable to local residents. Local authorities and bureaucrats bear the primary responsibility to minimize the social turbulence coming from local residents and to take care of the residents in their jurisdictions. How local state actors improve local residents' livelihood has become an important factor the central government cares in evaluating local state actors' performance (Lin and Tussing, 2016; Manion, 2014). It has also affected the political legitimacy and trusts in the local state institution (Dickson et al., 2016; Woodman, 2016).

The locally delineated citizenship institutions, however, have exempted local state actors from paying social costs for the livelihood of non-local workers—workers employed in their jurisdictions but without having local hukou. Non-local workers are political

outsiders in that they have been denied any implicit or explicit right to political representation or participation in their hosting localities (Friedman, 2017). In order to defend their rights and pursue interests, an increasingly large number of non-local workers have initiated collective actions or protests. Yet local authorities have not been proactive in resolving non-local workers' grievances because they could easily expel non-locals their jurisdictions when non-locals cause trouble. Non-local workers cannot be easily accepted as local citizens (or political insiders) even when they have resided and worked in a locality for many years. Even the most inclusive cities have allowed only a small number of elite non-local workers with higher income, stable employment positions, and higher education level to apply for local citizenship (Chan and Buckingham, 2008; Zhang, 2012).

While local state actors are incentivized to respond to welfare needs of political insiders, the composition of political insiders and their welfare needs are subject to change. In China, labor informalization and growing labor mobility have been the two most important structural factors that changed the composition of political insiders and thereby induced the changes in welfare provision strategies.

From the socialist era, China has long maintained narrow welfare states that selectively reward urban SOE workers. Until the economic openness, labor mobility across different locality was strictly constrained in China. Most workers in urban area were employed in state-owned sectors. In this regard, most Chinese workers were labor market insiders and political insiders at the same time. The narrow welfare provision strategy ensuring support from the privileged worker group has helped Chinese (local) state actors maintain their political legitimacy for a long period of time (Dillon, 2015). While non-local migrant workers or workers employed in informal sector were largely excluded from the social welfare system, their exclusion did not actually threaten local social stability. There was little pressure for inclusion or expansion of welfare coverage as these

outsiders had yet not gained the sense of what and if they were excluded from (Dillon, 2015).

Labor informalization and growing labor mobility have shattered the long-maintained overlap between political and labor market insiders. The rise of the private and informal economy has dislodged the concept that all local residents (political insiders) are labor market insiders. Labor informalization has made local state actors decide whether to develop a new social welfare system that embraces labor market outsiders (informal workers) or to stick with the existing exclusive welfare system for labor market insiders (formal workers). Local state actors in Chinese inland provinces, for example, have chosen to develop social insurance programs that cover the growing number of labor market outsiders and provide welfare benefits that protect them from the worst poverty. Many political insiders (local workers) in these regions lost their positions as labor market insiders. For state actors in these localities, abandoning or expelling the growing number of labor market outsiders from the local welfare regime has not been an option to consider.

The increasing labor mobility across localities has also affected local state actor's welfare provision strategy in two important ways. First, labor mobility has alleviated social burdens associated with labor informalization for labor importing localities located mostly in Chinese coastal area. Thanks to the large influx of non-local migrant workers, localities in Chinese coastal area could protect their local workers (political insiders) from the shock of labor informalization. A large portion of informal jobs are passed onto non-local workers who are willing to accept the precarious employment position with worse labor conditions and few employment-related benefits. As local residents (political insiders) maintain their positions as labor market insiders, the existing welfare regime that narrowly targets urban formal workers remains untouched. Moreover, While China has realized freedom of movement for labor power, it has not yet realized

freedom of movement of people as social beings (Friedman, 2017, 17). The localized citizenship institution and exclusive welfare provision strategies allow labor importing provinces deploy non-local workers' labor power for growing informal employment positions but without paying the costs associated with accepting these workers as a social being (Friedman, 2017).

Second, the mobility of workers in coastal cities has given state actors in labor importing localities a political option that they have not had before and their inland counterparts cannot utilize in the near future—to expel labor market outsiders from the local welfare regime. Labor mobility empowers non-local informal workers to threaten the economic stability of the labor importing localities by voting with their feet. Yet labor mobility is a double-edged sword. It also enables local governments to expel non-local informal workers without worrying too much about social ramification or regime stability. The mass eviction of migrant workers in Beijing exemplifies how local authorities can take advantage of the mobility of non-local workers (Shepherd and Thomas, 2017; Zhuang and Cai, 2017). The fact that informal workers are relatively easily replaceable and trained at lower costs also made local state actors less averse to using the option of evicting non-local informal workers. Expelling labor market outsiders is not an option available for state actors in inland provinces where many of these informal workers are still political insiders. Figure 2.1 summarizes how the theoretical framework developed in this dissertation project applies to China case.

Figure 2.1: Development of Two Divergent Welfare Regimes in China



The use of divergent welfare provision strategies helps local governments maintain regime stability by accommodating the need of their local residents (political insiders) in response to changing labor market status. Moreover, the selective and exclusive welfare provision strategy adopted by labor importing localities has also helped local governments selectively attract and retain the type of non-local workers to whom local governments are willing to grant a permission to be political insiders in the long run. It is not a coincidence that those places with the most generous welfare provision are also the places with the highest bar of entry (Chan and Buckingham, 2008; Friedman, 2017). The point-based hukou transfer system adopted by several mega-cities in labor importing areas has also helped localities selectively accept new incoming non-local workers with certain qualifications to become local residents (political insiders). In order to apply for local hukou, individuals have to prove that they have a secure formal employment position, evidenced by the possession of labor contracts, and leases of formal housing. Non-local workers who successfully transferred their hukou and obtained local citizen-

ship in their hosting localities tend to have higher educational attainment compared to those non-local workers without local hukou (Sun and Fan, 2011). A number of medium-sized cities have also implemented policies favoring high-skilled workers at the expense of the low-skilled (Li et al., 2016, 13). The point-based hukou transfer system and labor market policies designed in favor of workers with high skill, stable income and stable employment positions have helped local governments address persistent and growing labor shortage issues and retain the most attractive human capital in their jurisdictions. On the other hand, unqualified and less-productive non-local workers—informal non-local workers or workers living in informal housing—have been effectively prevented from even attempting to earn local citizenship and becoming political insiders of the hosting cities (Friedman, 2017).

Ironically, these locally diverging welfare inclusion policies challenge the central government's attempt to stabilize the regime by unifying the overly fragmented Chinese welfare system. In fact, local governments' use of diverging welfare inclusion strategies is not solely driven by their concern for regime stability. Another important motivation behind the locally diverging welfare inclusion strategies is local government's fiscal and economic interests. The use of divergent welfare strategies and fragmentation of social insurance system enable local governments to keep their grip on social insurance funds and tailor the type of workforce best needed for their local economy.

2.6 Conclusion

This chapter elucidates local variation in authoritarian welfare regimes by adopting a state-centric view in the context of dynamic and changing structural conditions. The state-centric view provides an important and relevant insight in understanding welfare policies in authoritarian regimes where state leaders are relatively insulated from the

pressure from social actors with diverging welfare preferences. While authoritarian state actors' preferences and interests play a decisive role in designing social policies, their preferences and interests are neither unitary nor static. Their preferences and interests are influenced by the structural changes they experience. Massive changes in the labor market structure and economic conditions affect how these state actors construct welfare regimes and whom they want to include in or exclude from their social welfare system.

I argue that structural transformation alters authoritarian state actors' welfare provision strategy from a narrow and collusive one to a broad yet modest one. It does so by reshuffling the composition of political insiders to whom authoritarian leaders are held accountable. Labor informalization and labor (im)migration change the membership composition and welfare preferences of political insiders by influencing the extent to which political insiders overlap with labor market insiders. When political insiders overlap largely with labor market insiders, authoritarian leaders coopt this narrow groups of insiders using collusive and exclusive social policies. When political insiders lose their position as labor market insiders due to labor informalization, authoritarian leaders use welfare programs that can encompass labor market outsiders who are still political insiders. Growing labor mobility, however, can influence the extent to which political insiders are hit by labor informalization. When the growing number of informal employment positions can be outsourced to (im)migrant workers who have little right to political representation or participation, state actors have little incentive to reform the existing exclusive, employment-based welfare distribution mechanism.

This framework helps us better understand the local variation in Chinese welfare regime and the reason why local fragmentation persists despite the Chinese central government's attempt to unify and centralize the welfare system. Labor informalization and labor mobility are the two most important changes that have affected local state actors' welfare provision and inclusion strategy. Labor informalization has forced local actors

to decide whether to develop a new welfare system that would coopt informal workers or to stick with the exclusive welfare regime designed for formal workers. Growing labor mobility and influx of non-local workers has enabled some local governments to evict unproductive workers instead of embracing the growing number of labor market outsiders into the social welfare system.

Evicting labor market outsiders has not been an option for local state actors in Chinese inland localities. It is politically risky for them to ignore economic outsider who are still by and large political insiders (local residents). For these reasons, local governments in inland China have responded to labor informalization by developing social insurance programs that embrace the growing number of local informal workers—political insiders who no longer are labor market insiders. Non-local (informal) workers, however, are left uninsured even this broader and modest welfare regime. To the contrary, Chinese coastal provinces have consolidated the existing narrow welfare regime based on the employment-based social insurance program. Thanks for the influx of non-local migrant workers, they could protect their local workers (political insiders) from the shock of labor informalization. As local residents (political insiders) maintain their positions as labor market insiders, the existing welfare regime that narrowly targets urban formal workers remains untouched. The mobility of non-local (informal) workers has enabled local state actors to evict them when necessary, instead of developing a system that embraces the growing number of non-local informal workers into the local welfare system. As a consequence, local welfare regimes in China have become further fragmented across regions. This fragmented welfare system, however, has helped local governments hold their grips on social insurance funds and tailor the type of workforce best needed for their local economy.

Among many social policy areas, pension is the social insurance program where local state actors' fiscal, economic, and political interests are most intensively intertwined. The

next chapter describes how the Chinese central and local actors' interests and preferences over the Chinese pension system have changed and evolved as the country experience major institutional and structural changes.

Chapter 3

How the Central-Local Relationship Shaped the Chinese Pension System

3.1 Introduction

The Chinese pension system, among many other social insurance programs, is the best example to showcase how major structural changes—such as market reform, growing labor mobility and labor informality—affect the policy preferences of central and local state actors and thereby constrain the way social policy develops and evolves. The Chinese central government has long attempted to build a unified and centralized pension system. The central government’s attempt, however, has not been successful due to the resistance of the local state actors and the rampant principal-agent problem. Local state actors have resisted and delayed the central government’s attempt to centralize the pension management system.

While it is the central state that designs the general guideline and structure of the social insurance system, it is the local state actors who implement and enact social policies in practice. Local state actors range from bureaucrats at social security bureaus or labor

bureaus at city level to policymakers at the provincial level. While the specific policy preferences and interests can differ across their personal profile, local state actors as a whole have some shared interests and incentive structures. First, local state actors have career incentives to be held accountable to local residents by upper level governments. Maintaining social stability, providing welfare benefits, and increasing local employment rates are important tasks for local state actors. They perform these activities not so much because they need support from local residents. They do so rather because these activities are evaluated by the upper level government and influence their career trajectories (Lin and Tussing, 2016; Manion, 2014). The central government's recent emphasis on social security has made the expansion of pension coverage as an important career goal for local state actors (Lin and Tussing, 2016). Second, local state actors are revenue maximizers. Local state actors' interests to maximize their revenues often create a conflict with their incentives to comply with the central mandate and to be held accountable to local residents. When it comes to pension expansion, for example, local state actors have delayed the centralization of the pension pooling system to the upper level so that they can hold their grip on local pension revenues (Frazier, 2010).

While local state actors do not have power to change the general structure of the social insurance system, they can strategically choose how to implement the social insurance policies to accomplish their goals which are not always compatible with each other—showing off their accountability to local residents by increasing social insurance coverage and maximizing their revenues. The delayed unification of the Chinese pension system, the fragmented pension structure, and the regionally varying coverage of pension programs cannot be fully explained without discussing the interests of local state actors and their interaction with the Chinese central government.

Why have Chinese local state actors delayed the central government's attempt to build a unified pension system? How has the struggle between the central-local govern-

ments affected the structure of the current Chinese pension system? What structural and institutional conditions have empowered local governments to resist the central government's pension plan? This chapter addresses these questions by tracing the changing central-local dynamics in the process of the Chinese pension reform.

The chapter is organized as follows: the next section discusses how the Chinese pension system has been restructured since the 1990s until now. This section discusses how structural changes—such as the restructuring and dismantling of the SOEs in the 1990s, growing labor mobility and marketization in the 2000s, and the increase in the size of insecure population and the shift of development strategy in the 2010s—have affected the interests and policy preferences of Chinese central and local state actors. The next section provides an overview of the institutional setup of the current Chinese pension system. This section discusses how the current system, featured by its high level of local fragmentation, departs from the universal and centralized pension system that the Chinese central government has aimed to build. The next section elucidates how existing institutions and political legacies have shaped local governments' policy preferences regarding the pension system and how these institutions enabled local governments to consolidate and maintain the locally fragmented dual pension regime against the Chinese central government's attempt to centralize the pension system.

3.2 Evolution of the Chinese Pension System: Central and Local Government's Responses to Major Structural Changes

The Chinese economy and labor market have experienced major changes in the last few decade—SOE reform, growing labor mobility, and labor informalization. The central and local state actors in China have cultivated different policy preferences and ideas as they experience such major structural changes. This section traces how the Chinese

pension system has been restructured as the Chinese central and local governments respond to major structural changes and how the central government's pension preference has diverged from those of local governments.

3.2.1 The 1990s: From SOE-based Pension System to Locally Managed Pension System

The market reform started from the late 1980s has alerted the Chinese policymakers to the necessity of the overhauling of the welfare programs, including pension. In the socialist era, each (state-owned) enterprise was mainly responsible for providing welfare benefits, including health care, education, housing, and pension to employees. Pensions, for example, were funded entirely by employers' contribution (3 % of wage bills) while individual employees were not required to make any contribution. As the pension fund was collected and managed at the enterprise level, local governments played a limited role in providing and managing pension benefits. With the market reform and dismantling of SOEs, however, this enterprise-based welfare system could not last. For a successful restructuring of SOEs, it was crucial to shift the social burden placed primarily on enterprises to a public system through the reform of the pension system (Frazier, 2010; Shi, 2011; Whitefold, 2003).

Unlike other countries undergoing similar structural changes, both Chinese central and local policymakers did not support the idea of minimizing the state's roles in providing pension benefits through pension privatization. Both Chinese central and local state actors agreed that the responsibilities of pension provision should be transferred from enterprises to the state. Yet the central and local state actors have disagreed on which level of the state should be mainly in charge of managing the pension system. The Chinese central government and reformers in Beijing tried to build a nationalized

pension system. Chinese local governments, however, have resisted the unification or the centralization of the pension management system.

Local governments resisted the centralization of the pension funds because they needed a full control over the local pension fund to sell-off ailing local SOEs (Frazier, 2010). In the 1990s, dismantling unproductive local SOEs was one of the main political and economic priorities of Chinese local governments. Reform of unproductive local SOEs, however, was a challenging task because most of unproductive local SOEs had no financial sources to compensate their retirees with pension benefits promised under the socialist system. Local governments, in collusion with local SOEs, tried to bail out these unproductive local SOEs by compensating their retirees with the local pension funds (Frazier, 2010, 77). To divert the local pension funds in favor of the ailing local SOEs, local governments strove to hold their grip on the local pension fund by resisting the central government's attempt to centralize the pension system.

The introduction of the multi-pillar system in the pension system has consolidated and empowered local government's control over local pension funds. The multi-pillar system was first introduced in 1991 by the State Council. The basic idea of the multi-pillar system is to share the responsibility of welfare provision between the state, enterprise, and individual workers. The multi-pillar system has fully shaped and replaced all alternative pilot programs in 1997 as the State Council released the Document No. 26, *"Decision of the State Council on the Establishment of a Unified Basic Pension System for Enterprise Employees"* (Salditt et al., 2007)

To share the social responsibility of welfare provision, the multi-pillar system combines the social pooling component funded by employers and the individual account funded by individual workers. While individual worker's contribution is accumulated in the individual account, employer's contribution is pooled at local social pooling system and is managed by local social insurance agencies. With the implementation of the

new system, local governments have been granted with the power to force groups of enterprises to contribute to the local social insurance pool and to manage the pension fund collected at the local level. Local governments have become a pivotal actor in managing pension funds and distributing the benefits (Gu, 2001).

Yet the ambiguity and lack of specificity in the 1991 decision invited a series of policy struggle between the central and local government and bureaucratic infighting between ministries of overlapping authorities (Frazier, 2010; Shi, 2011). First, the 1991 statement did not specify what level of government should manage the social pools. The 1991 decision stated that the fund should be gradually transferred from the current city- or county- level pools into provincial pools. Yet city or county authorities that had already established their own pension funds did not comply with the central directives. The ambiguous statement and the lack of specific directives made it easier for local officials to resist the central government's attempt to upgrade the pooling system to higher levels (Whitefold, 2003). The 1997 regulation once again called for a transfer of county-level pools to the provincial-level, but it was not successful either (Frazier, 2010, 61).

Second, the ambiguity in the 1991 direction invited bureaucratic infighting at the central level between the Ministry of Labor (MoL) and the National Economic System Reform Commission (ESRC) over the proposed composition of the multi-pillar system (Hu, 2012; Shi, 2011; Frazier, 2010).¹ Even before the adoption of the 1991 direction, the MoL and ESRC had long competed over different pension models: The MoL supported the model designed and advocated by the International Labor Organization (ILO) that is centered on the social pooling of pension funds; the ESRC, on the other hand, was attracted to the pension model advocated by the World Bank that emphasizes the role of

¹ These bureaucratic infighting over welfare reform presents in other social insurance programs as well. Duckett (2003), for example, shows how the ministry of finance, ministry of civil affair, and ministry of labor represent the interests of state, enterprises, and urban poor respectively and compete over the design of health insurance policies.

individual accounts in financing pension funds. After a series of struggles, the national policymakers of the [MoL](#) and [ESRC](#) finally compromised by adopting both social pooling and individual accounts, which later evolved into the principle of “*Integrating Social Pools and Individual Accounts*” endorsed at the 14th central committee’s third plenum of 1993 ([Hu, 2012](#)). Yet they continued to struggle over how to spell out the principle endorsed in 1993. The [MoL](#), for example, proposed a Pay As You Go ([PAYG](#)) defined benefit model adopted by Jiangxi and Liaoning where the social pool—social pension funds collected based on priori wages and the number of years a worker had made contribution—becomes the major pillar and the second pillar (individual accounts) become a supplementary pillar. On the other hand, the [ESRC](#) promoted the defined contribution model adopted by Shanghai and Shenzhen where the benefits are calculated mainly based on accumulation in individual accounts (the second pillar).

Rather than centrally imposing what model should be adopted, the State Council’s 1995 regulations allowed the 31 provinces to select one of the two pension financing and benefit arrangements. The discretion given to provinces in choosing one of the two pension reform models has contributed to the further fragmentation of the Chinese pension system ([West, 1999](#); [Whitefold, 2003](#)). In an attempt to retain its control over the pension funds, each municipality government has chosen differing schemes than their neighboring localities, resulting in the further fragmentation of the pension system ([de Coquereaumont, 1997](#); [Shi, 2011](#)). With these changes, local government has been transformed from a passive actor to an active actor who has a power to tailor the central directions regarding social insurance system, to decide the pension reform style, and to rule the qualification of participants of the schemes ([Duckett, 2003](#); [West, 1999](#)).

In the late 1990s, as the number of retirees exploded with the restructuring of small [SOEs](#), scholars and policymakers strongly demanded the abolition of the individual accounts advocated by the [ESRC](#) and the World Bank and a revival of the pure social

pooling system advocated by the [MoL](#) and the [ILO](#). At that critical moment, the World Bank played a critical role in maintaining the individual account against domestic opposition and contributed to the establishment of the 1997 pension system, which became a foundation for the current Chinese pension system ([Hu, 2012](#)).

Lastly, the 1991 decision also did not specify the percentage of wage bills that enterprises would remit to local pension pools and the contribution rate for workers' individual accounts. The decision allowed each local government to set their own contribution rates depending on the local conditions—the number of retirees and [SOE](#) payroll amounts. It was not until 1997 that the Chinese government attempted to standardize the contribution rates. The 1997 regulation placed a ceiling on employee contribution and a floor on individual contribution, at least in theory ([Frazier, 2010](#)). The 1997 regulation made employers contribute a maximum of 17 percent of the wage bill to the defined benefit [PAYG](#) scheme (pillar 1) and individual employees contribute a minimum of 11 percent of their wages to the individual account (pillar 2) ([Holzmann et al., 2012](#)). Later on, the employer contribution rate has increased from 17 to 20 percent while the employee contribution rate has adjusted from 11 to 8 percent.

The Chinese central government in the late 1990s striven to bring greater unity to the Chinese pension system ([Frazier, 2010, 58](#)). Central leaders and reformist, like Zhu Rongji, took a more aggressive stance in moving toward a unified pension system and regulating non-compliance of local authorities ([Frazier, 2010, 59](#)). Yet, in practice, local fragmentation and the lack of coordination between local actors have continued.

3.2.2 The 2000s: Marketization, Growing Labor Mobility, and Further Fragmentation of the Pension System

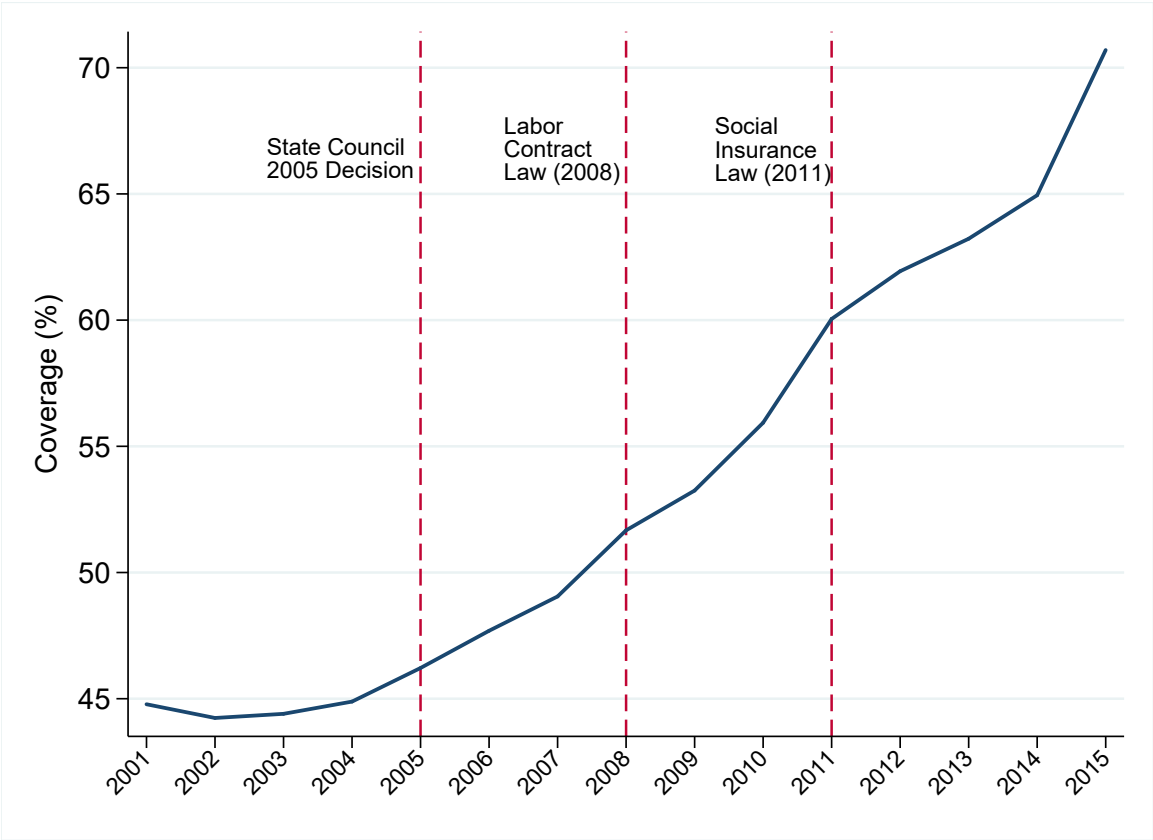
The history of the Chinese pension reform in the 1990s can be summarized as a history of conflict between the central and local governments surrounding how to make a smooth transition to a market economy by compensating laid-off former SOE workers with pension benefits. (Frazier and Li, 2015). In the 2000s, as private enterprises and foreign enterprises have become an important part of the economy, it has become crucial to embrace non-SOE workers into the pension system. The central government updated relevant regulations to broaden the coverage of the social insurance coverage outside the SOEs. Lowering individual worker's pension contribution rate was one of the attempt to increase the pension participant rate. In 2005, the State Council released "*Decision on improving Enterprise Employees' Basic Pension System*", in which the individual contribution rate has been adjusted from 11 % of total wage to 8 % and the employer contribution rate has risen from 17 to 20 percent (Holzmann et al., 2012). In turn, the coverage of the employment-based pension program has improved (See Figure 3.1).²

Yet neither the Chinese central government nor local governments had coherent policy ideas regarding how to (or whether to) incorporate a new group of workers created by marketization and growing labor mobility—migrant workers. By early 2000s, migrant workers became an un-ignorable part of a labor market. Yet little formal and informal institutions have been put in place to protect migrant workers from social and economic instability. Under the Chinese local-citizenship system defined by Hukou, which will be discussed in detail in the latter part of this chapter, migrant workers have had limited access to social security programs. Apart from their families and friends, migrant workers have few informal ties or safety net that they can resort to. Chinese migrant workers'

² Coverage is calculated as a percentage of active participants of the urban employment based pension scheme (excluding retirees) in urban employees.

social security status has become even more unstable as many of them become landless migrant workers. Unlike conventional landholding migrant workers, these landless migrant workers have no last resort for their social security and find it harder to return back to their home localities (Lee, 2016). Hence, failure to incorporate migrant workers into the social insurance system could potentially cause serious social instability. Incorporating this new class of workers into the pension system has become one of the main issues surrounding the pension reform in the 2000s.

Figure 3.1: Urban Employment Pension Participation Rates (2001-2015)



Source: China Labor Statistical Yearbook (various years)

Since the 2000s, the central government has urged local actors to incorporate a growing number of migrant workers into the social safety net (Shi, 2012). Yet, the central

government did not establish nationalized binding regulations about migrant workers' pension participation. Instead, the Chinese central government once again had local governments decide how to incorporate migrant workers into the local pension system. As provincial and city governments issued dozens of divergent local laws and regulations on migrant workers' pension participation, the Chinese pension system has become further fragmented (Frazier, 2004).

Cities like Beijing and Qingdao (in Shandong province) have established a separate pension scheme designed only for migrant workers. To accommodate the lower income of most migrant workers, the contribution rate of this separate pension scheme was set lower than that of the urban employment-based pension scheme (Guo and Du, 2005; Huang, 2008). Provinces and cities like Zhejiang and Xiamen also adopted a similar model in incorporating migrant workers (Nielsen and Smyth, 2008). Other city governments established a comprehensive social scheme for migrant workers that encompasses not just pension but other four social insurance schemes (Watson, 2009).

Shanghai was the first city that established this system. In 2002, the Shanghai government, partnered with commercial insurance companies, announced *Temporary Measures on Comprehensive Insurances for Outsiders Working in Shanghai*. A year later, in 2003, Chengdu established the *Provisional Method on Comprehensive Social Insurance for Non-Urban Hukou Laborers* in Chengdu. This low priced and low benefit system encouraged migrant workers' participation into social insurance programs, but at the same time, has also separated migrant workers from urban local workers.

Both types of migrant incorporation pension scheme were set separately from the existing urban employment-based pension program and were not compatible with the urban employment-based pension scheme. For this reason, the pension fund collected from migrant workers under the two models could not be used to back up the low balance in urban employee pension scheme (Guo and Du, 2005).

Some cities and provinces allowed migrant workers to participate in the urban employment-based pension program that local workers are participating. Many cities in Guangdong, for example, permitted migrant workers to participate in the urban employment-based pension program (Guo and Du, 2005; Nielsen and Smyth, 2008; Watson, 2009). Migrant workers participating in the program were obliged to make financial contribution for the pension fund with the same contribution rate imposed on urban workers. As migrant workers' contribution is integrated into the urban employment-based pension fund, some local governments started to encourage migrant workers' participation. In doing so, local governments attempted to enrich their pension revenues and make up the low balance of the urban pension fund (Trieu, 2013; Zhang, 2008).

Majorities of other localities had no specific policies for migrant workers' pension participation. These fragmented local laws regarding migrant workers' incorporation into the pension system have further complicated the unification of the pension system. Depending on specific local regulations, the extent to which migrant workers are incorporated into the existing employment-based pension system or the extent to which migrant workers are covered by any pension programs has varied widely across localities (Mok and Wu, 2013; Nielsen and Smyth, 2008; Ringen and Ngok, 2013).

As migrant workers' low pension participation has become a social issue, the Chinese central government has started to step up and be more proactive. In 2006, the State council released the *"State Council Opinions on Resolving the Problems of Migrant Workers"* to improve migrant workers' social security and welfare provision status. The passage of the LCL of 2008 has further improved migrant workers access to social insurance programs, including pension (Chen and Gallagher, 2013; Gallagher et al., 2014; Gao et al., 2012). The LCL has made it mandatory for employers sign written labor contract with their employees, pay wages on time, and provide social insurance benefits (Gallagher et al., 2014). The LCL has made individual worker's possession of a signed labor con-

tract, rather than the individual's hukou type and location, as the single most important factor that explains the individual's social insurance participation (Cheng et al., 2013). The 2009 *Social Insurance Interim* has further facilitated migrant workers' pension participation by making it eligible for all migrant workers to enroll in the employment-based pension program (Frazier and Li, 2015).

However, despite the enactment of the LCL and the central government's support, migrant workers' pension participation rates have been lower than those of local urban workers. The majority of employers were reluctant to pay social insurance fees for migrant workers in a concern for rising labor costs. Local government's lack of enforcement and firms' non-compliance to the LCL and social insurance regulations have also aggravated the situation. The global financial crisis occurred in 2008 has further slowed down migrant workers' social insurance participation. The central government allowed struggling enterprises to delay social insurance contribution for their employees up to six months. The 2011 Social insurance law has further formalized this regulation that allow firms delay social insurance payment if they have permission from local authorities (Harney, 2015).

Moreover, migrant workers themselves did not see the benefits of participating in the urban employment-based pension program. Migrant workers often found the contribution requirement for the urban employment-based pension scheme onerous and rather wanted to have the money in their hands (World Bank, 2014). The non-transferability of pension fund has also discouraged migrant workers' participation into the urban employment-based pension scheme (Frazier, 2010; Lin, 2015; Lin and Tussing, 2016). Under the locally fragmented pension system, migrant workers cannot fully transfer their pension funds from one locality to another as they relocate; they can withdraw the individual contribution they've made (Pillar 2) but they cannot withdraw the pension funds that their employers have contributed for them into the local social pooling sys-

tem (Pillar 1). The increasing employment opportunities in inland provinces in China has further motivated Chinese migrant workers to cash out their pension contribution before they go back to their home province and find a permanent job there (Zhang, 2008). The cashing out phenomenon was even more outstanding in Southern China, such as Shenzhen and Dongguan, where the separate pension plan for migrant workers was absent. In a fear of losing pension funds, governments of migrant-receiving localities were not entirely supportive of migrant workers' attempt to cash out their pension funds. Some local governments have even implicitly discouraged migrant workers from cashing out by placing a warning sign saying that *"Once you cash out, you cannot enjoy the benefits. Do you really want to lose big reward by chasing after a short-sighted benefit?"* (Zhou, 2008).

In reality, however, many of these migrant-receiving localities were not too concerned about migrant workers' cashing out phenomenon. Local governments knew that migrant workers could not get the employer's portion of pension contribution accumulated in the local pooling system even when they cash out their pension funds. In pursuit of fiscal interests, some local governments have even encouraged migrant workers to first enroll in the employment-based pension program and then to cash out as they leave. These local governments even passed a regulation that makes workers cash out their social insurance funds as they terminate a labor contract with their employers, despite the fact that the current labor law allows workers to continue to have their social insurance account even after a termination of a labor contract (Zhang, 2008). As the employers' contribution made for non-local workers cannot be cashed out, local governments can also use them to fill out the pension deficits and compensate the local workers.

3.2.3 The 2010s: A Bumpy Road toward the Universal Pension System

While the pension reforms in the 1990s and early 2000s have attempted to broaden the coverage of the pension system, the Chinese pension system has evolved in a way that leaves large numbers of the population uninsured—migrant workers, non-employed urban residents, and rural populations.

To fix the problem in the exclusive social insurance system, the central government tried to build a centralized pension system with universal coverage as early as the mid-1990s by releasing the first draft of the social insurance law. Yet bureaucratic infighting and a concern for increasing social costs associated with the expanded or universal coverage have delayed the passage of the law (Frazier, 2010). While the Chinese central government has long been unsatisfied with local governments' noncooperation with the central regulations in reforming the pension system, the central government could not find a momentum to constrain local governments due to the imperatives of market reform and SOE restructuring (Frazier, 2010). Scholars and specialists, as well, predicted that the collusion of local government and business would delay the successful implementation of the social insurance law (Frazier, 2010, 69).

Since the 2010s, China has started to gradually shift its development strategy to one that focuses more on sustainable urbanization, domestic consumption, and a balanced, integrated, and sustainable growth. Correcting the welfare system that selectively rewards the privileged urban workers and enhancing the role of the central government in welfare provision could no longer be postponed (Dickson et al., 2016; Dorfman et al., 2013; Hurst, 2011). When it comes to pension reform, the expansion of pension coverage beyond urban local employees has become a new priority of the Chinese central government. Development of an inclusive and universal social insurance has become a crucial part of domestic-consumption oriented model as it helps stabilize domestic consumers'

livelihoods and thereby boost domestic consumption by is an important component of the domestic-consumption-oriented development model (Meng, 2014). In late 2008, the Chinese national people's congress finally released the draft of the Social Insurance Law for public comment. In 2011, after the lengthy delay, the Social Insurance Law was finally passed, epitomizing the central government's effort to bring the central state back in for welfare provision and its will for centralization of the Chinese social insurance system (Hurst, 2011). The passage of the Social insurance law has brought two major changes.

First, with the implementation of the law, all types of Chinese workers have become obliged to enroll in the employment-based pension scheme. By making all Chinese workers eligible to enroll in the employment-based pension program, the Chinese central government has attempted to expand the coverage of the employment-based pension program and embrace a broader segment of society. Various types of precarious workers, including workers without labor contract or the self-employed, have also become eligible to enroll in the employment-based pension program. Local laws which used to separate migrant workers from the urban employment-based pension scheme have all been abolished. The comprehensive social insurance scheme of Shanghai or migrant workers' pension system of Beijing, for example, have been terminated. All migrant workers have been integrated into the urban employment-based pension scheme, at least in theory. Although the issue of non-transferability of pension fund has not been completely resolved, the abolition of the separate pension policies for migrant workers and the integration of migrant workers into the employment-based pension scheme have improved social stability of migrant workers with stable income who can afford the social insurance fees. As one informant notes, *"It's true that the urban employment-based pension program is more expensive than the comprehensive pension program, but it also ensures more benefits equal to those enjoyed by local workers. Migrant workers here unquestionably pre-*

*fer the employment-based pension scheme to the comprehensive social insurance plan.*³” With the passage of the new social insurance law, workers could no longer cash out of their social insurance funds as they did before. This change has improved migrant workers’ social insurance participation status, although the change is driven more by the shift of the state policy than by improvement of migrant worker’s legal consciousness.⁴

At the same time, the Chinese central government has also attempted to achieve universal pension coverage by moving beyond the urban employment-based social insurance model. Starting with rural areas in late 2009, and with urban areas in 2011, the Chinese central government has re-organized and introduced an additional layer of pension program—the residency-based pension program (Bateman and Liu, 2014; Ngok and Huang, 2014). In doing so, the central government has attempted to build a nationwide voluntary pension scheme that covers those who are left outside the employment-based pension scheme.

The old rural residency-based pension program was a voluntary scheme of which primary funding relies mostly on individual contribution. Unlike the urban employment-based pension program, the element of social pooling or government subsidies did not exist for the rural residency-based pension program. In 2009, the state council issued “*the guideline for pilot implementation of the new rural pension scheme*” and introduced a responsibility sharing system for the rural residency-based pension program, where the social burden is shared between individuals, the locality (collective), and the government. In 2011, the Chinese central government has updated the existing rural-residency-based pension program so that the rural residency-based pension program would have an aligned structure with the urban residency-based pension program in terms of the basic pension level, financing design, and matching contributions funded by local authorities

³ subject # 11, Interview with a labor bureau official, Shanghai, Mar 9, 2016.

⁴ subject # 15, Interview with a labor Non Governmental Organizations (NGO) activist, Guangzhou, April 1, 2016.

(Dorfman et al., 2012). The only distinction between the urban and rural residency-based pension programs is in their contribution tier ranges: from 100 RMB to 500 RMB in the rural scheme and from 100 RMB to 1000 RMB in the urban scheme.⁵ The structural alignment of the two residency-based pension programs has paved an institutional base for the combination of the two programs. By the end of 2012, the residency-based pension schemes have been established in all counties and cities for both rural and urban residents (World Bank, 2014). In 2014, the State Council issued the “*Opinions of the State Council on Establishing a Unified Basic Pension Insurance System for Urban and Rural Residents (Document No. 8)*”, which stated that the urban and rural residency-based pension schemes would be combined into a unified basic pension scheme (Bateman and Liu, 2014; Dorfman et al., 2012; Liu and Sun, 2016).

With the integration of the rural and urban residency-based pension schemes, those who have been left out of the urban employment pension scheme have become embraced by the national pension plan. The central government intended to reduce the chronic urban-rural inequality by integrating the urban and rural residency-based pension scheme and expanding the social insurance coverage in both urban and rural areas. The introduction of the residency-based pension program may have not been achieved without the active role of the central government in promoting and subsidizing this scheme (Dorfman et al., 2012; Hurst, 2011; World Bank, 2014).⁶ The increased central subsidies for the residency-based pension scheme has incentivized local authorities to follow the nationally coordinated pension scheme for the first time (Dorfman et al., 2012).

⁵ For a more detailed description of the Chinese residency-based pension program, see Dorfman, Wang, O’Keefe, and Cheng (2012) Chapter 11, *China’s Pension Schemes for Rural and Urban Residents. Matching Contributions for Pensions: A Review of International Experience*. The World Bank, 217-241.

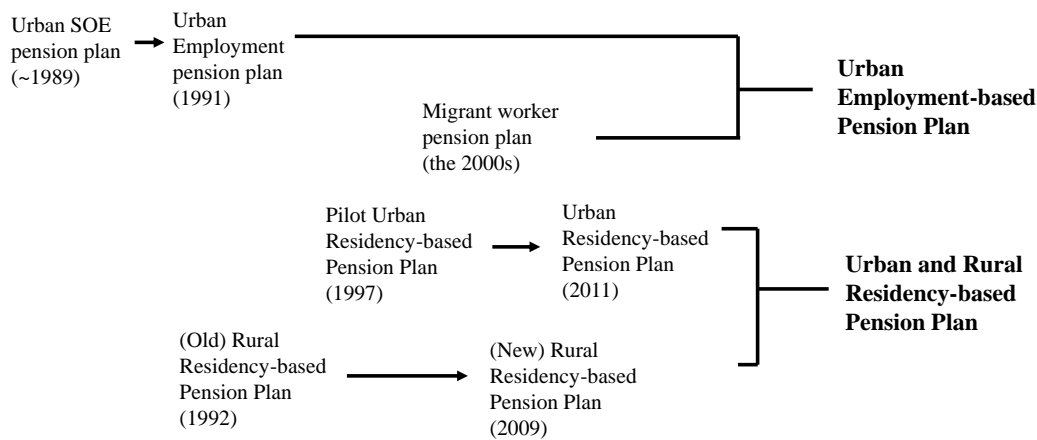
⁶ The central government now provides full compensation for western regions, 40% for the middle, and none for the coastal provision (Lin and Tussing, 2016).

3.3 Current Pension System: Consolidation of the Dual Pension Regime with Local Fragmentation

The social insurance law of 2011 has simplified the overly fragmented pension schemes: First, separate pension schemes for migrant workers issued by each local government have been halted. The existing employment-based pension program has become the only legitimate and functioning pension program for all Chinese employees. Second, the rural and urban residency-based pension schemes have been reorganized and integrated. With these changes, the social insurance law of 2011 has consolidated the dual pension system in which two distinctive layers of pension programs—the employment-based pension scheme and the residency-based pension scheme—coexist in every locality in China (see Figure 3.2).⁷ Yet it has not yet fixed the locally fragmented social pooling system or low transferability of pension funds. This section scrutinizes how each layer of the two pension programs operates and benefits its participants. It also describes how the central government’s social insurance goal has been only incompletely achieved, leaving a large number of Chinese residents outside the pension protection.

⁷ This bifurcated and localized reform strategy echoes the dual-track strategy that has traditionally been adopted by China since the market reform era. In the early period of market reform, the Chinese central government had maintained two different price systems (the market-price system and the planned price system) simultaneously and gradually moved from a planned economic system to a market economy so that it could cushion the impact of rapid social or economic reforms. This dual-track strategy has been adopted in many other policy areas. For a detailed discussion of dual-track systems adopted in various policy areas, see Shen. (2006), *Understanding Dual-Track Urbanization in Post-Reform China: Conceptual Framework and Empirical Analysis*. *Population, Space, and Place* 12: 496-516., Lau, Qian, and Roland. (2000), *Reform Without Losers: An Interpretation of China’s Dual Track Approach to Transition*. *Journal of Political Economy* 108: 120-143.

Figure 3.2: Consolidation of the Chinese Dual Pension System



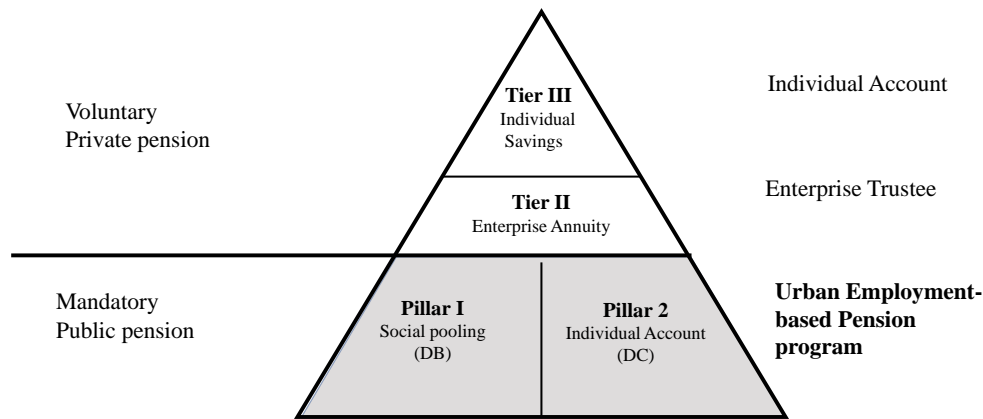
3.3.1 Employment-Based Pension Program

While the urban employment pension scheme in the 1990s mainly benefited SOE workers, the coverage of the pension scheme has extended to wage earners of any types of firms, including foreign invested firms and private firms. The passage of the LCL of 2008 has also opened a door for migrant workers with labor contracts to enroll in the employment-based pension program. The Social Insurance Law of 2011 has officially stipulated that every worker, regardless of their household registration (hukou) type or employment status, has an equal right and responsibility to join the urban employee basic pension scheme. The Social insurance law has also allowed self-employed and workers in informal sector to enroll in the employment-based pension program on a voluntary basis. Yet, in practice, only a small number of these precarious workers enroll in the employment-based pension program (Dorfman et al., 2012).

The employment-based pension program is a contributory pension scheme in which the fund is co-financed by employers, employees, and local governments. The current pension system has been structured with the announcement of the State Council Document No.26 in 1997. Figure 3.3 illustrates the funding structure of the Chinese employment-based pension system, featured by its multi-tier setting. The first tier of the pension fund consists of two pillars—the defined benefit social pooling account and the individual accounts. The first pillar is a defined benefit pensions financed on a PAYG basis. Employers are required to remit a certain percentage of individual workers' pre-retirement wages (currently 20%) to the locally managed social pooling system. The second pillar is a defined contribution scheme, financed by individual workers' contribution. Since 2001 Liaoning province has introduced fully funded defined contribution component in which the individual contribution is supported by the central and local subsidiaries (Holzmann et al., 2012). Currently, eleven provinces covered by the pilot program fund the second-pillar with employee's contribution of 8 per cent of wage.⁸ In practice, 5 percent is paid by the state (3.75 per cent from central government and 1.25 per cent from local government) and 3 percent is paid by individual participants (Salditt et al., 2007). The National Social Security Fund (NSSF) established by the central government supplements the deficits in social security expenditures and provide pension subsidies for local governments. The second tier is an enterprise annuity plan, financed by employer contribution who are pre-approved by Ministry of Labor and Social Security (MOLSS). The third tier is a supplementary personal funds that a worker had voluntarily accumulated for other sources than the public pension system (Frazier, 2010; Shi, 2011).

⁸ Liaoning (2001), Jilin and Heilongjiang (2004, 2005), Henan, Hubei, Hunan, Shandong, Shanghai, Shanxi, Tianjin, and Xinjiang.

Figure 3.3: Funding Structure of the Chinese Employment-based Pension System

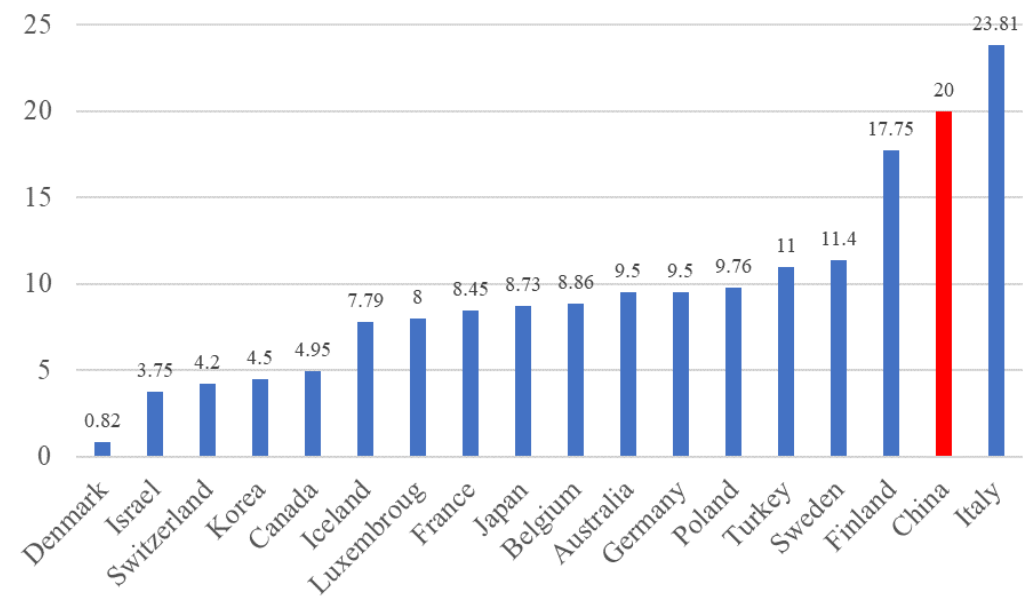


China imposes one of the highest social insurance contribution rates to employers (See Figure 3.4).⁹ Currently, employers are obliged to fund a maximum of 20% of public-defined pension benefits for the employment-based pension program. This high social insurance contribution rate explains why China records one of the highest labor tax wedge among many developing and developed countries (Giles et al., 2013). In order to evade the financial responsibilities associated with pension funding, many Chinese employers hire workers informally or persuade workers to forgo their rights to enroll in the employment-based pension program. Some local governments reduce the contribution rates imposed on employers or lower the level of enforcement of the social insurance regulations to favor firm managers and enterprises.¹⁰

⁹ Source: OECD Library, available at <http://www.oecd-ilibrary.org/docserver/download/8115201ec030.pdf?expires=1518472257&id=id&accname=guest&checksum=00F6CE52963D5E5BC1D1F7A015F5011E>

¹⁰ subject # 21, Interview with a researcher, Beijing, Dec 14, 2017.

Figure 3.4: Employer Contribution Rates by Countries 2014



Source: OECD Library

The employer's pension contribution is accumulated in the social pooling system, managed by municipal or provincial government. Although most provinces have made regulations for provincial-level pooling by 2015, a majority of provinces have not implemented provincial-level pooling. Among 31 provinces, only Beijing, Tianjin, Shanghai, Chongqing, Shaanxi, Qinghai, and Tibet have truly implemented provincial level pooling in practice and three of them are actually provincial-level cities (Zheng, 2016). Majority of other provinces have partial pooling system. Under the partial pooling system, certain proportion of pension funds are transferred to the provincial level and the rest are managed by the prefecture- or city-level government. Guangdong is an example of a province where pension contributions are fully managed at the prefecture city level, but there are still a number of provinces where the pension funds are pooled and managed at the county-level (World Bank, 2014, 228).

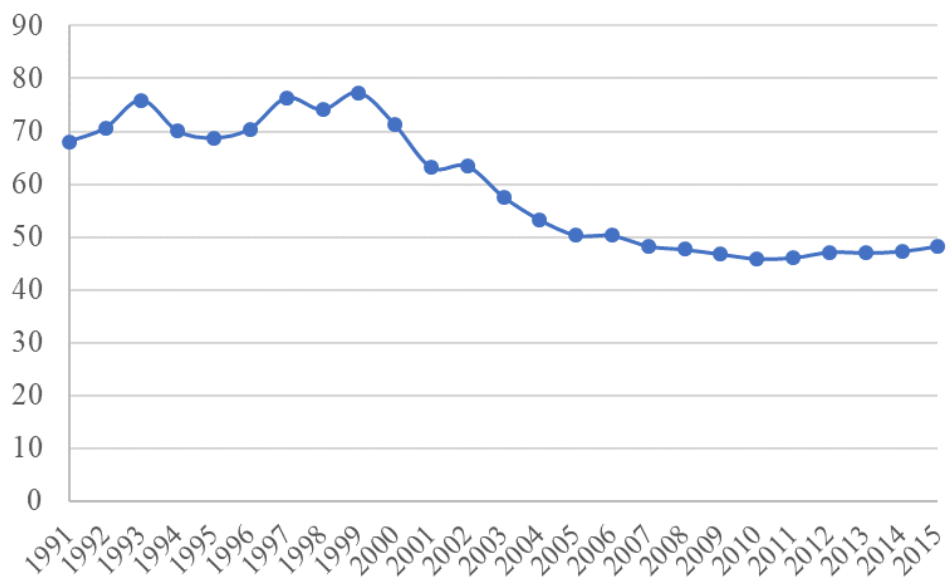
Employees should contribute 8% of their monthly wages to the individual account for more than 15 years. Local governments fill in the shortfalls of pension benefit expenditure. The current system also allows workers who do not have an employer (self-employed) to enroll in the employment-based pension program. In order to enroll in the programs, these workers have to first report their income level ranges from 60 to 100 percent of the local average wage and then pay 20 percent of that income level into the social pooling system. They also have to accumulate 8 percent of that income level into the individual account. In other words, self-employed or workers in informal sector should act both as an employee and an employer of themselves at the same time in order to enroll in the employment-based pension program. While the double burden placed on informal workers often discourages them from enrolling in the employment-based pension program, some local governments encourage informal workers' participation into the employment-based pension program by subsidizing them. For example, in Shanghai, local government provides 50% of pension contribution for a local informal worker who is older than 45 years.

These options are, however, available only for local informal workers. There's no relevant policies or regulations to ensure non-local self-employed workers' participation into the urban employment-based pension program.¹¹ Research based on a survey on Chinese urban workers also finds that migrant workers with labor contract have a higher social insurance participation rates in 2010 than in 2005. Yet, the same rule does not apply for local workers—whether or not having a labor contract is not directly related with local workers' social insurance participation status (Gallagher et al., 2014). It implies that some local workers are provided with social insurance benefits even when they lack labor contracts, while the case is rare for non-local migrant workers. It suggests that local governments and employers are more permissive to local informal workers'

¹¹ subject # 11, Interview with a labor bureau official, Shanghai, Mar 9, 2016.

participation into the social insurance program, while they tend to be more selective and restrictive to non-local informal workers' social insurance participation. Knowing the unfavorable conditions for their social insurance participation, some migrant workers voluntarily make the decision to opt out of social insurance programs. They at times bargain with their employers to get pay increase in exchange for their non-participation to the employment-based social insurance program (Park et al., 2012).

Figure 3.5: Replacement Rate of the Chinese Employment-based Pension (1991-2015)



Source: OECD Library

Although the replacement rate has constantly decreased since the market reform, the benefits from the employment-based pension program are more substantial than those from the residency-based pension program (Li, 2017). Currently, the average replacement rate is around 40%: a worker whose monthly wage is around 4,000 RMB is ex-

pected to receive approximately 1,669 RMB (\$250) per month for their monthly pension benefit (See Figure 3.5)¹².

3.3.2 Residency-Based Pension Program

The residency-based pension scheme was built to provide basic level benefits to a broader segment of local society. This pension scheme distributes social benefits not on the basis of employment but on the basis of local residency. Anyone who is over 16 can enroll in the residency-based pension program, regardless of their employment status, only if they can prove their local residency status. Chinese residency-based pension program shares important redistributive characteristics with noncontributory universal social insurance programs in Latin America. Both programs aim to cover broader segments of society, including the neediest low-income individuals, informal workers, and the unemployed, with modest benefits (Carnes and Mares, 2013a, 2015; Forteza and Ourens, 2012). Yet the Chinese residency-based pension program is different from non-contributory universal social insurance programs elsewhere in two important aspects.

First, the Chinese residency-based pension program is open only to people with local urban hukou. Migrant workers from rural or other urban areas are eligible to participate, but only in their area of hukou registration (Dorfman et al., 2012). In this regard, the residency-based pension program is more locally restricted than the employment-based pension program.

Second, the residency-based pension program requires financial contribution from individual participants, although the required amount of financial contribution is minimal. Contrary to the employment-based pension program, the required premium of the residency-based pension program is unrelated to payroll. The contribution rate required by the residency-based pension program is also lower than that required by the

¹² Source: OECD Library <http://www.chyxx.com/industry/201711/581598.html>

employment-based pension program. A large number of workers with lower income and precarious employment-position find it less onerous to enroll in the residency-based pension program. These workers often choose to enroll in the residency-based pension program, while forgoing their opportunity to enroll in the employment-based pension program (Bateman and Liu, 2014; Dorfman et al., 2012).

Individual participants can choose their annual voluntary contribution tiers, which range from 100 RMB to 1,000 RMB, depending on their income levels. Similar to universal pension programs elsewhere, the Chinese residency-based pension program is financed heavily by public subsidy. Each local government provides an ex-ante matching contribution of 30 RMB to each individual account annually. The local government's top-up payment varies across localities based on their living standards and economies (Bateman and Liu, 2014). The expected benefits from the residency-based pension program, by design, are modest and locally vary. After 15 years of vesting, this matching contribution from local government is topped up to the basic monthly payment of 55 RMB subsidized by the central government. The Chinese central government funds the entire basic pension costs for western and central regions and provides half of the basic pension costs for the population in coastal regions. The increased financing commitment from the central government has incentivized local governments to comply with the centrally design pension regulation for the first time in its pension reform history (Dorfman et al., 2012).

Given the lowest individual contribution (100 RMB), the monthly benefit for the participants in Beijing, for example, is 280 RMB (40 USD) per month. It is one of the highest level of benefits that any residency-based pension participant can expect from the program. As one of the richest local governments, Beijing local government provides participants with monthly benefits of 125 RMB on top of the guaranteed basic monthly pension benefits of 55 RMB, using their own fiscal revenue. Other localities with lower

fiscal revenue do not provide such a large amount of additional subsidy. In many localities, the benefit from the residency-based pension program is not enough to ensure a basic livelihood of elderly citizens and lower than the benefit level of other forms of social assistance (Liu and Sun, 2016). The replacement rate for rural residents after years of contribution, for example, is between 8.04% and 13.85%. This is much lower than the replacement rate of the employment-based pension program (40%) or the replacement rate suggested by the International Labor Organization as the bottom line (Shou, 2017). Nevertheless, even this low level of pension benefits improves recipients' lives by helping them with living expenditures and producing a strong sense of economic stability (Dorfman et al., 2012). However, this low level of benefit is not sufficient enough to support an elderly citizen's life and makes individuals rely more on individual savings or family support (Liu and Sun, 2016). For these reasons, Chinese labor activists have criticized that the residency-based pension program might, in practice, transfer the burden of welfare provision for elderly citizens from state and firms to the shoulder of individual workers and citizens (China Labour Bulletin, 2016).

Table 3.1 summarizes the major differences between the two pension programs.

The Chinese central government has expanded the coverage of the employment-based pension program beyond local urban workers in SOEs. The introduction of the residency-based pension program has further contributed to the expansion of pension coverage by incorporating those who have not been covered by the employment-based pension program into the public pension system. The implementation of the residency-based pension program has established the principle of universal entitlement to basic provision for the first time since 1949 (Duckett and Wang, 2017). If the two pension programs had been implemented as is intended by the central government, almost all Chinese residents—employed and non-employed, formal workers and informal workers—should have been covered by any of the two pension programs.

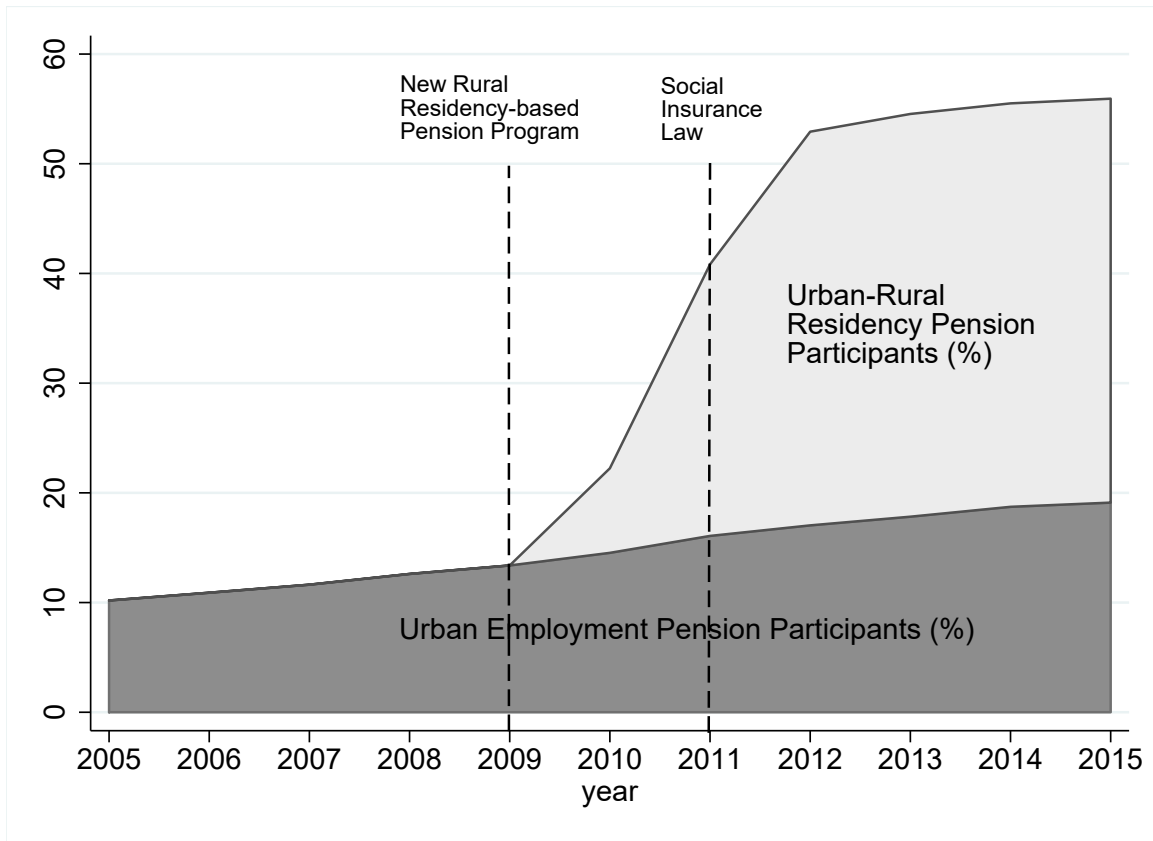
Table 3.1: Comparison of the Two Pension Programs in China

	Employment-based Pension	Residency-based Pension
Eligibility	Employees, including migrant workers and the self-employed (at least in principle)	Local Residents over age 16
Participation	Mandatory for all formal workers; voluntary for urban workers in informal sectors and the self-employed	Voluntary
Vesting	15 years	15 years
Financing	Contributions co-funded by employees, employer, and the state	Individual Contribution + Public Subsidies from local and the central governments
Individual Contribution	8% of individual worker's monthly payroll to the individual account; 20% of employer contribution to public defined benefits	Varies by income level, ranges from 100 RMB (\$15) to 1,000 RMB (\$ 150) per year
Government Subsidy	Central and local governments fill in the shortfalls of pension benefit expenditure	30 RMB matching contribution on the individual account annually (ex ante) ; 55 RMB (ex post) basic monthly pension
Benefit level	High (1,669 RMB/ month)	Modest (280 RMB / month)
Fund Management	Municipal level	County and city level

Source: [World Bank, 2014](#), p. 207; [Dorfman et al., 2012](#), p. 222

Obviously, the overall pension coverage has increased rapidly with the implementation of the residency-based pension program and the social insurance law (See Figure 3.6). While the employment-based pension program still benefits a limited number of privileged social members, the introduction of the residency-based pension program has dramatically expanded the scope of population covered by the public pension programs. By 2015, more than half of Chinese population is covered by one of the two pension programs (Figure 3.6).

Figure 3.6: Pension Coverage by Total Population (2005-2015)



Source: China Labor Statistical Yearbook (Various Years)

Despite the rapid expansion of the pension coverage, however, the achievement of universal coverage has not yet been fully achieved. Certain groups of Chinese resi-

dents have still been systematically marginalized from benefiting from the reformed pension system. The lax enforcement of the social insurance law and continuing local non-compliance to the mandate on upgrading the pension pooling level are mainly attributable to the incomplete achievement of the universal pension coverage.

First, the failure to upgrade the pension pooling level has made it impossible for Chinese migrant workers to transfer their pension funds to different localities as they relocate. The complexity of pension transfer across localities discourages a large number of migrant workers from enrolling in the employment-based pension program (Watson, 2009). While the Chinese central government has constantly striven to upgrade the pension pooling system at provincial level and eventually at national-level, this attempt has been hampered by vehement resistance from local officials. In the absence of the national fund management system or an inter-regional transfer mechanism, migrant workers relocating to different provinces or returning to their home provinces cannot withdraw the portion of pension funds their employers have contributed for them. Under the current system, migrant workers can only withdraw the contribution they have in the individual account and 12% of the employer contribution in the social pool. While the social insurance law per se does not preclude migrant workers' participation in the employment-based pension program, the lack of mechanisms for inter-regional transfer discourages migrant workers' participation in the employment-based pension program.

Second, some employers and local officials have taken advantage of the system and encourage migrant workers enroll in the residency-based pension program of their home locality. According to an interview with a labor NGO activist at Guangzhou, many employers in Guangzhou hire migrant workers on condition that they have enrolled in the residency-based pension program of their home locality.¹³ Under the current regulation, no individual worker can enroll in the both residency and employment-based programs

¹³ subject # 15, Interview with a labor NGO activist, Guangzhou, April 1, 2016.

at the same time. When migrant workers enroll in the residency-based pension program of their home locality, firm managers and local governments can be exempted from the obligation to have these migrant workers enroll in the employment-based pension scheme. Migrant workers either do not know that they will receive meager benefits from the residency-based pension program by forgoing their chances of enrolling in the employment-based pension program or succumb to the employers' request so that they can be employed. As migrant workers enroll in the residency-based pension scheme in their home locality, the social security burden of migrant workers is passed on to individual workers and the local government of their home localities. The social security burden passed from migrant receiving localities to migrant sending localities not only exacerbates the existing economic inequality but also deepens the social inequality between two localities.

Third, while the social insurance law requires informally employed workers to participate in the employment-based pension program, the lack of enforcement mechanism and proper monitoring system has created a large number of informal workers not-enrolled in the employment-based pension program. Informal worker's low level of enrollment in the employment-based pension program is partly driven by informal workers' lack of motivation to enroll in the expensive social insurance program. As will be discussed in chapter 6, individual workers with precarious employment position are less likely to participate in the employment-based pension program due to their employment and income insecurity. However, employers and local governments have also often turned blind eye on, if not encouraged, informal workers' non-enrollment in the employment-based pension program.

Due to the limitation of the current pension system, the universal pension coverage has yet far to be achieved. Moreover, the extent to which the two pension programs develop has varied widely across localities depending on the type and composition of

workforce in the local labor market. In principle, the expansion of one pension scheme does not necessarily preclude the expansion of the other, as the two pension programs target different groups of population. However, the two pension programs have not developed in tandem and have expanded at widely varying rates across different localities in China. In some provinces, overall pension coverage has improved mainly due to the rapid expansion of the residency-based pension program. In other provinces, the residency-based pension coverage has not expanded much and the employment-based pension programs have remained as the main social insurance program of the localities. Chapter 5 of this dissertation discusses in detail why the two pension programs develop differently across different localities in China.

The next section discusses how existing institutions has incentivized local actors to resist the upgrade of the pension pooling level and improvement of the transferability of pension funds, impeding the further expansion of the two pension programs and achievement of universal pension coverage in China.

3.4 Institutional Background behind the Fragmentation of the Chinese Pension System

Institutions do not form in vacuum: Past institutions, historical legacies, and structural changes altogether influence the way institutions shape and evolve. The structure of the current Chinese pension system, characterized by its functional and local fragmentation, cannot be understood without discussing how existing institutions and historical legacies have constrained the way it evolves and develops. These institutions have shaped local state actor's social policy preferences while at the same time empowering them to pursue their preferred policy and to resist the central government's attempt to centralize the pension system.

Chinese local governments have long resisted the central mandate to upgrade of the pooling level, improve the transferability, and enforce the employment-based pension program for all type of workers, hampering the achievement of the universal coverage (Bland and Yu, 2004; Frazier, 2010). In fact, Chinese pension system is not the only policy area where local non-compliance is observed. The gap between the law and its actual enactment has existed in China over various policy areas (O'Brien and Li, 1999), including energy policy (Kostka and Hobbs, 2012), labor market policies for migrant workers (Davies and Ramia, 2008) , and environment policy (Chan et al., 1995; Eaton and Kostka, 2014). Moreover, Chinese central government has tolerated, if not encouraged, local government's selective implementation of economic policy and local economic experimentation in an expectation that it would bring regional economic growth through competition between localities. Local experimentation in social policies, however, has been tolerated less by the central government as it can aggravate zero-sum competition between poor and rich regions with different level of social risks (Shi, 2011). Why, then, despite this unique nature of social policies and the central government's growing will to construct a more unified and inclusive welfare regime, have the Chinese welfare regimes developed a locally fragmented way? What past institutions and historical legacies incentivize local state actors resist the central government's pension plan and enable local state actors to consolidate the fragmented pension system?

This section explores how existing institutions, such as decentralized fiscal system, political favoritism for local residents shaped by the career evaluation system, the reformed household registration (hukou) system, and the economic incentives of local officials, have incentivized local authorities to resist and impede the upgrade of the pension pooling level and the improvement of pension fund transferability, hindering the achievement of universal pension coverage of the country.

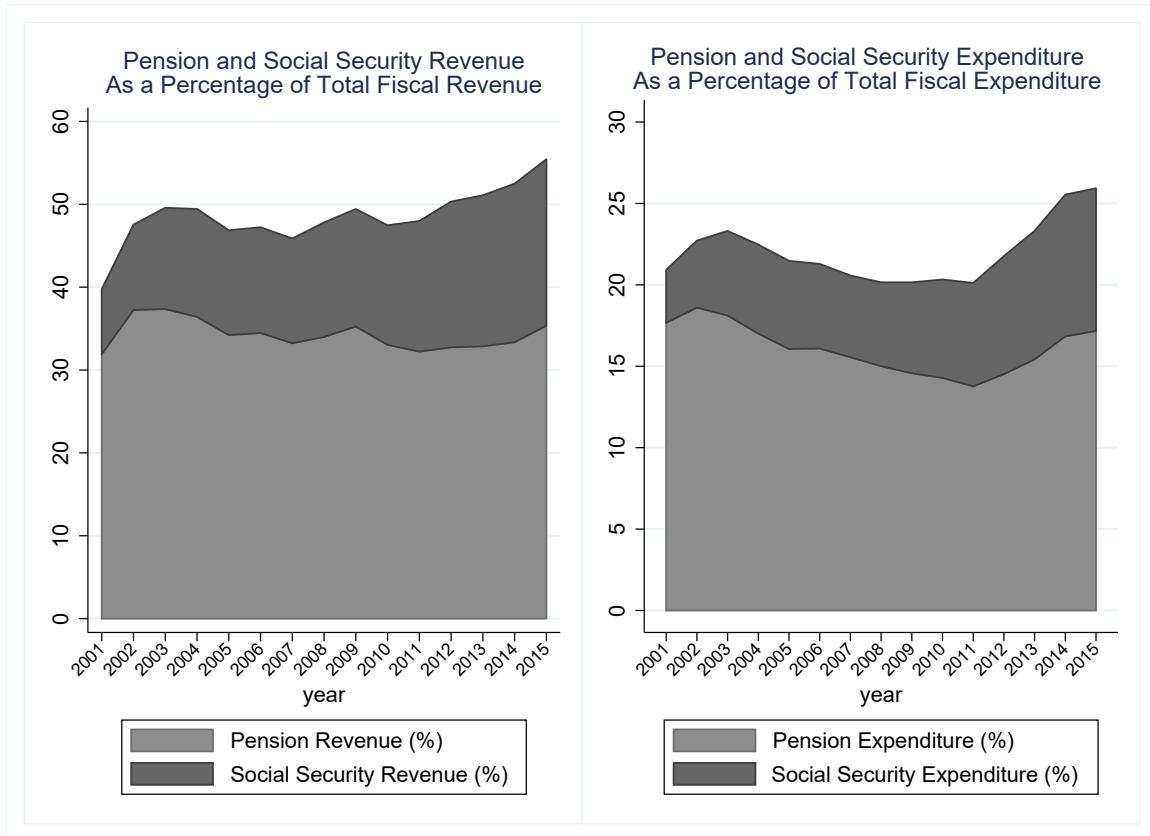
3.4.1 Fiscal Incentives

Although China is not a federal state, the Chinese fiscal system is locally decentralized: each sub-national government is mainly responsible for collecting and spending tax revenue. Except the revenue remitted to the central government, each local government has discretion to manage the revenues and spend them according to the local needs, independently from the intervention of upper-level governments. In 1994, the central government has attempted to regain its initiatives and reclaim a larger share of the national fiscal revenues with the implementation of the fiscal reform (Wang, 1997; Zhang, 1999). Yet local governments have continued to retain the main responsibility in local revenue spending.

Among many sources of local revenue, pension funds sent to the local social pooling system have been one of the most importance sources of local revenue (Lin, 2015). Pension revenue has been a core source of local social security revenue. The average proportion of pension revenue to total social security revenue in between 2005 and 2015 was 73.5%. Pension revenue alone approximates one-third of local government's total tax revenues (See Figure 3.7). Yet the use of the revenue is not well overseen by the upper-level government. For these reasons, pension funds have often been misused by local officials. In Shanghai, for example, local officials diverted local pension fund as a major source of financing for local developers' real estate projects (Kahn, 2006). The same patterns of misuse of pension fund by local officials has been observed in other Chinese cities including Guangzhou, Hunan, Liaoning, and Zhejiang (Frazier, 2010, 16). The upgrade of the pension pooling system and the central government's direct management of the pension fund will make it hard for local governments to divert local pension funds for their personal use or for other development projects. Local governments in-

sisted that the unified and centralized pension fund management system would not be compatible with the decentralized fiscal system (Lin, 2015).

Figure 3.7: Average Pension and Social Security Revenue (and Expenditure) as a Percentage of Total Local Revenue (and Expenditure)

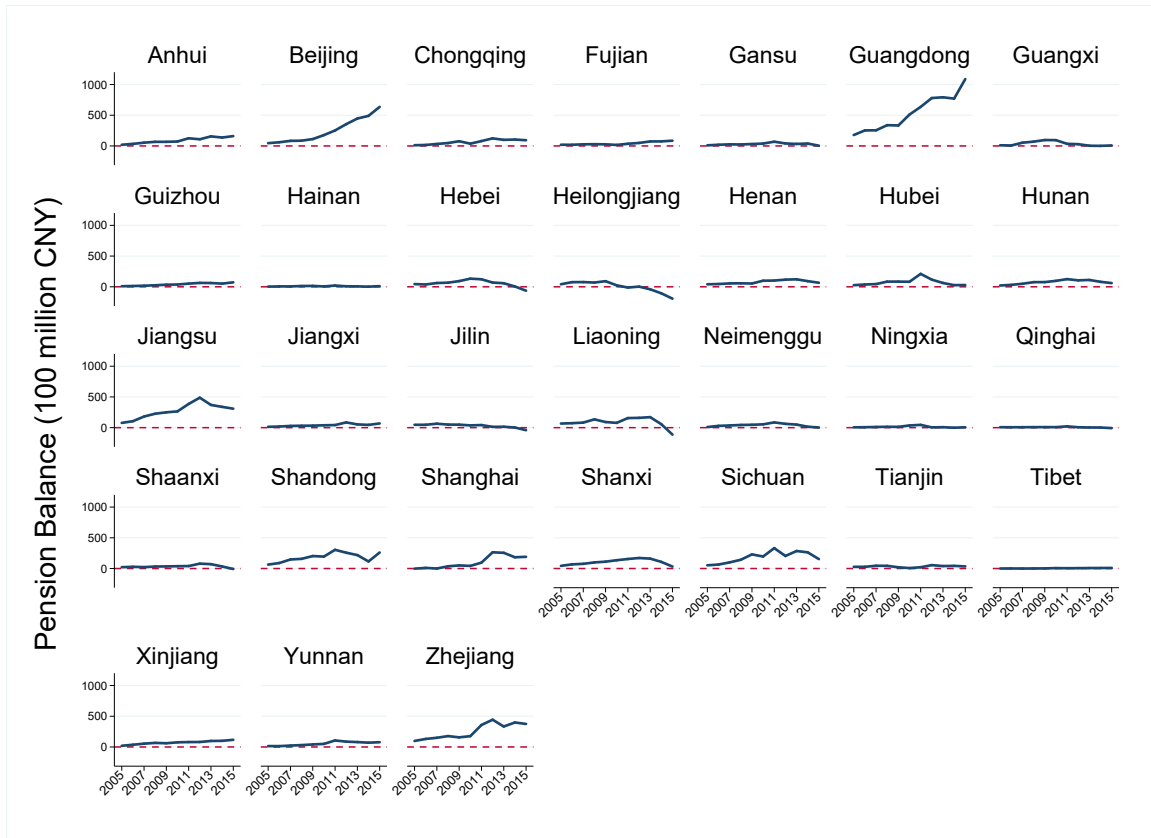


Source: China Labor Statistical Yearbook (Various Years)

The rampant and chronic regional inequality has also hampered the upgrade of the social pooling system and the establishment of the inter-provincial funding transfer system. Provinces like Guangdong, Jiangsu, and Zhejiang have sound fiscal structure with sufficient pension balance to compensate their workers. Yet other provinces in the Chinese rust-belt, such as Heilongjiang and Liaoning, have been experiencing chronic and serious shortfall of the pension balance (See Figure 3.8). Apparently, local governments with sound fiscal balance do not want their pension surplus to be used to make up the

deficits of local governments with less well-endowed pension funds and heavy retiree burdens (Frazier, 2004; Lin, 2015; Shi and Mok, 2012). They resist the establishment of social pooling where the social risks and costs are shared across a broader group of participants in the program (Frazier, 2004).

Figure 3.8: Pension Balance by Province (2005-2015)



Source: China Labor Statistical Yearbook (Various Years)

It is not a coincidence that localities characterized by sound fiscal structure are ones whose economy spurred during the market reform period. The influx of migrant workers started with market reform has helped these localities secure sound balance. While migrant workers in these localities have enriched the local pension pool, many of these migrant workers have left the localities without fully claiming their shares. Just like

transitional winners in other post-communist societies blocked the further reform of the social system (Hellman, 1998), the transitional winners of the Chinese market reform have become the main opponent of the establishment of the inter-provincial pension transfer systems.

In response to the central government's effort to upgrade the pooling level, provincial governments have attempted to set up an intra-provincial transfer system in which pension contribution can be transferred across different cities within a province (Lin, 2015). Yet, even up until today, the inter-provincial transfer system has not yet been established. The failure to build an integrated pension pool has further consolidated the existing local inequality by making affluent and well-endowed localities become even more socially and economically sound and making undeveloped localities suffer both from economic and social insecurity. The deepening inter-regional welfare inequality has made it even harder for the central government to centralize the pension program (Lin, 2015).

3.4.2 Local Welfare Chauvinism and Local Citizenship Institutions

The Chinese career evaluation system has incentivized local governments to care about local workers' social stability even in the absence of electoral mechanisms. Maintaining local social stability serves as a veto point for local officials' career advancement (Lin and Tussing, 2016; Manion, 2014). Improved welfare provision for local residents has also become a major source where local officials gain legitimacy (Dickson et al., 2016). The increase in pension participation rate, for example, has been considered as an important political achievement for local party cadres (Lin and Tussing, 2016). This political incentive structure has led local officials to direct public goods exclusively to those who have local citizenship, at the expense of non-local migrant workers—those who lack local citizenship status but have supplied the much-needed labor for the local

economy. In providing employment opportunities or welfare benefits, such as retirement benefits, labor training for unemployed, or housing, local governments have prioritized local workers over non-local workers. Local governments regard non-local workers as 'outsiders' unless they have skills and resource to guarantee them stable jobs in large-scale factories (Davies and Ramia, 2008; Nielsen, 2005).

The Chinese welfare system built on the Chinese local citizenship institution (hukou) has laid out an institutional foundation of such discrimination based on local origin of a worker. Chinese hukou system was designed in the socialist era to control the mobility of workforce and divide the urban and rural sectors (Chen and Fan, 2016). Under the hukou system, individuals with urban hukou are privileged with generous welfare benefits, including housing, education, pension, and health care benefits while individual with agricultural hukou have limited access to such welfare benefits. One can claim their welfare benefits only in a designated local jurisdiction. The hukou system helped the state concentrate the welfare benefits to urban sectors and pursue urban-oriented industrialization by limiting rural residents from sharing the urban achievement (Chan and Buckingham, 2008; Chen and Fan, 2016; Solinger, 1999; Wallace, 2013). The hukou system did not perish even during the marketization process. Instead, the system has helped China to avoid the excessive expansion of citizenship during the economic transition and marketization, the cost that other developing countries had to pay as they pursue marketization (Solinger, 1999). Employers could hire non-local workers or workers coming from rural areas at a lower price without providing them with social insurance benefits entitled to their urban local counterparts. While China has realized freedom of movement for labor power, the hukou institutions have prevented China from achieving freedom of movement people as social beings (Friedman, 2017, 17).

For these reasons, the reform of the hukou system has long been regarded as a prerequisite for migrant workers' improved access to the urban social safety net (Salditt et al.,

2007). Despite the recent hukou reform, however, migrant workers still have limited access to urban employment social insurance benefits. In fact, the recent hukou reform has further intensified structural discrimination against non-local migrant workers and marginalized migrant workers' social welfare status by making the local residency-status as the utmost important criterion for social welfare entitlement.

In the past, it was the hukou type (urban or rural), and not the hukou registration place, that played a decisive role in determining one's welfare entitlement. Until recently, the conversion of rural to urban hukou was strictly restricted by the Chinese central government. (Chan and Buckingham, 2008). Because labor mobility was strictly restricted and the urbanization was constrained by the state, hukou registration place meant nothing more than one's birthplace. With the dismantling of the state-owned enterprises, however, the socialist welfare distribution system centered on urban state-owned enterprises has come to end. The market position, rather than one's hukou type, started to play a pivotal role in determining the type of welfare benefits one can claim, especially with the implementation of the LCL of 2008 (Chen and Fan, 2016). Reflecting these changes, the recent hukou reform abolished the distinction between agricultural and non-agricultural hukou by equalizing the type of public goods and welfare services entitled to rural and urban hukou holders (Chan and Buckingham, 2008; Chen and Fan, 2016). The competitive advantage attached to urban hukou has gradually diminished.

Yet this does not mean the differential treatments over Chinese individuals with different hukou have been entirely abolished. Instead, the hukou reform shifted the basis of discrimination from urban-rural divide to the local versus non-local divide. With the hukou reform, the local residency status has become the most powerful factor determining one's welfare status. In other words, the convergence of the urban and rural hukou types did not bring any meaningful changes to the welfare access of rural hukou workers coming from different hukou registration places (Chan and Buckingham, 2008).

This change has, ironically, intensified local government's influence over welfare distribution because it is each local government, and not the central government, that decides whether to grant a permission to a conversion of hukou registration place from one to the other.

In this regard, the recent hukou reform has further intensified and legitimized local welfare chauvinism, empowering local governments resist the central government's attempt to unify the pension system across localities. The local favoritism corroborated by these institutional changes has also resonated with business interests and further marginalized migrant workers' social and economic status. The implementation of the SIL and the termination of the comprehensive social insurance scheme for migrant workers in Shanghai, for example, have brought out the diminishing employment rate of migrant workers. When the comprehensive social insurance program existed, hiring non-local workers was a cost-efficient strategy for employers who seek to cut the social insurance costs. Now that all workers are covered by the expensive employment-based pension program, employers find little reason to favor non-local workers to local workers. Instead, firms have started to seek out local workers more actively as they were provided with subsidies from the local government as they hire local workers and contribute to the local employment rate. In addition, firms have to worry less about housing problems or high turnover rates of workers when they hire local versus non-local workers.¹⁴

3.4.3 Economic Incentives: Employer Interests and Local Economic Development

The Chinese career evaluation system has placed a higher emphasis on the economic performance of local government than anything else. Attracting more investment from

¹⁴ subject # 11, Interview with a labor bureau official, Shanghai, March 9, 2016.

firms, maintaining high employment rate, and recruiting and retaining skilled workers have become main goals of local government motivated by economic incentives. The strategic and selective implementation of the social insurance system has become an important policy tool for local government to achieve these goals.

Although the 2011 Social Insurance Law has made it mandatory for all employers to pay pension contributions for their employees, employers have limited incentive to comply with the law (Gallagher et al., 2014; Giles et al., 2013). Workers' increasing participation in the employment-based pension program places a huge financial burden on enterprise and employers, especially because the current Chinese employment-based pension system levies one of the highest contribution from employers. To evade the social responsibility, some employers offer higher wages for their employees on condition that they forgo their rights to enroll in the employment-based pension program (Gallagher et al., 2014). Some workers are encouraged or even forced to enroll in the residency-based pension program so that their employers can be exempted from the responsibility to pay for these workers' social insurance contribution.¹⁵ While these loopholes are not legal, Chinese local officials have often turned a blind eye on firms' noncompliance to the social insurance law in order to attract and retain these employers. The lax or selective enforcement of the social insurance law by local government in collusion with businesses has affected both local and non-local workers' social insurance participation.

In order to maintain the local competitiveness, many local governments lower the social insurance contribution by adjusting the reference local wage.¹⁶ While some cities choose local minimum wage as a reference wage, others choose 60% of provincial-level average wage. Local governments also design and implement various preferential in-

¹⁵ subject # 15, Interview with a labor NGO activist, Guangzhou, April 1, 2016.

¹⁶ subject # 21, Interview with a research associate, Beijing, December 14, 2017.

insurance policies for selected firms and industries. These tendencies are even more outstanding in underdeveloped inland areas. In order to attract factories and firms, local governments in these areas strive to lower the social contribution rate for employers by providing preferential policies or adjusting the local average wage. Employers in these regions may seem to fulfill their social responsibility better than employers in coastal area, but it is mainly because the local authorities in these regions have lowered their social contribution burden in advance. Because each firms and industrial complex is provided with different terms and preferential policies, the level of compliance to the social insurance regulation may vary more widely in the underdeveloped localities. For these reasons, the extent to which firms comply with the national social insurance guideline may differ widely even when they are under the control of a same local authority. This uncoordinated pension contribution rates and preferential policies for firms have made it even harder for the central government unify the locally fragmented pensions system.

3.5 Concluding Remarks

This chapter examines how the diverging policy preferences of the Chinese central and local government have shaped the Chinese pension program, featured by a high level of functional and local fragmentation. Major structural changes in the Chinese economy and labor market necessitated the reform of the Chinese pension system, but has also changed the incentives and preferences of the central and local actors regarding the specifics of the pension reform on the other hand. Existing institutions and political legacies—such as decentralized fiscal relations between the central and local government, local welfare system buttressed by the Chinese local citizenship institutions (hukou system), and career evaluation mechanisms emphasizing economic performance—have made local actors cultivate different policy preferences and interests than the central

government and empowered local state actors to resist the central government's attempt to centralize the pension system.

In 2015, the central policymakers reiterated the imperative of the establishment of the nationwide pension pooling system. The current chair of the [NSSF](#) and the former Chinese minister of finance has also emphasized that the pension fund should be directly managed and monitored by the central government in order to promote labor mobility. While the central policymakers reached a consensus to centralize the pension system, achieving such goal is not as straightforward as it sounds. One of the serious challenge for the centralization of the pension system is the pension fund deficit. Local governments, who have enjoyed the discretion of managing the local pension fund, have depleted the local pension fund to pay for the older workers, causing serious and chronic shortage of the fund. Provinces in the Chinese rust-belt, such as Heilongjiang, has the most serious problem. In order to centralize the pension management system, the central government has to make up the balance in local pension funds while at the same time striving to make local actors comply with the central regulations and coordinate the differences in local pension structure.

As the central government starts to play a more direct and active role in managing pension funds and subsidizing different pension programs, local governments may have more incentives to comply with the central pension policies. The rapid expansion of the residency-based pension program in many localities in China, for example, would have never achieved with the realignment of the fragmented residency-based programs and the increased central subsidies. Yet the extent to which local government complies with the central government's direction to embrace the broader segment of society has varied across localities depending on the specific demographic structure and composition of workers in local labor market. The latter part of this dissertation examines how local governments develop different pension expansion strategies and construct different

pension regimes depending on the local labor market structure. To understand different challenges local governments face, the next chapter of this dissertation describes how the demographic structure, labor market structure, and citizenship composition of workers vary across different localities in China.

Chapter 4

Creating “Outsiders” : How Labor Informalization and Labor Mobility Interact in Stratifying Chinese Workers

4.1 Introduction: Motivation, Findings, and a Road Map

Chinese social insurance system has developed in a way that selectively benefits certain groups of society, while leaving others outside the state’s protection. Who are the ‘welfare outsiders’ and how are these ‘outsiders’ constructed in Chinese society?

In many countries around the world, labor market outsiders—those who have temporary, non-standard, and insecure employment positions—are considered to be welfare outsiders as well. Even social democratic parties in the most developed welfare states have often proposed and implemented welfare policies that selectively protect labor market insiders (those with secure employment positions) at the expense of labor market outsiders (Rueda, 2006). Labor market dualization—the segregation between labor market insiders and outsiders—has often led to welfare dualization in both devel-

oped economies ([Häusermann and Schwander, 2010](#)) and developing countries ([Gundogan and Bicerli, 2009](#)), although the extent to which the two trends are related with each other has varied across countries ([Häusermann and Schwander, 2010](#)).

In China as well, the division within workers has long existed even before the market reform. Temporary workers in both rural and urban areas received much less welfare benefits than urban permanent workers in SOEs even during the Chinese socialist era. Yet the division by employment position is not the only meaningful cleavage that demarcates welfare ‘insiders’ and ‘outsiders’ in China. In China, various socio-economic and spatial categories—such as local v.s. non-local, urban v.s. rural—have created important divisions among workers ([Perry, 1994](#), 14). The interaction and overlap between these socio-economic categories reinforce or alleviate the position of a labor market outsider (or insider) as a welfare outsider (or insider). Some labor market outsiders are further marginalized from welfare provision than other labor market outsiders. Chinese informal workers, for example, may have widely different entitlement to welfare benefits, working conditions, relationship to the local labor market, degree of incorporation into the cities, and wages depending on whether they are from within the same locality and/or whether they have urban hukou ([Swider, 2011](#)).

By examining the China case, I show that the extent to which labor market outsiders become welfare outsiders varies depending on how other social categories that construct ‘outsiderness’—non-local residency status or rural hukou status—overlap and interact with one’s employment position. In this chapter, I argue that the locally divided citizenship institutions, differing patterns of labor mobility, and political systems that nurture local favoritism influence the extent to which labor informalization leads to welfare dualization.

Previous works have focused exclusively on the urban v.s. rural divide to explain the welfare dualization in China. A large number of studies have discussed how rural

workers are more likely to have precarious employment positions and how rural (versus urban) workers are more likely to be welfare outsiders. A handful of studies find that whether one has “local” urban hukou is a key to understanding labor market segmentation in China (Fan, 2002). However, these studies do not sufficiently discuss whether and how the effect of local v.s. non-local divide differs from the rural v.s. urban divide in explaining the social stratification in China. I shift the focus of discussion from the urban v.s. rural divide to the local v.s. non-local divide. I argue that growing labor mobility and institutional changes—hukou reform and social insurance reform—have made local vs. non-local divide as the most salient cleavage that further corroborates Chinese informal workers’ positions as both ‘labor market outsiders’ and ‘welfare outsiders’. Locally diverging patterns of labor mobility influences the extent to which informal jobs are passed onto non-local workers. The locally differing level of overlap of between non-local workers and informal workers is the key to explaining why Chinese localities develop different welfare regimes in response to labor informalization (Chapter 5) and why some Chinese informal workers remain uninsured despite their eligibility to enroll in the national social insurance programs (Chapter 6).

The chapter is organized as follows. In the next section, I examine how Chinese workers have been internally stratified. I first examine how the ‘outsiders’ have been created even before the market economy was introduced in China. I then examine how the growing labor mobility and institutional changes have increased the saliency of local v.s. non-local division over urban v.s. rural division in further reinforcing the ‘outsiderness’ of Chinese informal workers. In the following two sections, I discuss the heterogeneity among informal employment by disaggregating informal employment by its sources and types—self-employed, non-contract workers, and various forms of precarious workers. I also provide empirical evidence showing local divergences in the size and forms of informal employment. The next section discusses how locally divergent patterns of labor

mobility influences the extent to which non-local worker overlaps with informal worker varies across localities and thereby creates different types of welfare outsiders.

4.2 Continuities and Discontinuities in the Internal Division Among Chinese Workers

Various types of informal and precarious employment positions seen in nowadays China have their roots in the pre-reform period. The internal division within workers created in the pre-reform period has continued as China goes through marketization and labor informalization.

What has been changes after the reform is the growing importance of local v.s. non-local divide as a social category that stratifies workers. In the pre-reform period, the rural v.s. urban division played a more decisive role in reinforcing the outsidersness of certain temporary workers. The growing labor mobility followed by the market reform and a series of institutional changes have increased the saliency of the local v.s. non-local divide as another decisive factor that reinforces informal workers' position both as labor market outsiders and welfare outsiders.

4.2.1 Socialist Labor Dualism in the Pre-Reform Era: Permanent v.s. Temporary Workers

One of the common myths about the socialist China is that it treated all workers equally by providing them with secure employment positions and generous welfare benefits. In fact, only a small fraction of the population was the winner of the system, rewarded with a secure employment position and extravagant fringe benefits coming from urban SOEs. Most rural workers were widely excluded from public good provi-

sions given to urban workers. They were often recruited as temporary employees for urban SOEs. Temporary workers existed not only in rural areas but also in urban areas. The social division between urban SOE workers and urban temporary workers was as notable as in capitalist society (Walder, 1984; White, 1976).

Many temporary workers were recruited from rural area as short-term seasonal labor during the slack agricultural season (Walder, 1984; White, 1976). While some rural temporary workers were hired without any labor contracts at all, many rural temporary workers were recruited through nearby commune officials for a contracted period. Even with this fixed-term contracts, however, the relationship between rural temporary workers and state enterprises was tenuous and temporary. Both contracted or non-contracted rural temporary workers were not eligible for any of the fringe benefits that permanent state workers in urban sector received.

Yet such temporary employment was not confined to rural workers. In between rural workers and urban permanent workers, a large number of urban temporary workers existed. Unlike rural temporary workers whose primary job was farming, urban temporary workers were mainly and primarily affiliated with state enterprises. In this regard, urban temporary workers were economically and socially more dependent on urban enterprises than rural temporary workers. Yet, unlike urban permanent workers, urban temporary workers were outside of the enterprises' planned official roster. As a result, they could not fully enjoy the employment-related welfare benefits. They often work under fixed-term contracts, although it was not uncommon for urban temporaries to work for many years at the same factory (Dillon, 2015; Walder, 1984). They tended to earn significantly less than permanent workers despite the fact that they usually perform same tasks as permanent workers (Dillon, 2015, 3). Infuriated by this absurd discrimination and disenchanted by the socialist promises of egalitarian society, urban temporary workers took the lead in staging labor protests in the 1950s. (Perry, 1994; White, 1976).

The economic hardship created by the Great Leap Forward (GLF) in the late 1950s further widened, rather than shrunk, the internal gap between temporary and permanent workers. After the disastrous sweep of the GLF, permanent employment positions became even more scant while temporary employment position increased. Labor stations in each locality functioned as what nowadays are labor agency firms, although labor stations were definitely a part of government: They arranged temporary works for the unemployed; any temporary workers had to provide a receipt showing that he had registered at the labor station before they pick up their wages (White, 1976). The economic hardship followed by the GLF also weakened the solidarity between permanent and temporary workers by making permanent workers oppose the expansion of welfare benefits to temporary workers. (Dillon, 2015, 259-260). While a growing number of temporary workers claimed same treatment and benefits enjoyed by permanent workers, the distinction between permanent and temporary employees remained solid. (Dillon, 2015, 260).

The labor dualism shown in the pre-reform era is different from labor informalization presented after the economic reform in a sense that it was the state (and not the market) who actively recruited, used, and managed various forms of temporary workers to supplement permanent workers. Yet many important similarities and continuities exist between the socialist dualism in the pre-reform era and labor market dualism (labor informalization) after the reform. Various forms of temporary workers in the pre-reform era suffered from high employment insecurity, lower wages, and lack of social welfare benefits, just like informal workers in a market economy do.

4.2.2 From the Rural v.s. Urban Divide to the Local v.s. Non-Local Divide

While all temporary workers in the pre-reform periods were marginalized from the extravagant welfare benefits enjoyed exclusively by urban permanent workers, there existed important division even within temporary workers. Depending on one's hukou type (rural v.s. urban hukou), the extent to which a temporary worker is marginalized from the state's welfare provision varied. Because the type of welfare benefits one could receive from the state varied widely across the hukou type (rural v.s. urban hukou), rural temporaries were further marginalized from welfare provision compared to urban temporaries. Urban temporaries also received higher wages and had a longer-term relationship with enterprises than rural temporaries. Whether one is from within the same locality or from other locality was less of an issue because both urban and rural temporaries were recruited from nearby towns and villages within the same provinces due to a high restriction on labor mobility ([Swider, 2011](#)).

As the restriction on labor mobility is eased in the market reform period, however, the source of informal employment has become more diversified. A growing number of informal employment positions have been filled not only by local rural workers but also by workers coming from less-developed localities. Inter-provincial migration, in particular, has become one of the prevalent modes of migration. The growing level of labor mobility has made the local v.s. non-local division as another important layer that stratifies the Chinese labor market, along with the rural v.s. urban division.

A large number of informal and precarious employment positions have been passed onto workers coming either from rural areas (within the same locality) or from other underdeveloped localities. This workers have been collectively called as 'migrant workers'. This term, however, often fails to make a clear distinction between workers coming from

rural to urban area within a same locality or workers coming from different localities. The ambiguity innate in this term was less problematic in the past as the distinction between rural and urban hukou workers was the most important cleavage that determines one's welfare status and as labor mobility was strictly limited. The growing labor mobility and increasing number of inter-provincial migrant workers, however, has increased the saliency of the local v.s. non-local divide. Even official reports on migrant workers make an important distinction between rural migrant workers coming from within the same locality (*bendi nongmingong*) and migrant workers employed in different localities than their hukou registration place (*waichu nongmingong*).

Various institutional changes, including hukou reform and fiscal decentralization, have also increased the saliency of local v.s. non-local divide. When labor mobility was strictly restricted and the type of welfare benefits one can receive varied by hukou type (rural v.s. urban hukou), hukou location (local v.s. non-local) had no additional meaning than a place where individuals can claim the benefits designated to them. Yet with the recent hukou reform, the type of social benefits rural hukou workers receive has become similar to that is entitled to urban hukou workers ([Chan and Buckingham, 2008](#)) and the possession of local resident status has risen a pivotal criterion for one's welfare entitlement ([Shi, 2012](#)).

The upgrade of the social pooling system of Chinese social insurance programs has also changed the scope to which local government regards an individual as a 'local', although to different extents across cities and provinces. Since 2000s, the Chinese central government has urged local governments to integrate the scatter social insurance system. Many localities have followed the lead of the central government by integrating same social insurance programs scattered through different sub-units of a locality. Localities with higher income gap and labor sending provinces (which mostly located in Chinese inland provinces) have been more active in upgrading the social pooling systems to the

upper level for greater risk sharing (Huang and Kim, 2017). By 2016, more than 80% of Chinese cities have completed the city-level integration of social insurance programs (Huang and Kim, 2017). Some Chinese localities have even completed the establishment of the provincial-level pooling system. The Chinese central government keeps pursuing the integration of social-pooling system at the provincial level for all localities. Before the reform, the concept of 'local residents' was only narrowly defined as local government only considers workers from within the same township as "local". With the integration of the social pooling system, local governments have incentives to embrace workers coming from within the same city or from within the same province into the public welfare systems, while excluding non-locals from the boundary of the public system.

These institutional changes have reinforced and interacted with local government's long-maintained favoritism to local workers, in particular workers coming from within the province. Chinese local governments have designed and implemented several policies to favor the natives and intra-provincial migrant workers to inter-provincial migrant workers (Davies and Ramia, 2008; Nielsen, 2005). Provinces including Zhejiang, Sichuan, Shandong and Chongqing have enacted policies that allowed migrant workers from within the same province to settle down in cities. However, the same rules have not yet applied to inter-provincial migrant workers (Liang, 2016, 8). Even in the most inclusive and progressive provinces in which rural-urban social protection systems are integrated, only intra-provincial migrants can benefit from the unified social protection system (Liang, 2016).

When an informal worker (labor market outsider) is from other provinces, his or her position as a welfare outsider is reinforced due to the discriminating hiring policies that favor local workers, growing importance of local residency status in claiming welfare entitlement, and implicit and explicit discrimination against non-locals.

The extent to which informal worker overlaps with non-local workers, however, differs across localities. The fourth section of this chapter empirically examines how the likelihood of a non-local workers to be employed as informal workers varies across localities. As a pre-step to examine the overlap between non-local workers and informal workers, the next section first examines various forms of informal employment emerged after marketization, their sizes, and regional distributions.

4.3 Sources and Sizes of Informal Employment in China

While the internal division of temporary and permanent workers has long existed since the communist era, a full-fledged labor informalization has started with economic opening and marketization in the late 1980s. The creation of flexible and non-standard employment in the transitional period has helped the state make a smooth transition to a market economy by absorbing surplus workers (Cooke, 2008), sustaining the livelihood of new urban residents (Xue and Huang, 2015), and increasing the market flexibility (Wang et al., 2016). Labor informalization after the market reform occurred not only through an increase of informal employment in the formal sector—which has long existed even before the market reform—but also through an enlargement of informal sectors. Various forms and types of informal employment has created across different economic sectors, ranging from self-employment, hourly paid work, temporary work, irregular work, non-contracted employment, and dispatched employment (Chen and Chan, 2018; Wang et al., 2016).

Acknowledging the variation in forms and types of informal employment is crucial to better understand how many of Chinese workers are labor market outsiders, how they experience different levels of employment insecurity, and how their relationship with the state (institutions) shape differently. In this chapter, instead of merely estimating

the aggregated size of informal employment, I provide a disaggregated measurement of the size of informal employment by its sources. The new approach provides us three important insights. First, labor informality is rampant in China, accounting for around 70% of employment of the country. Second, informal employment is rising in both the formal and informal sectors, while the use of other non-standard forms of informal employment is decreasing after the revision of the [LCL](#) of 2013. Third, the major source of informal employment varies across localities: in underdeveloped inland regions, the increase in informal employment is mainly attributable to the growth of informal sector. In developed coastal provinces, to the contrary, most informal employments are created in the formal sector.

The following section classifies types of informal employment by its source. The next section estimates the size of informal employment by its sources and discusses how the major sources of informal employment vary across localities.

4.3.1 Informal Employment by Sources

Informal Sector Employees

While there existed a large number of temporary workers with precarious and informal employment positions in the pre-reform era, workers were mainly employed the state enterprises. With the market reform, an economic sector not monitored and unregulated by the state—informal sector—has emerged, creating a growing number of informal sector employees.

Compared to other developing countries, China has a relatively small informal sector. Yet the emergence of informal economic sectors has enabled a soft landing to a market economy by absorbing the growing number of newly released rural and urban workers ([Huang, 2009](#)). An increasing number of rural workers participated in informal eco-

conomic activities as self-employed, by selling small food or fruits or by repairing shoes, bicycles, or keys in small scales (Cook, 2008). In urban areas, informal sectors emerged in forms of informal private enterprises. These informal private enterprises are composed of less than seven employees or are usually owned and managed by an individual or by a family. These enterprises are regulated and monitored not as strictly as formal enterprises, such as SOEs, collective enterprises, or foreign enterprises.

While the rise of self-employed or enlargement of informal sectors are often interpreted as the sign of economic backwardness, it actually played a pivotal role in boosting the Chinese economy in the early phase of the reform (Giulietti et al., 2012; Meng, 2001). Compared to the informally employed in the formal sector, informal sector employees (self-employed) also have high labor market quality as well. They possess higher managerial skills and make higher income than what they would have earned had they worked in the formal sector as an informal wage worker (Giulietti et al., 2012; Meng, 2001).

Non-Contract Workers in the Formal Sector: Rising Informality in the Formal Sector in Mid 1990s and Early 2000s

While the size of informal sector has been growing, a larger portion of informal employment in China has been created in the formal sector. Starting from the late 1990s, the urban economy previously predominated by SOEs has become diversified with the rise of private enterprises and foreign enterprises. Unlike SOEs, the newly emerging formal sector—foreign and private enterprises—was not fully responsible to workers' social or employment security. These profit oriented private and foreign firms concerned more about lowering labor costs and maintaining price competitiveness in the world market. To achieve these goals, firms in the newly emerging formal sector employed workers without establishing formal employment-relationship through labor contracts.

While the concept of employment relationship built on labor contract has introduced in the Labor Law of 1994, many workers entering to the emerging formal sector were not aware of the existence or concept of labor contracts. Firms often took advantage of workers' lack of legal knowledge to not to provide workers with labor contracts and even discouraged workers from signing onto the labor contract (Gallagher et al., 2014; Gao et al., 2012; Cui et al., 2013). Due to their lack of labor contracts, workers' employment relationships have been poorly monitored, managed, or regulated by relevant authorities or local governments despite the fact that they are employed in the formal sector. Local governments have often turned blind eyes on firms' violation of the labor law to maintain firms' economic investments to their localities. In consequence, the number of formal sector workers who are not protected by labor laws and experience high level of employment insecurity has increased.

Workers from rural areas or other localities have become major sources of these informal employment in the formal sector. In order to attract these firms' investments to their own localities and provide these firms with stable supply of cheap and low-skilled labor, Chinese local governments have loosened their restrictions on rural to urban migration. A large number of rural workers coming from within and across provinces have provided much needed labor for mass production of labor intensive, low-skilled goods, without being provided with labor contracts. Yet, due to their differential hukou status, rural workers employed in urban areas had difficulty in claiming legitimate wages or better working conditions (Solinger, 1999). Nor could they benefit from the urban employment social protection programs. Profit-oriented foreign and private firms have actively hired these rural workers to make the hiring and firing processes flexible and to save costs related with labor protection (Knight et al., 1999).

The informally employed in the formal sector share some important characteristics with informal sector workers (such as self-employed) in that they are not provided with

employment-based social insurance and they experience high income insecurity. Yet formal sector workers lacking labor contracts are regulated more intensively by the state regulation and are affected more directly by labor regulations and laws compared to the self-employed in informal sectors. According to a research comparing the two groups of informal workers, formal sector employees lacking labor contracts work shorter hours and provided with better social protection than informal sector workers. Formal sector workers lacking labor contract, however, earn less money and have lower level of subjective well-being than informal sector workers (Liang et al., 2016).

The LCL of 2008 was introduced to reduce the social ramification and instability caused by the rampant labor abuse and increase of employment insecurity. As Hu Jintao-Wen Jiabao administration rose in power with the catchphrase of “harmonious society”, maintaining social stability and reducing labor discontents have become important political goals. By enacting a more enforceable and protective labor law, the Chinese government tried to improve workers’ working environment and reduce social instability caused by poor treatment against informal workers, in particular, migrant workers (Meng, 2017; Gallagher et al., 2014; Li and Freeman, 2015). The LCL has made it mandatory for workers to sign labor contracts with their employers. Employers were punished when they failed to sign a labor contract with their employees within a month from the employment relations began. The passage of the LCL has certainly increased the proportion of workers whose labor relationships are formally established based on labor contracts (Gallagher et al., 2014). The proportion of workers with labor contracts has increased not only among urban workers but also among migrant workers. With the implementation of the law, workers became more aware of their labor rights and gained power to file labor disputes, claim their social rights, and protect themselves from rampant labor abuses (Gallagher, 2006).

Precarious Workers: at the Edge of the Labor Contract Law

The LCL has not, however, ended the use of informal employment. In fact, the protective legislation of the LCL and the strict enforcement of it have unintendedly created new forms of non-standard employment positions (Park and Cai, 2011). Moreover, as a way to accommodate the strong opposition from businesses regarding the rigid employment management processes imposed by the LCL, the law added specific provision on the use of dispatched workers and other forms of non-standard employment option. This has unintendedly justified the use of dispatch workers and other forms of precarious employees.

Indirect employment through labor dispatch agencies (*paiqiangong*), in particular, has been widely used as a way to circumvent the strict enforcement of the labor law (Wang et al., 2016).¹ The use of dispatch workers helped firms hire workers at lower costs and with a high flexibility but without directly violating the LCL (Cook, 2008; Swider, 2015). Dispatch workers sign labor contract with a labor dispatch enterprise, but not with the company they actually work (host company). The legal responsibility regarding hiring and firing processes, provision of government-mandated social insurance benefits, and redress of labor grievances, has been from hosting firms to the agency firms (Chen and Chan, 2018). While dispatch workers usually perform same tasks as regular employees, dispatch workers are paid less, are marginalized from social protection, and experience a higher level of job insecurity (Ren and Peng, 2007; Park and Cai, 2011; Wang et al., 2016). Their labor relations are hardly monitored by labor authorities due to the complexity of the employment relationship. To make things even worse, much of employment related evidence for dispatch workers remain in the hands of the employers, not employees (Cheung, 2013). While dispatch employment was initially concentrated in the low-skilled

¹ Different terms are used to indicate this group of workers: dispatch workers, subcontracted workers, agency workers

sectors, primarily in industries or private enterprises, it has now spread to well-protected sectors such as state-owned manufacturing enterprises (Park and Cai, 2011; Wang et al., 2016). In the worst case, dispatch workers compose more than two thirds of full time employees at SOEs (Cheung, 2013). According to a research report by the All China Federation of Trade Unions (ACFTU) dispatched employment project team, dispatch workers make up nearly 17% of the total workforce in urban employment (ACFTU, 2012).

Employers have also created other forms of nonstandard and precarious employment positions that pay workers at hourly rate or that hire workers only temporarily or seasonally (Wang et al., 2016; Zhou, 2013). Part-time and probationary work also allowed employers to enjoy employment flexibility without being caught by the violation of the LCL (Ho and Huang, 2014).

Chinese local governments, however, played a limited role in limiting the use of various forms of precarious employment positions. Instead, they have overlooked, if not facilitated, the growth of precarious employments to boost labor market flexibility (Wang et al., 2016). Some local labor bureaus even negotiated with labor agency firms and allowed them to provide only limited social benefits to the agency workers (Wang et al., 2016).

The over-expansion of precarious employment positions (especially the explosive use of dispatch workers by firms), however, has worried Chinese government about its ramification on its economic development and social stability. The Chinese government's turn to domestic-consumption oriented model also played a role in motivating the state to revise the LCL. In December 2012, the Standing Committee of the National People's Congress released the *Decision of the Standing Committee on the Revision of the LCL*, which became effective in July 2013. The revised LCL restricts the use of dispatch worker, stipulates the six-month limit on using temporary workers, and set the maximum percentage

of dispatch workers in a firm's total employees. Yet many observers cast doubt on the effectiveness of the revised law in reducing the abuse of non-standard employment and in decreasing the size of informal employment. While many firms have reduced their use of dispatched workers, they have developed loopholes to cope with the new regulations. Business outsourcing and part-time employment, for example, have risen as new forms of informal employment widely used by employers who want to enjoy employment flexibility but not being caught by the new labor regulations (Wang et al., 2016).

The global trend of rising gig economy has also enlarged the size of informal employment in China. Gig workers are similar to the self-employed in that their employment relationship is not based on labor contract and are hardly monitored by the state. Yet they are different from the self-employed in that they still work for a company or for an enterprise. The connection between gig workers and firms is, however, tenuous and unstable. Most gig employees work only to complete a particular task or for defined time (Friedman, 2014). Hence, just like other informal employees, they experience high income and employment insecurity. Moreover, in the absence of lasting financial or social connections to workplaces, gig workers are separated from their fellow workers (Friedman, 2014).

Chinese local governments, those in underdeveloped inland areas in particular, have encouraged and supported the rise of this new form of employment. According to an interview with a manager of an employment agency, whose headquarter is in Shanghai but whose branches are spread all over China, local governments encourage the rise of gig economy to create more employment.² He said that *"Local governments in inland areas do not have many firms (to create employment). These days, they establish human resource service centers and invite agency firms like us to create various forms of informal employment."* He also added that this new form of employment rooted in the gig economy has become

² subject # 9, Interview with a manager of an employment agency, Shanghai, March 8, 2016.

an important mode of employment in China: *“Flexible employment (linghuojieyue) has become a new model of employment type. You (an employee) don’t have to be tied in a firm or a company. If someone needs you, you can go work for someone. If nobody wants you, you can just go rest.”*.

4.3.2 Measuring the Size of Informal Employment in China

How are different forms of informal employment distributed in China? Estimating the size and distribution of Chinese informal employment has been a challenging task for the following two reasons.

First, the Chinese government has placed less efforts in officially measuring the size of informal employment (Park et al., 2012). The lack of official effort to understand the size and nature of labor informality of the country is related with the state’s reluctance to acknowledge the existence of informal employment (Liang et al., 2016). Even when the state describes informal employees, it has adopted the term of ‘flexible’ (*linghuojiuaye*) workers to dilute the negative connotation and to reduce the de-legitimizing effect that the term ‘informal’ may bring to the society. The lack of coherent measurement of informal employment has delayed the establishment of systematic policy guidelines for informal workers (Liang et al., 2016).

Second, focusing more on measuring the aggregate level of informal employment, a large number of previous studies pay only insufficient amount of attention to the differences in the types and characteristics of informal employment. Various forms of informal employment positions created at the edge of the LCL, such as employment through dispatch agencies, have been widely under-counted. This has often led to an underestimation of the size of informal employment.

Studies using official statistics released by NBS, for example, measure the size of informal employment by looking the gap between the number of total urban labor force

and the number of formal employees (Cook, 2008; Hu and Zhao, 2006; Park and Cai, 2011; Zhang et al., 2015). While this approach is widely used, this residual approach does not clearly spell out who constitutes the 'residual' worker group. Some argue that the number of uncounted workers is likely to capture the number of informal employees in formal sectors (Hu and Zhao, 2006). Others, on the other hand, interpret this number as the number of workers in informal sectors such as unregistered private and self-employed sectors (Park and Cai, 2011). Moreover, informal workers exist not just in informal sector but also in formally registered sectors. The residual approach, however, treats all workers as formal if they are employed in formal enterprises. It thereby underestimates the size of informal employment.

Some studies supplement the limitation of the residual approach by measuring the size of informal employment using individual-level survey data. Unlike official statistics, individual-level survey data provide detailed information on differences in employment sectors, employment positions, and social-economic characteristics of workers who constitute different informal worker groups. Most research identifies a worker as informal if a worker is self-employed workers (Cook, 2008; Park and Cai, 2011) or a worker lacks labor contracts (Chen and Hamori, 2013; Liang et al., 2016; Park et al., 2012). Another variant of this approach looks at not only a worker's possession of labor contracts but also his/her social insurance (pension, health insurance, unemployment insurance) participation status (Park et al., 2012). In doing so, studies using survey data captures informal employment in both informal and formal sectors. Yet this estimate often fails to capture various forms of informal workers who have labor contracts yet still experience a high level of employment insecurity, such as workers who are contracted as temporary, part-time employees or workers who are employed indirectly by labor dispatch agencies (Cook, 2008; Swider, 2015). Recognizing this group of informal workers is important in understanding Chinese labor market outsiders not only because its size is substantial

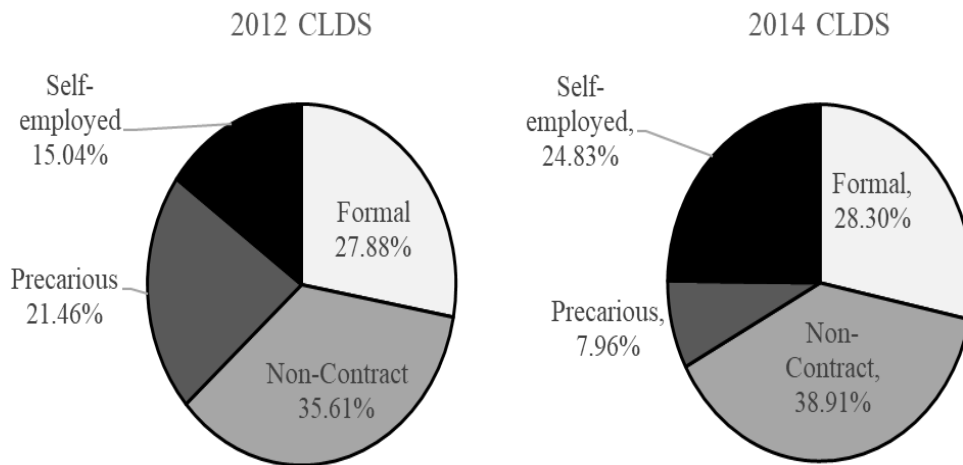
but also because they experience different outsidersness than non-contracted workers in the formal sector or the self-employed.

This chapter provides an updated measure of the size of informal employment by taking into account three different sources of informal employment using two rounds of nationally sample survey data, [CLDS](#) of 2012 and 2014. The first type of informal employment indicates those employment positions created in informal economic sectors, such as self-employed and those employed in family-owned enterprises. The second and third type of informal employment occurs in formal sectors: The second type of informal employees indicates formal sector employees lacking labor contracts (hereafter, non-contracted workers); The last type of informal employees indicates formal sector employees with labor contract but whose employment position is nevertheless precarious (hereafter, precarious workers). I defined precarious employment as wage workers who obtain labor contracts but who are employed indirectly by labor dispatch agencies, are paid on non-regular basis, or are employed as a part time worker. In measuring the total size of informal employment, I aggregated the number of all these three types of informal employment.

The analysis from the two rounds of survey shows that informal employment explains a large part of the Chinese economy (See [Figure 4.1](#)). In 2012 ([CLDS](#)), only 27.88% (weighted) of the total employment is formal employment and 28.3% in 2014 ([CLDS](#)). According to the survey, the size of total informal employment has slightly decreased from 72.12% in 2012 to 71.7% in 2014. Yet both the shares of employees in informal sectors (self-employed) and non-contract workers in urban employment have increased. The share of self-employed has risen from 15.04% in 2012 to 24.83% in 2014. The share of non-contract workers has increased from 35.61% to 38.91%. While the decrease in the size if informal employees in formal sector from 57.07% in 2012 to 46.87% in 2014 is mainly due to the decrease of precarious employment positions. The survey shows that

the share of precarious workers has decreased from 21.46% in 2012 to 7.96% in 2014. The rapid decrease in the size of precarious workers is attributable to the revision of the [LCL](#) of 2013, which restricted the use of dispatch workers.

Figure 4.1: The Composition and Size of Urban Employment in China (2012, 2014)



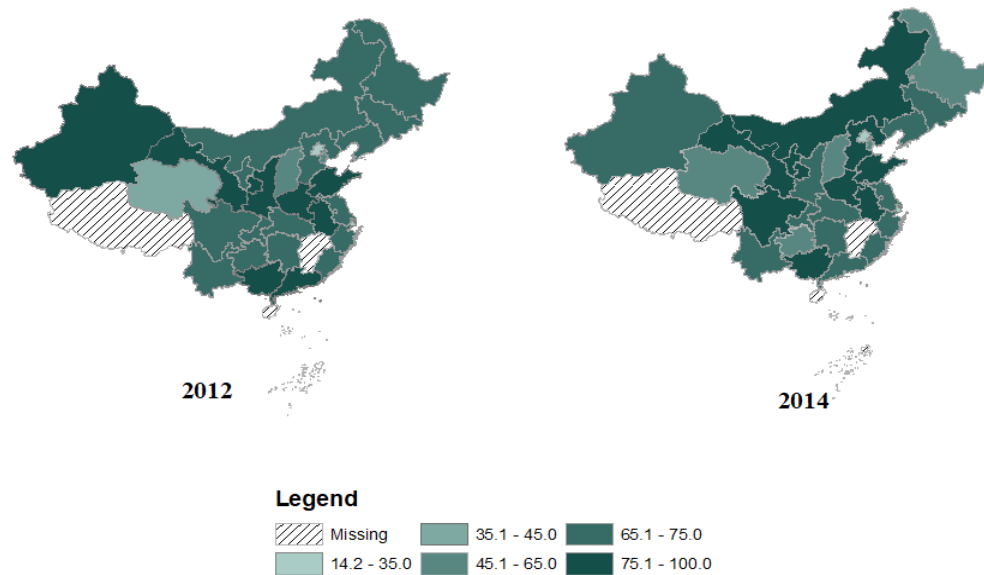
Source: China Labor Dynamic Survey 2012, 2014

Among the three different types of informal employment, non-contracted employment explains the largest share of informal employment. In 2012, slightly less than a half of entire informal employment (49.1%) is non-contracted employment in the formal sector. The share of non-contract worker in informal employment has increased to 54.2% in 2014.

The aggregated share of informal employment is larger in Chinese inland provinces than in coastal provinces with high state capacity, developed economy, and better enforcement (See [Figure 4.2](#)). It shows the finding from previous research that informality

is less prevalent in more developed, coastal cities (Guangzhou, Shanghai, and Fuzhou) compared to interior cities is not just limited to these localities. (Park et al., 2012).

Figure 4.2: Share of Informal Employment in Urban Employment by Provinces



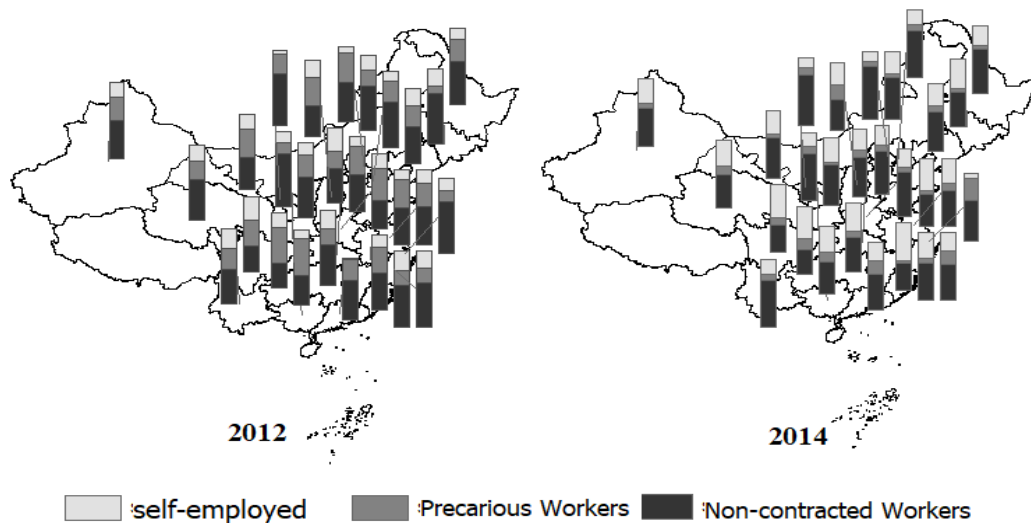
Note: The shaded areas indicate missing information on the share of informal employment

Source: CLDS 2012, 2014

Not only the size of informal employment differs, but also the major source of informal employment varies across localities. The stack bars in Figure 4.3 indicates the composition of informal employment by sources. In developed areas, the major source of labor informality is informal employment in the formal sector (either in forms of precarious or non-contracted employment). In underdeveloped inland areas, on the other hand, as is indicated by the light grey bars, a large share of informal employment comes from informal sectors as a form of self-employed. In Shanghai in 2014, for example, only 8% of informal employment comes from informal sector as a form of self-employed. In

Anhui in 2014, on the other hand, 56.71% of informal employment is in informal sector as a form of self-employed.

Figure 4.3: Informal Employment by Sources



Even when comparing two Chinese coastal and inland provinces with a similar size of informal employment, a larger share of informal employment comes from informal sectors in inland provinces. In 2014, the share of informal employment in urban employment was 70.81% and 71.61% of local employment in Zhejiang and Hunan, respectively. Yet only 8.01% of informal employment in Zhejiang comes from informal sectors while 40.73% of informal employment in Hunan arises from informal sector in forms of self-employed. The Chinese inland provinces' policy support for return migration and entrepreneurship has contributed to the rise of the self-employed in these localities (Liang, 2016). The policy support from local authorities has encouraged a large number of migrant workers to return to their home localities, start a business in inland provinces, and reunite with their family members.

4.4 Labor Mobility and Labor Informality: the Two Layers of Market Stratification

As discussed, the local v.s. non-local divide has risen as an important cleavage that affects one's welfare entitlement in China. An informal worker (labor market outsider) is further marginalized from welfare provision (and becomes a welfare outsider) if the individual is not a legitimate member of a geopolitical community (local worker). The extent to which the two outsiders overlap, however, varies across Chinese localities due to diverging patterns of labor mobility. In Chinese coastal localities, a significant portion of informal employment has been passed onto these inter-provincial migrant workers. In Chinese inland localities, to the contrary, informal employment positions have been filled more by workers from within the same province. The different level at which non-local workers overlap with informal workers create different types of 'outsiders'.

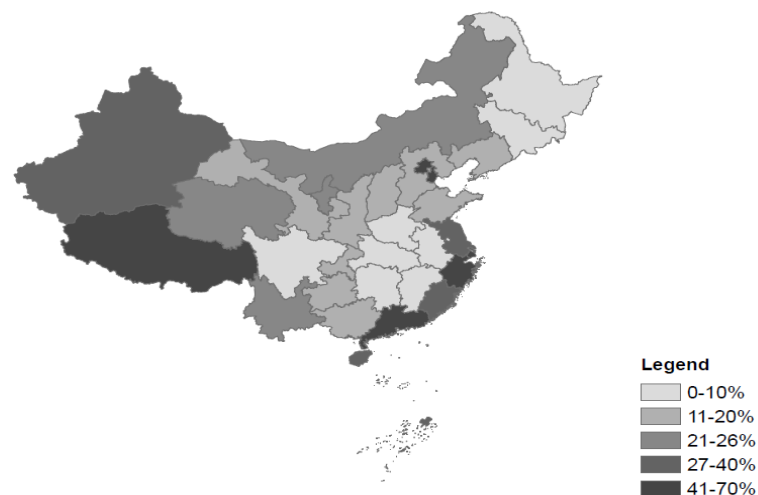
In this section, I examine how the pattern of labor mobility has differed across regions and how one's migrant status has different meaning in predicting one's employment status across regions with different patterns of labor mobility.

4.4.1 Different Patterns of Labor Mobility: Labor Mobility within or across Province?

The scale of within-country migration has been increasing since the market reform in the late 1980s. Inter-provincial migration, in particular, has become one of the prevalent modes of migration. The share of inter-provincial migration in all inter-county migration rose rapidly from 27.7% in 1990 to 45.9% in 2015 (Su et al., 2018). Yet the flow of inter-provincial migrant workers has been unidirectional (Fan, 2002, 2005; Su et al., 2018). While developed provinces located in the coastal area have attracted a large number

of inter-provincial migrant workers coming underdeveloped inland localities in China, inland provinces have hosted only a small number of inter-provincial migrant workers. The 2010 national population census data show that inter-provincial migrants as a share of all non-local migrants (those workers whose hukou is not in the current place) is larger in coastal provinces than in inland provinces (See Figure 4.4). The analysis from the CLDS of 2012 and 2014 also shows the similar pattern of inter-provincial migration. (See Figure 4.6).

Figure 4.4: The Share of Inter-Provincial Migrant in Total Migration



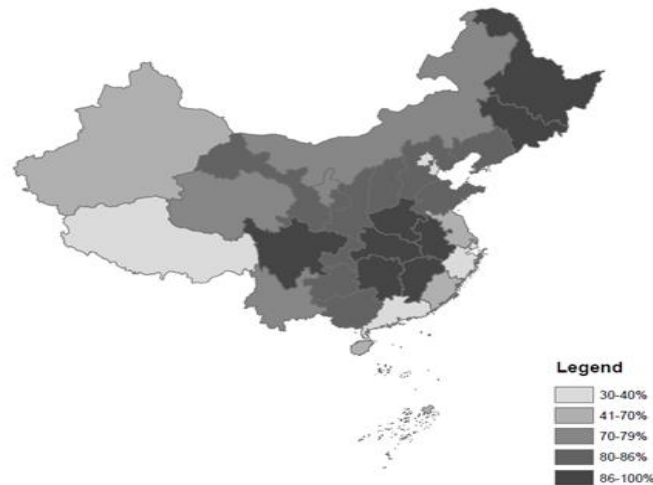
Source: 2010 Population Census (National Bureau of Statistics)

While labor mobility is growing rapidly in inland provinces as well, most of migration occurs in form of intra-provincial movement (See Figure 4.5). The volume and scope of intra-provincial migration has grown rapidly in recent years.³ In particular, in

³ It is important to note that this trend is not confined to inland provinces. In coastal areas, as well, the use of intra-provincial migrant workers has been growing. While a large number of migrants are still from inland rural areas in the 1980s and 1990s, increasing number of migrants in the coastal cities are from the towns and cities of the inland provinces in the new millennium (Shen and Wang, 2016).

Sichuan and Henan—the main exporters of inter-provincial migrant workers, the number of intra-provincial migrants has out-numbered that of out-going migrants.⁴

Figure 4.5: The Share of Intra-Provincial Migrant in Total Migration



Source: 2010 Population Census (National Bureau of Statistics)

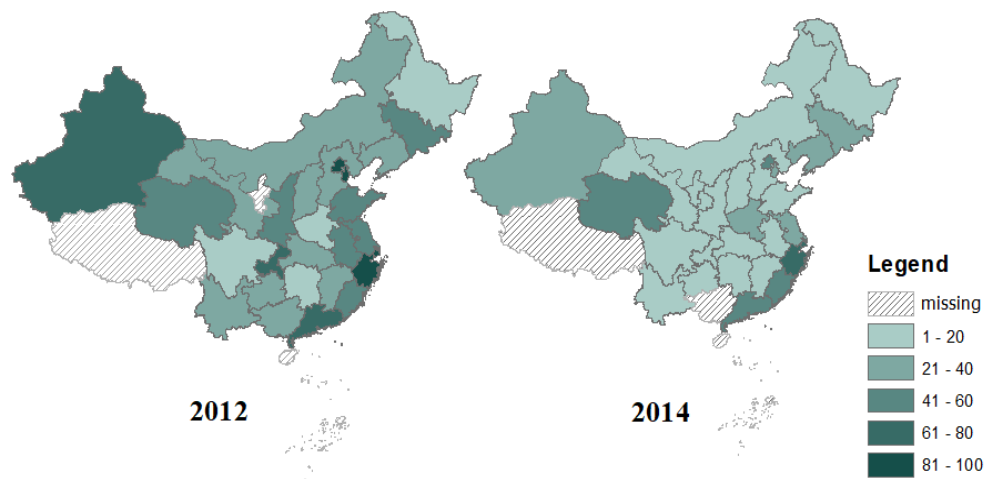
Due to the different patterns of labor migration, the extent to which informal employment is passed onto workers of non-local workers has also varied. In Chinese labor importing localities located in coastal provinces, many of informal jobs are externalized to inter-provincial migrant workers. According to the 2012 CLDS, among all non-contracted workers in Tianjin, 47.36% were from other provinces. 62.83% and 63.33% of all non-contract workers in Shanghai and Zhejiang were from other provinces. The high overlap between inter-provincial migrant workers and informal workers has further reinforced the segregation between insiders and outsiders.

The informal, non-standard, and precarious employment positions taken by inter-provincial migrant workers have also lowered coastal provincial government's incentives to incorporate inter-provincial migrant workers into the public welfare system. In con-

⁴ <https://worldview.stratfor.com/article/chinas-migrant-workers-boon-and-challenge> (Last Accessed Date : April 10, 2018)

sequence, coastal provincial governments have developed ways to incorporate non-local workers selectively based on their merits, ability to contribute to local economy, and social economic status. The point system adopted in Guangdong province epitomizes how coastal provincial government restricts the permanent settlements of inter-provincial migrant workers with lower income and skill levels (Chan and Buckingham, 2008; Song, 2014).

Figure 4.6: Share of Interprovincial Migrant Workers in All Migrant Workers by Province



Source: CLDS 2012, 2014

In Chinese underdeveloped labor sending localities with fewer inter-provincial migrant workers, on the other hand, informal employment positions are not necessarily reserved for inter-provincial migrant workers. The growing number of informal employment of various forms are taken by local or intra-provincial migrant workers. Among all non-contracted workers in Hubei and Hunan, nearly 90% were coming from within the same province.

Intra-provincial informal workers in inland provinces are similar to inter-provincial informal worker in coastal provinces in that they do not enjoy the same benefits as their formal counterparts. Yet the two groups of informal workers are different in that intra-provincial migrant informal workers are also more likely to be perceived as permanent residents of the locality and have a greater intention and ability to settle down in their destination cities (Shen and Wang, 2016; Su et al., 2018). Also, as China moves from its export-oriented development model to domestic-consumption based model, many inland governments have striven to design policies to retain workers from within the same localities. In the past, local officials in labor sending localities used to visit factories in labor receiving provinces, such as Guangdong, to persuade them to hire workers from their localities. Now party officials in many labor sending localities visit local factories for this purpose and to make sure many employment positions go to locals.⁵ Having more workers from within the province, inland provincial governments have been in better place to pursue social inclusion policies based on local residency (Yang and Gallagher, 2017). The more stable residency status of intra-provincial migrant workers contributes to the local economy by making these workers supply their labor for a longer period, acquire new skills, and consume more goods and services (Su et al., 2018; Meng, 2014).

4.4.2 The Impact of Migrant Status on One's Employment Position

Whether and how a worker's migrant status affects his or her employment status has been an important issue in understanding the Chinese labor market structure. It is not a secret that local governments have reserved good—formal, stable, and permanent—employment positions for their own populace and imposed a discriminatory hir-

⁵ Welcome Home, The Economist (Feb 25, 2012), Available at <https://www.economist.com/node/21548273> (Last Access Date: April 10, 2018).

ing policy against non-locals (Chen and Chan, 2018, 5). Yet only a few studies examine whether one's local citizenship status has an effect in determining one's employment positions. A recent study of labor informality in China finds that migrant workers are more likely to become self-employed than to become non-contracted workers compared to urban (local) workers (Liang et al., 2016). Yet this research defines migrant worker as those who hold rural hukou and does not distinguish local workers from non-local workers. Nor does it explore how the impact of migrant status differs across localities of diverging labor mobility patterns.

To overcome the limitation of previous research, I conducted a multinomial analysis of determinants of informal employment. I explored whether and how individual's local residency status affects his or her likelihood of working as a labor market outsider (an informal worker) in two types of Chinese provinces—labor importing provinces and labor exporting provinces. The dependent variables are dummies of different forms of employment position—formal employees, self-employed (in informal sector), non-contracted workers, and precarious workers. The main interest variable of this research is the local citizenship status of a worker. I classified a worker's migrant status by three types—interprovincial migrant workers, intra-provincial migrant workers, and local workers. For controls, I added the hukou type (rural hukou coded as 1 and urban hukou as 0), education level, gender, age, and industry type.

Individual workers' migrant status is likely to be associated more strongly with informal employment of various forms in labor importing areas that attract a large number of non-citizen workers from other localities and externalize less-desired employment to outsiders. In Chinese labor-exporting areas, on the other hand, local residency status is not likely to lower one's chance of working as an informal employee. The statistical outcome reported in the table below provides limited yet important support for the

hypothesized relationship between one's migrant status and employment positions in different localities.

As can be seen by the table 4.1 and table 4.2, in Chinese labor-exporting localities located in Chinese inland provinces, local workers are no less likely than inter-provincial workers to work as either form of informal employee in 2012. In Chinese labor-importing localities located in Chinese coastal areas, on the other hand, being a local worker decreases one's change of being a precarious worker.

Table 4.1: Determinants of Informal Employment by Region (CLDS 2012)

Variables	Inland 2012			Coastal 2012		
	self-emp	Noncontract	Precarious	self-emp	Noncontract	Precarious
Migrant Status (Baseline: Interprovincial nonlocal worker)						
Local	0.235 (0.460)	0.034 (0.503)	0.634 (0.752)	0.094 (0.336)	0.083 (0.263)	-0.932*** (0.242)
Intra-provincial	-0.340 (0.547)	-0.517 (0.450)	0.011 (0.798)	-0.607 (0.428)	-0.310 (0.298)	-0.519 (0.317)
Rural hukou	2.409*** (0.296)	1.615*** (0.227)	2.141*** (0.279)	1.138*** (0.313)	0.711*** (0.240)	0.646*** (0.226)
Age	0.153** (0.068)	0.010 (0.055)	-0.055 (0.055)	0.019 (0.069)	-0.140** (0.058)	-0.079 (0.066)
Age squared	-0.001* (0.001)	0.000 (0.001)	0.001 (0.001)	0.000 (0.001)	0.002** (0.001)	0.001 (0.001)
Education (Baseline: Elementary and below)						
Middle School	-0.727** (0.315)	-0.637** (0.264)	-0.506* (0.256)	-0.661** (0.291)	-1.007*** (0.243)	-0.633*** (0.218)
High school	-1.686*** (0.381)	-1.053*** (0.311)	-0.740** (0.282)	2.044*** (0.297)	-2.151*** (0.248)	-1.257*** (0.285)
College and above	-2.627*** (0.416)	-1.265*** (0.312)	-1.864*** (0.376)	-2.971*** (0.477)	-2.538*** (0.307)	-1.680*** (0.279)
Female	-0.343 (0.228)	0.151 (0.166)	0.235 (0.218)	-0.371** (0.181)	-0.021 (0.122)	0.106 (0.157)
Industry Sector (Baseline: Primary Industry)						
Secondary Industry	0.785 (0.528)	0.794 (0.565)	-2.420*** (0.367)	-0.446 (0.691)	-0.130 (0.598)	-2.921*** (0.496)
Tertiary Industry	1.973*** (0.525)	0.849* (0.506)	-2.579*** (0.373)	0.664 (0.695)	-0.299 (0.552)	-3.706*** (0.510)
Constant	-6.488*** (1.574)	-1.263 (1.381)	0.844 (1.301)	-3.178* (1.586)	3.146** (1.403)	4.989*** (1.393)
Observations	2,783	2,783	2,783	2,629	2,629	2,629

Standard errors in parentheses
 *** p<0.01, ** p<0.05, * p<0.1
 Source: CLDS 2012, 2014

The diverging employment pattern between inter and intra-provincial workers in Chinese inland and coastal provinces becomes more prominent in 2014. In Chinese labor exporting localities, local workers or migrant workers from within the same province are no less likely than inter-provincial migrant workers to work as informal employees. In Chinese coastal provinces, on the other hand, local workers or migrant workers from within the same province are less likely to work as precarious workers than inter-provincial migrant workers.

Table 4.2: Determinants of Informal Employment by Region (CLDS 2014)

Variables	Inland 2012			Coastal 2012		
	self-emp	Noncontract	Precarious	self-emp	Noncontract	Precarious
Migrant Status (Baseline: Interprovincial nonlocal worker)						
Local	-0.133 (0.504)	0.099 (0.523)	0.587 (0.743)	0.745* (0.397)	0.342 (0.305)	-0.646*** (0.209)
Intra-provincial	-0.343 (0.534)	-0.125 (0.503)	0.364 (0.672)	0.607 (0.439)	0.257 (0.298)	-0.738** (0.289)
Rural hukou	1.587*** (0.269)	0.940*** (0.189)	0.087 (0.286)	0.996*** (0.289)	0.448* (0.245)	0.186 (0.289)
Age	0.065 (0.043)	-0.104*** (0.039)	0.048 (0.065)	0.059 (0.046)	-0.223*** (0.038)	-0.017 (0.065)
Age squared	-0.001 (0.001)	0.001*** (0.000)	0.001 (0.001)	-0.000 (0.001)	0.003*** (0.000)	-0.000 (0.001)
Education (Baseline: Elementary and below)						
Middle School	-0.828*** (0.237)	-0.615*** (0.227)	-0.093 (0.331)	-0.694*** (0.218)	-0.726*** (0.198)	-0.228 (0.316)
High school	-2.173*** (0.258)	-1.648*** (0.209)	-0.562 (0.348)	-1.983*** (0.242)	-1.681*** (0.237)	-0.962** (0.420)
College and above	-3.155*** (0.374)	-1.796*** (0.256)	-0.536 (0.407)	-3.183*** (0.353)	-2.558*** (0.270)	-1.555** (0.652)
Female	-0.041 (0.188)	0.250* (0.149)	-0.136 (0.235)	-0.433** (0.159)	-0.012 (0.135)	0.088 (0.185)
Industry Sector (Baseline: Primary Industry)						
Secondary Industry	-0.123 (0.423)	0.747** (0.358)	0.514 (0.493)	-0.707 (0.527)	-0.092 (0.451)	0.648 (0.864)
Tertiary Industry	1.017*** (0.356)	0.663** (0.308)	-0.521 (0.461)	0.485 (0.457)	-0.237 (0.469)	-0.153 (0.851)
Constant	-1.488 (1.033)	2.458** (0.981)	-1.977 (1.573)	-4.098*** (1.215)	4.150*** (1.063)	-1.548 (1.634)
Observations	3,410	3,410	3,410	3,425	3,425	3,425

Standard errors in parentheses
 *** p<0.01, ** p<0.05, * p<0.1
 Source: CLDS 2012, 2014

While rural hukou workers are more likely to be informal workers of various forms in both 2012 and 2014, the importance of rural hukou in predicting one's employment sector has decreased in 2014. In 2014, for example, rural hukou workers are no more likely than urban hukou workers to be employed as precarious workers.

While being older seems to affect inland worker's probability of working as self-employed in 2012, the effect does not remain in 2014. Aging does not have any significant association with one's likelihood of working as a precarious worker in both inland provinces and coastal provinces. Yet, the negative association between the age variable and non-contracted workers and the positive association between the quadratic form age variable and non-contract workers imply that younger and older workers are less likely than middle-aged workers to be employed as non-contracted workers in both coastal and inland areas. More years of education lowers one's probability of working as informal employees of any forms.

4.5 Conclusion and Summary

This chapter examines the divide between formal versus informal employment positions and the divide between local versus non-local workers as the main social categories that stratify workers and make an individual as 'welfare outsiders'. These social categories are not new to the Chinese society. They have long existed since the pre-reform era and divided Chinese workers. As China went through marketization, however, the stratification between labor market insiders (formal workers) and outsiders (informal workers) has become even more apparent, institutionalized, and segmented. With the growing labor mobility and institutional changes, the local versus non-local division has risen as an important social category that determines one's welfare entitlement. This chapter also finds that, in certain Chinese regions, non-local workers are more likely to

be employed as informal workers. The interaction and overlap of the two social categories can further consolidate one's position as labor market outsiders and welfare outsiders.

This finding resonates with the argument that the extent to which labor informalization leads to welfare dualization or political dualization differs across countries depending on each country's welfare system and political structure ([Häusermann and Schwander, 2012](#); [Schwander and Häusermann, 2013](#)). In China, it is the locally divided citizenship institutions, differing patterns of labor mobility, and political systems that nurture local favoritism that influence the extent to which labor informalization leads to welfare dualization.

The next chapter discusses how the emergence of different types of 'outsiders' created by the differing level of overlap between the two outsiders (non-local workers and informal workers) influences local government's pension expansion strategies and explains the emergence of locally dualized pension regimes.

Chapter 5

Why Do the Two Pensions Develop Unevenly: Sub-national Variation in Pension Coverage

5.1 Introduction

The Chinese central government's effort to cover a broader segment of society has been partially successful. It is successful in a sense that the aggregated pension coverage has increased rapidly in all localities in China. Yet, it is not entirely successful in a sense that the two Chinese pension programs—the employment-based pension program and the residency-based pension program—have not expanded evenly across different localities in China. This sub-nationally different pension expansion has resulted in the establishment of two distinctive pension regimes in the country—a narrowly targeting yet generous employment-based pension regime and a broadly encompassing yet modest residency-based welfare regime. How does the pension expansion pattern differ sub-

nationally and what explains the sub-national variation? What explains the emergence of the two distinctive pension regimes in China?

This chapter seeks an answer to these questions by examining sub-national variation in pension coverage among China's 31 provinces during the period of 2005-2015. In Chapter 2, I argued that structural changes that stratify the Chinese labor market—labor informalization and labor mobility—influence local states' welfare provision strategies by altering the composition of pivotal groups that local governments try to co-opt using social policies. Using a unique cross-sectional dataset compiled from two rounds of nationally sampled survey data and various Chinese statistical yearbooks, this chapter tests hypotheses generated from this theory: the relationship between labor informality, labor mobility, and pension expansion patterns.

This chapter is organized as follows. I begin by describing the locally diverging pension expansion patterns in China. The next section examines how previous literature explains development of different social insurance programs focusing mainly on the level of labor informalization and discusses why it is important to look at the joint effect of labor informalization and labor mobility in explaining the local variation in Chinese pension expansion. The following two sections provide empirical evidence for the hypotheses generated from the theoretical discussion. The final section concludes with a summary of findings and broader significance of the research.

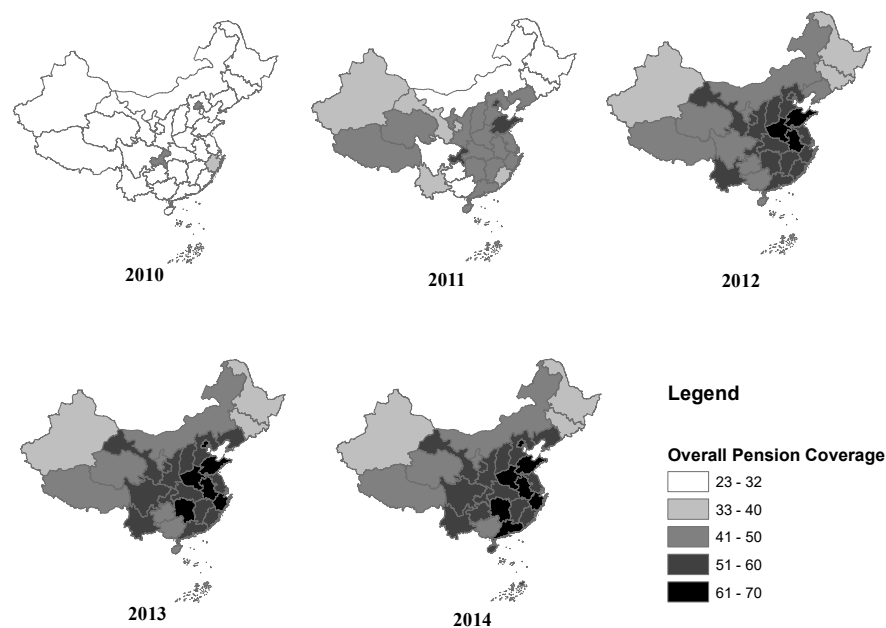
5.2 Dual Pension Regimes in China: Sub-national Variation in Pension Coverage

Over the past few years, the Chinese central government has placed a greater emphasis on increasing its social insurance coverage. The shift of its development strategy from the export-oriented model to the domestic-consumption oriented model, the end

of demographic dividend, and a growing need for sustainable urbanization (urban-rural integration) have all increased the central government’s aspiration for universal social insurance coverage.

To achieve the goal, the Chinese central government has increased the subsidies for local social security expenditure (Lin, 2015; Lin and Tussing, 2016) and set the pension coverage of a locality and the amount of social security expenditure as important criteria by which local officials are evaluated (Mok and Wu, 2013). With these changes, the number of Chinese citizens covered by either of the two pension schemes has increased extensively over the few years (See Figure 5.1).

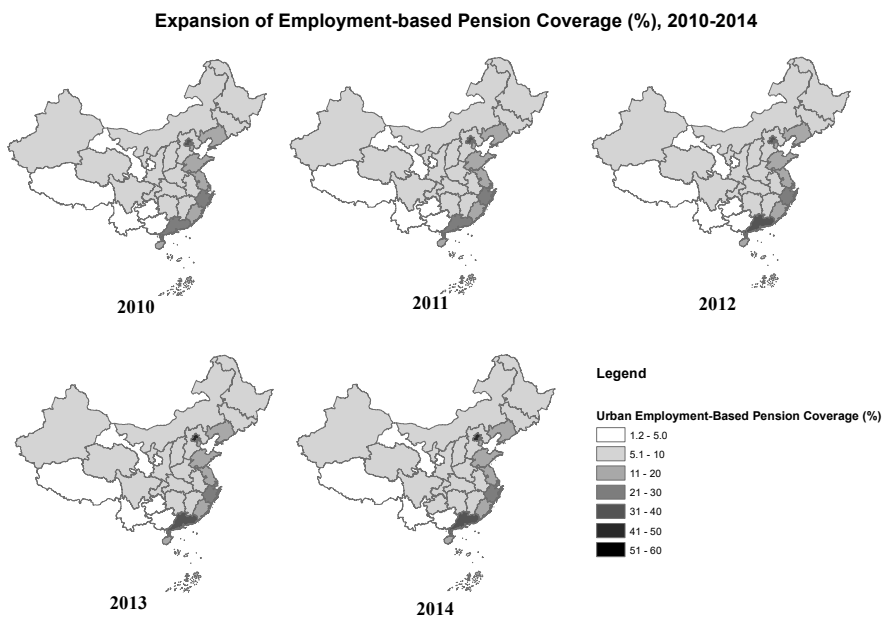
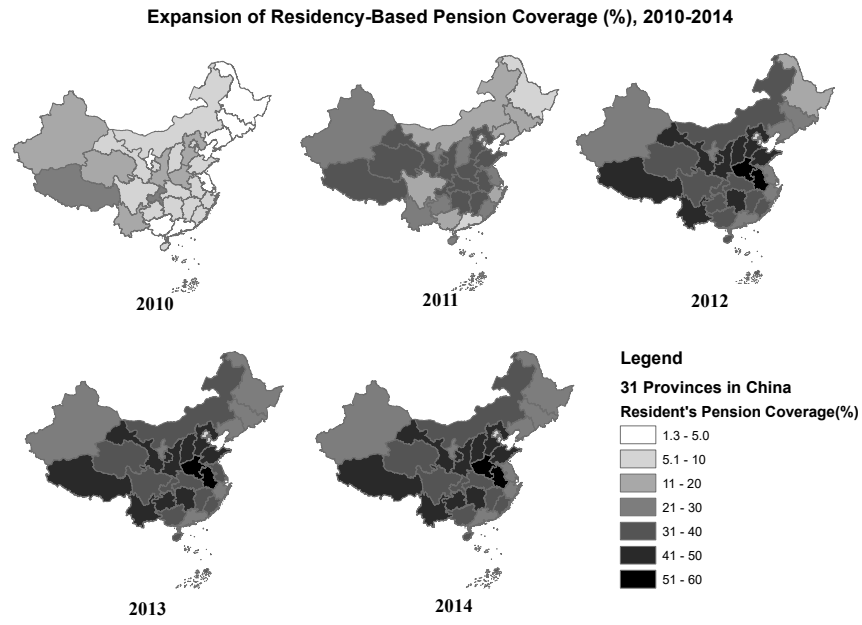
Figure 5.1: Overall Pension Expansion by Province (2010-2014)



Source: China Labor Statistical Yearbook ; China Statistical Yearbook (2010-2014).

Seen from the overall pension coverage, every Chinese province seems to make a step forward to universal pension coverage. Yet the breakdown of the overall pension

Figure 5.2: Dualized Pension Expansion Patterns in China (2010-2014)



coverage by programs shows that the two pension programs have not developed in a locally balanced way. As discussed in Chapter 3, the two pension programs serve different groups of population and have widely different re-distributive implication. Hence, even when two regions have the same overall pension coverage, the re-distributive implication and the type of workers covered by the social insurance program can widely differ depending on the breakdown of the pension coverage by program.

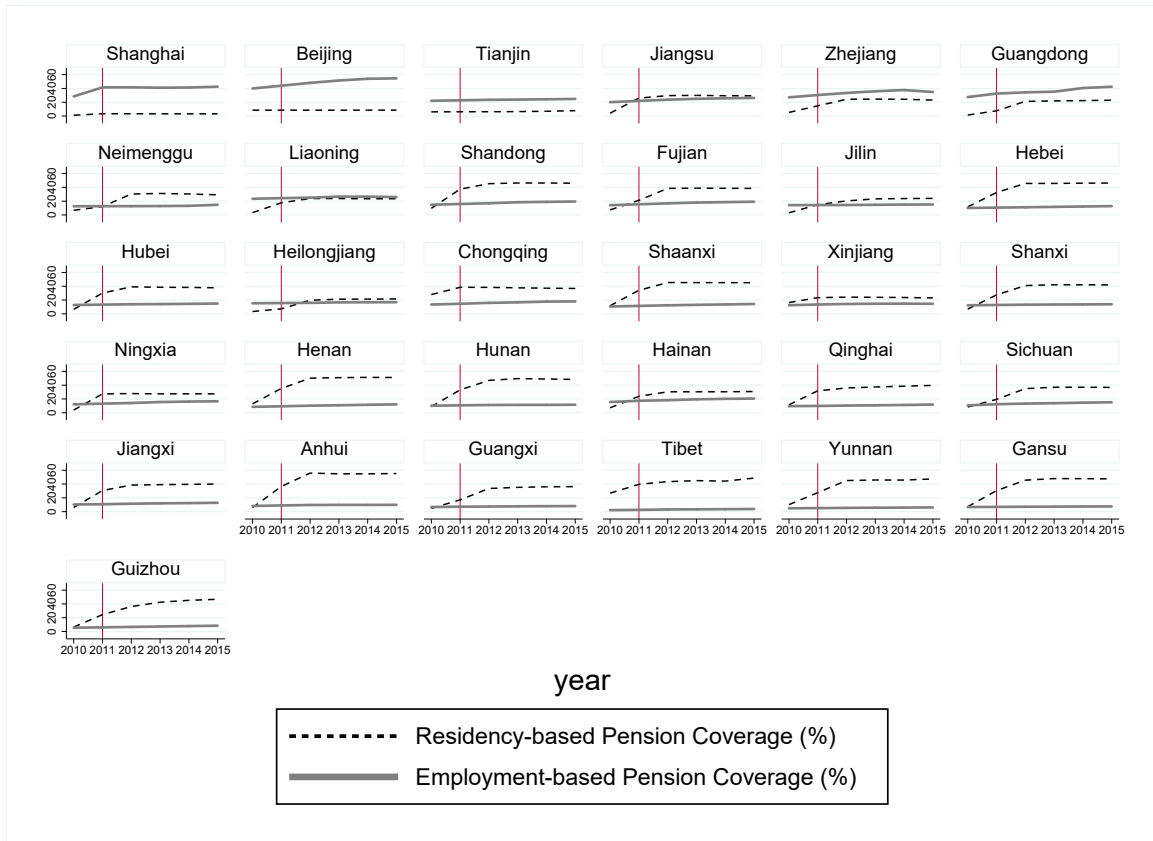
In Chinese inland provinces, overall pension coverage has improved mainly due to the rapid expansion of the residency-based pension program. The coverage of the residency-based pension program has soared rapidly in this region and is higher than those of coastal provinces. In Chinese coastal provinces, on the other hand, the residency-based pension coverage has not expanded much and remains lower than those of inland provinces. Conversely, when it comes to the coverage of the employment-based pension program, inland provinces has not made much progress. In coastal provinces, on the other hand, much of their pension coverage is explained by the high coverage rate of the employment-based pension program (See Figure 5.2).

Not only does the type of dominant pension program differ by locality, but also the pace at which each pension coverage expands varies widely across localities (See Figure 5.3). In many inland provinces, the coverage of the residency-based pension scheme has increased more rapidly than that of the employment-based pension scheme over the past five years. In wealthy coastal provinces, on the other hand, the residency-based pension program has remained stagnant.

What explains the emergence of the dual pension regimes in China? Why do Chinese coastal provinces continue to maintain the employment-based pension regime when they have an alternative pension scheme that places less financial burden on employees, employers, and the state? Why do Chinese inland provinces develop the residency-based pension program rapidly while they remain stagnant in increasing the coverage of the

employment-based pension scheme? The next section provides a theoretical framework to explain the local variation.

Figure 5.3: Varying Paces of Pension Expansion in China (2010-2015)



Source: China Labor Statistical Yearbook

Note: The charts are listed in the order of local GDP per capita (from richest to poorest). The red vertical line indicates the year the Social Insurance Law is implemented.

5.3 Explaining Sub-national Variation in Pension Coverage

The rise of universal social insurance program is not a phenomenon seen uniquely in Chinese inland provinces. Many developing countries in Latin America have expe-

rienced the rise of the citizenship-based universal social insurance scheme or a replacement of the existing employment-based social insurance scheme with the citizenship-based social insurance scheme. Previous studies of social policies in developing countries focus on the role of labor informalization in explaining the rise of citizenship-based social insurance program in explaining the changes in Latin American social policies. According to the literature, labor informalization induces the rise of universal social insurance programs by making workers form a coalition supporting the adoption of social insurance program that distributes social welfare benefits on the basis of citizenship, not on the basis of one's employment position. While those who enjoy high employment-security—formal workers—prefer employment-based social insurance program to citizenship-based universal social insurance program, labor informalization incentivizes them to update their preferences by making them see themselves as future beneficiaries of universal social insurance programs. ([Carnes and Mares, 2013b, 2015](#)).

In China, as well, labor informalization has induced a major change in its social insurance systems. Yet an explanation focusing on bottom-up mobilization impact of labor informalization does not sufficiently elucidate the sub-national variation in pension coverage in China.

First, in China, labor informalization exerts its power less by changing workers' welfare preferences or mobilizing the bottom-up coalition of workers. As discussed in the theory chapter, in authoritarian China, structural changes induce policy changes more by changing the composition of worker groups local state actors try to co-opt using social policies and thereby altering state actors' welfare preferences and welfare provision strategies.

Moreover, labor informalization alone does not sufficiently explain how the composition of the pivotal worker group changes. As discussed in the previous chapter, labor informalization is happening not just in Chinese inland provinces but also in Chinese

coastal provinces, although variation exists. In addition, unlike in a democratic context where workers are stratified mainly by their employment positions, Chinese workers are stratified not only by their employment positions but also importantly by their local citizenship status. As discussed in Chapter 4, informal workers in certain regions (coastal provinces) are more likely to overlap with non-local workers. These non-local informal workers are further marginalized from social provision because they are outsiders in both political and economic terms.

I argue that the key to understanding the divergent pension expansion patterns in Chinese inland and coastal provinces lies not only on their different levels of labor informalization but also on the differing extent to which each locality relies on non-local workers—the level of labor importation. The interaction of the two mechanisms influences the pension expansion pattern of a locality by changing the type and composition of groups that the local government mainly concerns about. Three hypotheses are generated from this theoretical discussion.

In Chinese localities where there only few workers are imported from other localities, labor informalization mainly affects the political insiders—local workers. A large number of local residents would lose their positions as labor market insiders (formal workers) and become labor market outsiders (informal workers) with unstable employment positions. Yet it is still important for local governments to embrace these labor market outsiders (informal workers) as they still maintain their positions as political insiders (local residents). To incorporate them into the social safety net, local authorities are incentivized to develop an alternative social protection program that does not necessitate formal employment position as a qualification for social insurance enrollment—the residency-based pension program. The provision of modest yet universal social benefits through the expansion of the residency-based pension program improves the legitimacy of local governments by building the image of benign and caring local

authorities and improving the livelihood of local residents who experience employment insecurity. Moreover, by promoting the residency-based pension program, local governments can increase the overall pension coverage rapidly and thereby make a good impression to upper-level governments.

Hypothesis 1A: In localities with a limited level of labor importation, labor informalization increases the coverage of the residency-based pension program.

Expanding pension coverage through the employment-based pension program, on the contrary, is not an effective option for many local governments experiencing labor informalization. Not only it is hard to encourage informal workers to enroll in the employment-based pension program but also it discourages firms from investing in their localities by increasing firms' responsibility in providing social insurance for workers. In fact, in an effort to lower enterprises' financial burden on providing social security for their workers, some local governments have even encouraged their local informal workers to enroll in the residency-based pension program instead of the employment based pension program.¹ Some evaluate local governments' promotion of the residency-based pension program as a strategy to reduce the financial burden on enterprises and pass the responsibility for welfare onto individual workers (China Labour Bulletin, 2016). In sum, in localities where the level of labor importation is low and where the shock of labor informalization is mainly absorbed by political insiders—local resident, labor informalization will contribute to the expansion of the residency-based pension programs and to the shrinkage of the employment-based pension program

¹ In Zhengzhou city in Henan province, for example, the local government makes it possible for the participants of the employment-based pension program to transfer to the residency-based pension program. See <http://www.3gus.com/YangLaoBaoXian/103083.html>.

Hypothesis 1B: In localities with a limited level of labor importation, labor informalization decreases the coverage of the employment-based pension program

Contrary to labor exporting localities that experience “localized” labor informalization, localities that import a large number of workers from other localities can externalize the shock of labor informalization to non-citizen workers. In these localities, political insiders—local residents—are less affected by labor informalization as non-local workers buffer them from the shock of labor informalization. As political insiders (local residents) retain their position as labor market insiders (formal workers), these localities find few incentives to develop the residency-based pension program in response to labor informalization. Some might argue that the growing level of labor shortage and labor protests initiated may incentivize local officials to grant non-local workers minimal access to social welfare policies by developing the residency-based pension program. Yet unlike local state actors in labor-exporting areas where most workers are permanent residents, local state actors in labor importing areas can always expel non-local workers when they make a political or social fuss. Moreover, under the current system that ties the entitlement of the residency-based pension program to local residency, it is not easy for non-local workers enroll in the residency-based pension program of their hosting localities. Consequently, in localities where a large number of workers are imported from other localities, labor informalization is not likely to contribute to the expansion of the residency-based pension program.

Hypothesis 2: In localities with a high level of labor importation, labor informalization does not increase the coverage of the residency-based pension program.

Labor importing localities also have fewer incentives to transform the existing employment-based pension program. First, local governments can coopt their core supporters—political insiders who maintain their positions as labor market insiders at the same time—more effectively and efficiently through the narrowly targeting employment-based pension program. Moreover, the employment-based pension program is a useful institution that effectively segregates non-local workers with insecure employment status from non-local workers with secure employment, whom local governments are willing to embrace as permanent residents in the long run. Chinese local governments have used the employment-based pension program as a tool to attract and retain skilled non-local workers to their localities (Rickne, 2013). Consequently, in labor-importing localities, the coverage of the employment-based pension program will not shrink even when labor informalization deepens.

Hypothesis 3: In labor-importing localities, labor informalization does not decrease, and may even increase, the coverage of the employment-based pension program.

5.4 Empirical Evidence from Provincial-Level Data

5.4.1 Data and Measurement

To test the above-mentioned hypotheses, I conduct a linear regression analysis of the coverage of the employment-based and residency-based pension programs in 31 provinces in China. I examine how labor informalization affects the coverage of the two different pension programs and how its effect is conditioned by the level of labor importation by using two different data sources. First, I used the data drawn from the CLDS of 2012 and 2014. The data enable a more direct measuring of independent

variables, such as the proportion of informal workers and non-local (inter-provincial) workers. Since the survey data do not provide much information about the macro-economic conditions of each provinces, such as the fiscal revenue, I matched the data with the information collected from official statistics of 2012 and 2014. Another caveat of the analysis with the survey data is that they cover only two years (2012 and 2014). The summary statistics and correlation matrix of the covariates are in the appendix (See Table A.1. and Table A.2). To take advantage of large cross-provincial variation over a longer period of time, I constructed a panel data-set of 31 Chinese provinces compiled from various Chinese official statistical yearbooks (2005-2015). While the data-set provides abstract measures of the concepts of interest, it enables us to observe and analyze cross-provincial variation over a longer period of time. The summary statistics and correlation matrix of the covariates are in the appendix (See Table A.3. and Table A.4).

Dependent Variables

The dependent variables of the analysis are coverage of the employment-based and residency-based pension programs. For analysis with the survey data, the dependent variables are measured by the number of participants in each pension program as a share of total workers in each province in the survey data. For analysis with the official statistics, the dependent variables are measured as the number of participant in each pension program as a share of total local population. The denominator in the provincial-level analysis differs from the survey because official statistics do not provide an accurate measure of the number of working population or the number of workable age population (Dorfman et al., 2012). Instead, I used the number of total local population, which includes both local residents and non-local migrant residents in a given locality, as the denominator.² The official statistics provide the number of participants in

² While the number of the total local population is not an ideal denominator, it is the most related variable that could be used as a denominator and is also used as a denominator by other research measuring social insurance coverage. See, for example (Huang, 2015).

the residency-based pension program only after 2010. This is because the central government merged rural and urban residency-based programs in 2010. The information about the employment-based pension program coverage, on the other hand, is available from 2005 onward.

Independent Variables

The first independent variable of the analysis is the size of **informal employment** in a province. For analysis with the survey data, it is measured by the number of informal workers normalized by the number of total workforce population in each province. For analysis with the provincial-level panel data, I used the aggregated proportion of employees in private enterprises and the self-employed to total urban registered employment as a primary measure of the size of informal employment in each locality. Chinese informal employment comes from different sources; 1) the private economy and 2) self-employed sectors, and 3) informal employment not captured by official statistics. The measure used in this analysis captures the size of informal employment in the first two categories. While assuming all private sector workers as informal workers can be problematic, many scholars argue that the private economy should be considered as an informal sector, as it is mostly composed of small-scale private enterprises (Hu and Zhao, 2006). Survey reports also show that Chinese private enterprises are often unregulated and employ a large number of informal employees (Park and Cai, 2011).

The second variable of interest, which is expected to mediate the impact of labor informalization, is the level of **labor importation**. For the analysis with the survey data, labor importation level is measured by the share of inter-provincial migrant workers (employees who work in different provinces than their places of birth) in a given province. For analysis with the panel data, I used the share of the population who hold different township, town, and street community household registration status than their current places of residence. This measurement includes both intra- and inter-provincial

migrants. While it would be ideal to calculate the share of inter-provincial migrants only, the official statistics do not provide a breakdown of the “non-local” workers by administrative levels. Some use the difference between the total population and the registered population in a given province to calculate the number of inter-provincial workers, but this measure is problematic as half of this measurement provides negative values.³ Nor does it capture the concept this research is interested—the level of labor importation. As this paper is mainly interested in the level of labor importation rather than the level of labor mobility (which does not distinguish between incoming and outgoing population), I used the measurement mentioned above.

Control Variables

Local GDP per capita is controlled to control the confounding effect coming from different economic scales of each locality. In democracies, support for social policies with limited yet universal benefits comes mainly from lower income citizens (De La and Ana, 2013; Díaz-Cayeros and Magaloni, 2009; Meltzer and Richard, 1981; Solinger and Hu, 2012). High income workers, on the other hand, are likely to oppose universal redistributive social insurance programs out of concern for the potential tax increase for universal social insurance programs that primarily benefit those who barely contribute—lower income workers (Esping-Andersen, 1990; Huber et al., 2008; Meltzer and Richard, 1981). A similar bottom-up dynamics may influence the policy-making processes of local authoritarian leaders in China.

Different fiscal structures can also motivate local officials to develop different pension programs. To control the confounding effect of fiscal structures, the models also include the size of local **fiscal revenue** and **fiscal transfer** as controls. Studies of Chi-

³ The negative value is generated because some provinces have more outgoing than incoming population. Researchers who use this residual method in measuring the level of labor mobility adopt various ways to deal with negative values. Huang (2015), for example, takes absolute values of the measure to measure the level of labor mobility. Trieu (2013) turns all negative values to zero. Neither of the measures, however, captures the level of labor importation.

nese pension expansion have addressed how pension (mostly the employment-based contributory pension) funds are used as local non-budgetary revenues and are often misused by local governments suffering from insufficient revenue (Frazier, 2010). A study of Chinese health insurance expansion for migrant workers also shows that localities with revenue deficits are more likely to establish health insurance programs for migrant workers in order to funnel their contributions toward minimizing deficits (Trieu, 2013). Hence, local governments with lower fiscal revenue or transfer may have more incentives to develop the employment-based pension program and encourage workers (especially migrant workers) to enroll in the program. On the other hand, studies find that provinces with more fiscal resources, (either fiscal revenue and fiscal transfers from the central government), are more capable of providing generous and broad social insurance benefits to their residents (Dickson et al., 2016; Huang, 2015). Moreover, fiscal transfer from the central government is a major source for funding the residency-based pension program for many local governments. In this regard, local governments with more fiscal revenue and fiscal transfer are more likely to cover a broader segment of society by the residency-based pension program. To control the effect of local revenue and fiscal transfer from the central government, I include both local government revenue (as a share of local GDP) and central-to-local fiscal transfer as a share of local GDP.

Local state's welfare provision strategies can also be affected by the type of firms investing in the localities. The employment-based welfare system began in the socialist era as SOEs provided their workers with generous welfare benefits, including housing, pension, health insurance, and retirement benefits. Localities relying heavily on SOEs have a longer and stronger tradition of the employment-based social insurance system, which may make them develop the employment-based pension program further than other localities. To account for the difference in the levels of reliance on the state-owned economy, the amount of investment from state-owned enterprises as a share of total

fixed investment is included in the model (**SOE investment**). The aggregated amount of investment from foreign firms and China circle firms as a share of total investment is also added as a control (**Foreign Investment**).

Literature on welfare policies emphasizes the skill level of workers as an important factor explaining the development of divergent welfare regimes (Iversen and Cusack, 2000). High skill workers are likely to have a stronger bargaining powers to force local governments and firms to provide the most beneficial social insurance programs for workers. Hence, localities in demand of high skilled workers may develop different social insurance policies than localities dominated by low-skilled workers. To account for the effect of skill level, I added the percentage of workers above college level education as a control (**Skilled Labor**).

The rising level of social instability has also been discussed as a main force that urges local governments to increase social insurance coverage (Huang, 2015) and develop universal social insurance programs for poverty reduction, in particular (Ratigan, 2017). Whether social instability influences the development of the two different pension programs in the same way, however, has not yet been discussed. To account for the effect of social instability and to examine if it affects the two distinct pension programs differently, I controlled the **dependency ratio** and the level of **labor dispute** in the model. Dependency ratio is measured by the ratio of population aged above 65 to the working population (ages 15-65). I normalized the annual count of labor disputes that occurred in a province by the number of urban employees and added it as a control in the model.

5.4.2 Model Specification

Given the different data structure, I used two different estimators to test the hypotheses. As the data drawn from the survey and matched with the official statistics cover only two years (2012 and 2014), I used a simple linear regression estimator with robust stan-

dard errors. All models include year-fixed effects and provincial-fixed effects.⁴ For the panel data compiled from provincial-level statistical yearbook (2005-2015), I used a linear regression model with provincial and year-fixed effects but this time I adopted panel-corrected standard errors to correct the contemporaneous correlation and heteroskedasticity in the error structure (Beck and Katz, 1995). Below is the model specification for the analysis with the panel data.

$$\begin{aligned}
 & \text{Pension coverage}_{it} \\
 &= \alpha + \beta_1(\text{Labor Informalization}_{i,t}) + \beta_2(\text{Interprovincial Labor Mobility}_{it}) \\
 &+ \beta_3(\text{Labor Informalization}_{it} \times \text{Interprovincial Labor Mobility}_{it}) \\
 &+ \beta_c \text{Control Variables}_{it} + \tau_t + \gamma_i + \epsilon_{it}
 \end{aligned}$$

where γ_i and μ_t indicate provincial fixed effects and year fixed effects, respectively.

Table 5.1 summarizes the expected signs of the independent variables. Given the hypotheses, I expect to see a positive main effect of labor informality. It captures the impact of labor informalization given no incoming migrant workers. I also expect to see a negative sign on the interaction term of labor informality and labor importation for the coverage of the residency-based pension program, implying that the positive effect of labor informality will diminish as labor importation level increases. I expect to see a negative main effect of labor informality on the coverage of the employment-based pension program. It captures the impact of labor informalization given localities with zero incoming migrant workers. A positive sign on the interaction term of labor informality and labor importation would imply that the negative impact of labor informalization

⁴ Adding provincial fixed effect inflates the R-squares as provincial fixed effects explain a lot of the variation in my dependent variable. While I acknowledge the trade-off it might bring, adding regional-fixed effect and the year-fixed effect is inevitable to account for potential omitted variable bias.

on the coverage of the employment-based pension program would be alleviated or even turn positive as the level of labor importation grows.

Table 5.1: Expected Effects of Independent Variables

Variable	Residency-based Pension Coverage	Employment-based Pension Coverage
Labor Informalization	+	-
Labor Informalization \times Labor Importation	-	+

While linear regression models are widely used in testing hypotheses with dependent variables that vary from 0 to 100, such as vote share, percentage, and pension coverage, they may not be the best models to test the hypotheses with dependent variables distributed from 0 to 1. To address these concerns, I re-tested the hypotheses by employing the negative binomial model. Negative binomial regression is appropriate for modeling count variables that are over dispersed. I used a time-series cross-section of annual counts of pension participants as the dependent variable for the negative binomial model. Columns 4 to 7 in Tables 5.3 and 5.4 report the results from the negative binomial analysis. Note that the GDP per capita level and the percentage of skilled workers are dropped due to their high correlation with one of the independent variables in both the regression model and the negative binomial model (See Appendix for the correlation matrix table).

5.4.3 Results

The analysis with the survey measures provides empirical support for the hypotheses (See Table 5.2). As is expected by Hypothesis 1, labor informalization has a positive effect on the residency-based pension coverage and a negative effect on the employment-based pension coverage.

Table 5.2: Labor Informalization, Labor Importation, and Pension Expansion (CLDS 2012, 2014)

Variables	Residency-based Pension Coverage			Employment-based Pension Coverage		
	(1)	(2)	(3)	(4)	(5)	(6)
Independent Variables						
Informal Worker (%)	0.849*** (0.303)	0.794** (0.328)	0.785* (0.375)	-1.382*** (0.295)	-1.277*** (0.264)	-1.210*** (0.281)
Migrant Worker (%)	2.119*** (0.678)	2.275** (1.044)	3.254*** (1.050)	-1.541** (0.683)	-1.565** (0.728)	-1.800** (0.800)
Informal × Migrant Worker	-0.0438** (0.0158)	-0.0488** (0.0198)	-0.0601*** (0.0202)	0.0301** (0.0111)	0.0289** (0.0106)	0.0318*** (0.0105)
Control Variables						
GDP per capita (in log)		-30.48 (58.03)	-39.71 (67.14)		32.32 (44.41)	20.82 (57.64)
Fiscal Transfer		-1.914 (2.568)	-3.332 (2.437)		0.410 (1.780)	0.200 (1.850)
Revenue		-114.2 (311.0)	80.44 (298.9)		-376.6** (137.7)	-435.4 (255.8)
SOE investment		0.761 (0.950)	0.842 (1.261)		-0.387 (0.569)	0.0748 (0.763)
Foreign Investment		1.242 (2.174)	3.707 (2.824)		0.162 (1.349)	0.548 (2.141)
Skilled Labor (%)			-0.149 (1.034)			0.679 (0.776)
Dispute size			0.381 (0.372)			0.214 (0.139)
Dependency			-0.358 (2.567)			-0.307 (1.694)
Constant	-13.02 (20.31)	315.3 (595.5)	398.1 (713.2)	118.1*** (19.76)	-184.8 (477.4)	-78.85 (632.5)
Observations	56	56	55	56	56	55
R-squared	0.811	0.827	0.876	0.933	0.956	0.960
Provincial Fixed effect	Yes	Yes	Yes	Yes	Yes	Yes
Year Fixed effect	Yes	Yes	Yes	Yes	Yes	Yes

Robust standard errors in parentheses

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

Source: CLDS 2012, 2014; China statistical yearbook (various years)

The main effect of labor informalization on the coverage of the residency-based pension program is positive and significant, implying that labor informalization increases the residency-based pension coverage, given no incoming migrant workers in a province. The main effect of labor informalization on the coverage of the employment-based pension program is negative and significant, suggesting a negative effect of labor informalization on the coverage of the employment-based pension program in provinces with no incoming migrant workers.

Yet, the negative and significant coefficients of the interaction term (migrant worker \times informal worker) for models 1-3 suggests that the positive effect of labor informalization on the coverage of residency-based pension program weakens in localities with a large number of migrant workers. It supports hypothesis 2 that labor informalization does not contribute to the residency-based pension expansion in localities with high levels of labor importation. The positive and significant coefficients of the interaction term for models 4-6 provide empirical support for Hypothesis 3. It suggests that the negative effect of labor informalization on the expansion of the employment-based pension program weakens as the level of labor importation increases. The effects of independent variables are not interrupted by the inclusion of control variables in the model.

Figure 5.4 visualizes the changing marginal effects of labor informalization on different pension programs across provinces with different levels of labor importation, based on models 3 and 6 in Table 5.2. The histogram in the graph shows the percentage distribution of provinces with different levels of labor importation. The horizontal line indicates zero marginal effect of labor informality on each pension coverage. The graph on the left shows the marginal effect of labor informality on the coverage of residency-based pension programs while the graph on the right shows the marginal effect of labor informality on the coverage of employment-based pension programs. It shows the effect of labor informalization changes depending on the level of labor importation. Labor in-

formalization has a positive effect on the coverage of residency-based pension programs in localities with a small amount of interprovincial migrant workers. This positive effect, however, is nullified as the size of incoming interprovincial migrant workers grows. When it comes to employment-based pension programs, labor informalization decreases the coverage of the employment-based pension program in provinces with fewer incoming migrant workers. Yet, the negative effect weakens as the size of incoming interprovincial migrant workers increases.

Figure 5.4: Average Marginal Effects of Labor Informality on Pension Coverage (CLDS 2012, 2014)

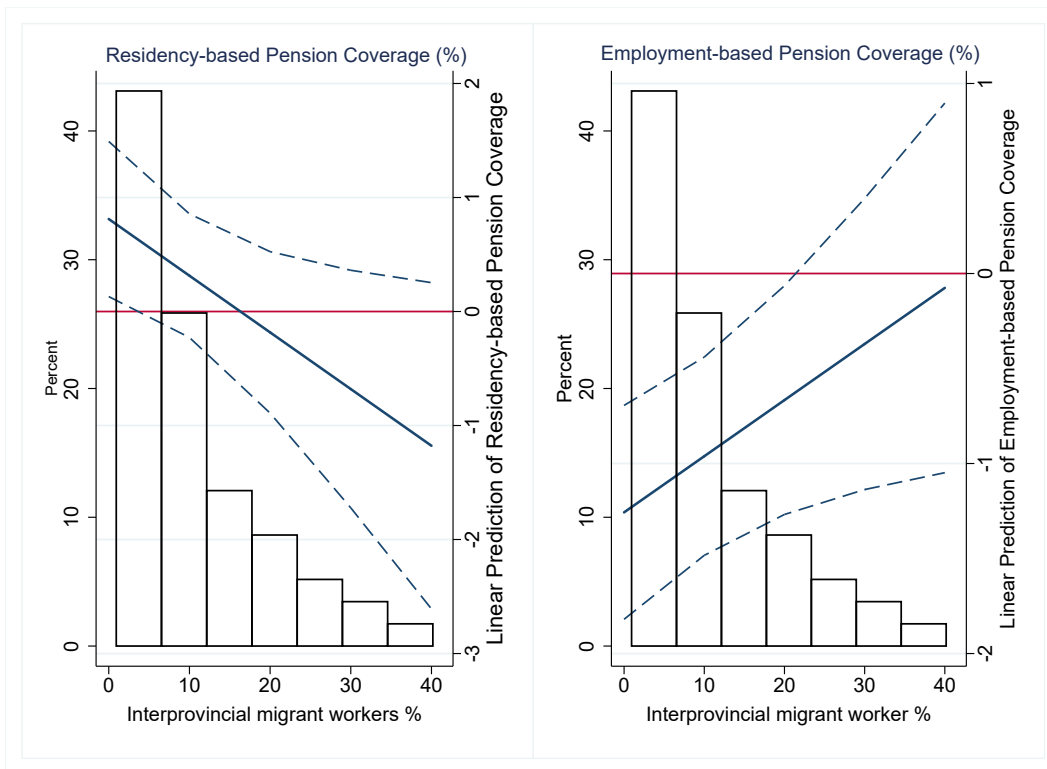


Table 5.3 reports the relationship between independent variables and the residency-based pension coverage, while Table 5.4 reports the effect of independent variables on the employment-based pension coverage. The results from both the linear regression model and the negative binomial model provide support for Hypothesis 1, that labor

informality increases the coverage of the residency-based pension program. The negative yet non-significant coefficients of the interaction term in the linear regression model (Columns 1 to 3) provide limited support for Hypothesis 2, that the positive effect will be diluted in provinces with high levels of labor importation (See Table 5.3).

Although the interaction term is insignificant, the marginal plot of the regression model shows that the positive effect of labor informality on the coverage of the residency-based pension program is shown only in provinces with fewer migrant workers (See Figure 5.5).

Figure 5.5: Average Marginal Effects of Labor Informality on Pension Coverage (NBS statistics 2005-2015)

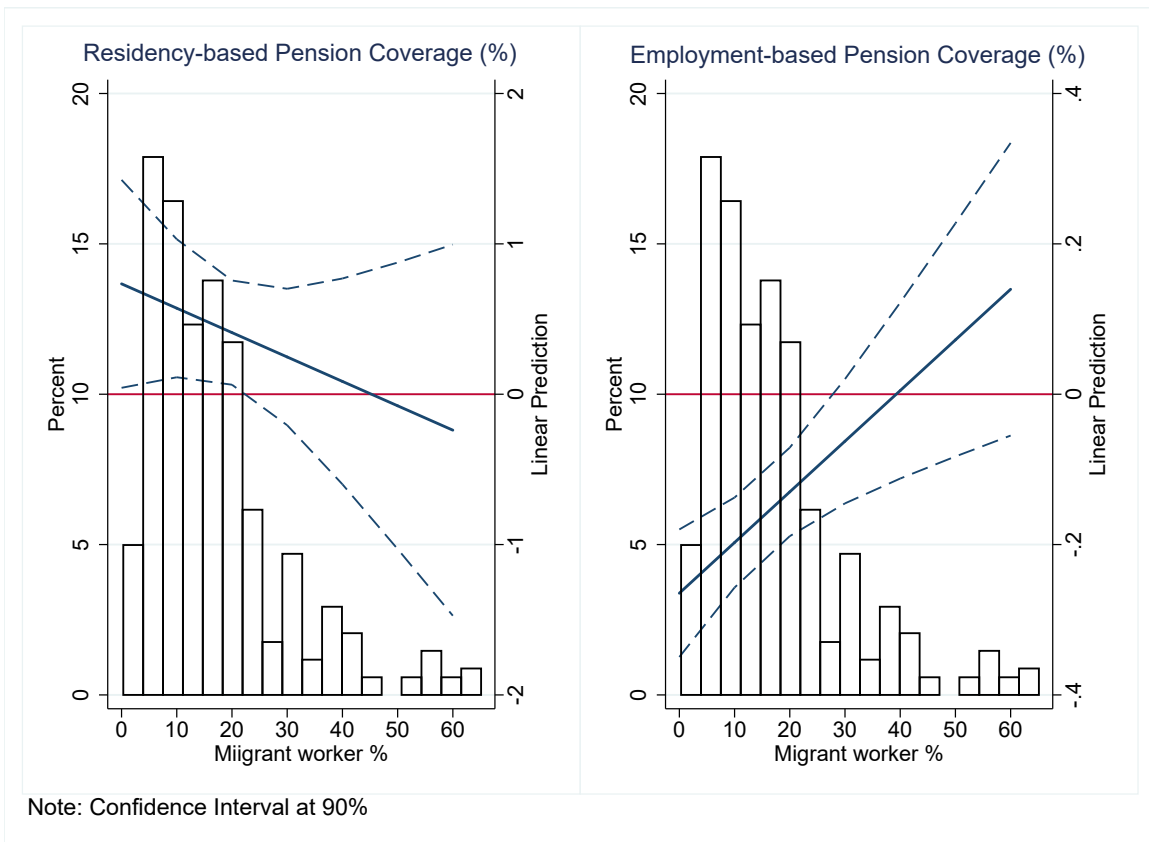


Table 5.3: Labor Informalization, Worker Importation, and Residency-based Universal Pension Coverage (NBS Statistics 2010-2015, Provincial-level Analysis)

Variable	OLS with panel-corrected standard error				Negative Binomial Regression			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Independent Variables								
Labor Informality	0.448 (0.348)	0.494 (0.348)	0.734* (0.443)	0.778* (0.444)	0.014 (0.010)	0.016* (0.009)	0.035*** (0.013)	0.034*** (0.013)
Labor Import	0.802 (0.773)	0.765 (0.734)	0.811 (0.780)	0.861 (0.799)	0.048*** (0.018)	0.046*** (0.017)	0.084*** (0.025)	0.078*** (0.025)
Labor Informality × Labor Import	-0.015 (0.017)	-0.014 (0.016)	-0.016 (0.020)	-0.018 (0.021)	-0.001** (0.000)	-0.001** (0.000)	-0.002*** (0.001)	-0.001*** (0.001)
Control Variables								
Foreign Investment		-1.295*** (0.475)	-1.740*** (0.617)	-1.748*** (0.621)		-0.089*** (0.019)	-0.114*** (0.024)	-0.116*** (0.024)
Revenue		-1.045*** (0.278)	-1.319** (0.626)	-1.163** (0.584)		-0.052*** (0.019)	-0.095*** (0.029)	-0.101*** (0.028)
Fiscal Transfer		0.414*** (0.154)	0.457* (0.250)			0.008 (0.011)	-0.007 (0.019)	
SOE investment				0.046 (0.156)				-0.015* (0.009)
Dependency			-0.006 (0.968)	-0.058 (0.911)			-0.020 (0.031)	-0.031 (0.031)
Dispute size			0.024 (0.049)	0.024 (0.047)			-0.001 (0.003)	-0.002 (0.003)
Constant	0.941 (16.55)	13.25 (13.84)	5.710 (15.73)	6.499 (15.81)	5.721*** (0.469)	6.556*** (0.491)	6.750*** (0.940)	7.396*** (1.000)
Observations	186	186	155	155	186	186	155	155
R-squared	0.900	0.909	0.904	0.903				
Log-likelihood					-1219.295	-1204.737	-997.1086	-995.6229
Provincial F.E.	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year F.E.	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Standard errors in parentheses

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

Source: China Labor Statistical Yearbook; China Statistical Yearbook (2010-2015)

Table 5.4: Labor Informalization, Labor Importation, and Employment-based Pension Coverage (NBS 2005-2015, Provincial-level Analysis)

Variable	OLS with panel-corrected standard error			Negative Binomial Regression					
	Employment-based Pension Coverage (%)	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Independent Variables									
Labor Informality (%)	-0.3733*** (0.0638)	-0.3229*** (0.0529)	-0.2647*** (0.0516)	-0.2666*** (0.0504)	-0.0108*** (0.0018)	-0.0080*** (0.0018)	-0.0089*** (0.0020)	-0.0089*** (0.0020)	-0.0080*** (0.0020)
Labor Importation	-0.3898** (0.1527)	-0.3006** (0.1478)	-0.2004 (0.1231)	-0.1688 (0.1220)	-0.0078** (0.0037)	-0.0027 (0.0036)	-0.0033 (0.0042)	-0.0033 (0.0042)	-0.0025 (0.0042)
Informality × Importation	0.0139*** (0.0034)	0.0113*** (0.0031)	0.0067*** (0.0025)	0.0071*** (0.0026)	0.0003*** (0.0001)	0.0002** (0.0001)	0.0002* (0.0001)	0.0002* (0.0001)	0.0001 (0.0001)
Control Variables									
Foreign Investment		-0.2982*** (0.0926)	-0.2413** (0.1054)	-0.3444*** (0.1118)	-0.0100*** (0.0031)	-0.0100*** (0.0031)	-0.0092*** (0.0033)	-0.0092*** (0.0033)	-0.0100*** (0.0032)
Revenue		0.4609*** (0.1181)	0.3063** (0.1319)	0.1147 (0.1281)	0.0281*** (0.0050)	0.0270*** (0.0050)	0.0270*** (0.0064)	0.0270*** (0.0064)	0.0250*** (0.0062)
Fiscal Transfer		-0.1701*** (0.0389)	-0.1974*** (0.0513)		-0.0091*** (0.0034)	-0.0091*** (0.0034)	-0.0089** (0.0036)	-0.0089** (0.0036)	0.0049*** (0.0017)
SOE investment				0.0170 (0.0367)					-0.0104 (0.0064)
Dependency			-0.6236*** (0.1659)	-0.5220*** (0.1577)			-0.0070 (0.0064)	-0.0070 (0.0064)	
Dispute size			-0.0019 (0.0094)	0.0047 (0.0106)			0.0005 (0.0004)	0.0005 (0.0004)	
Constant	17.8244*** (2.5596)	14.0846*** (1.9736)	23.0643*** (3.8853)	21.8594*** (3.8400)	6.2248*** (0.0816)	5.9436*** (0.0976)	6.0993*** (0.1493)	6.0993*** (0.1493)	5.9048*** (0.1593)
Observations	341	339	308	308	341	339	308	308	308
R-squared	0.9499	0.9562	0.9582	0.9554					
Log-likelihood					-1694.6659	-1669.14	-1500.07	-1500.07	-1499.097
Provincial F.E.	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year F.E.	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Source: China Labor Statistical Yearbook; China Statistical Yearbook (2005-2015)

The coefficients of the interaction term for the residency-based pension program in the negative binomial model is negative and significant, providing support for the hypothesis that the positive effect of labor informality on the coverage of the residency-based pension program is likely to be mitigated as the level of labor importation grows.

Among the controls, fiscal revenue has a significantly negative effect whereas fiscal transfer has a weak and inconsistent effect on the expansion of the residency-based pension program. It implies that local governments with limited revenue are more likely to expand the residency-based pension scheme to a broader segment of society. It might be due to local government's scheme to create an extra-budgetary source by encouraging a number of workers to contribute to their individual accounts, which are managed by the local government. The weak positive relationship between fiscal transfer and the coverage of the residency-based pension program suggests that fiscal transfer from the central government may play an important role in expanding the universal pension program. The SOE investment also has an inconsistent and weak impact on the expansion of the residency-based pension coverage. Foreign investment is significantly and negatively correlated with the residency-based pension program. This implies that localities with a higher reliance on foreign investment are less likely to expand the residency-based universal pension program, despite the fact that this program does not add any financial burden on foreign employers. Contrary to the expectations of the previous literature, social instability, as measured by the level of the demographic dependency ratio and the labor dispute level, does not contribute to the expansion of the residency-based pension program. None of the predictors are significantly correlated with the dependent variable.

When it comes to the coverage of the employment-based pension program, both the linear regression model with the panel-corrected standard errors and the negative binomial model provide empirical support for Hypothesis 1 and Hypothesis 3 (See Table 5.4).

The negative and significant main effect of labor informality imply that labor informality has a negative effect on the coverage of the employment-based pension program, given low level of labor importation. Yet, the positive and significant coefficient of the interaction term suggests that the negative effect will weaken in provinces with high levels of labor importation, thus providing empirical support for Hypothesis 3. The marginal plot of the regression model also shows that the negative effect of labor informality on the employment-based pension coverage is shown only in provinces with fewer migrant workers (See Figure 5.5).

Among the controls, foreign investment has a negative effect on the expansion of the employment-based pension program. It echoes Frazier (2004)'s point that foreign invested firms, especially China circle firms, are notorious for dodging social insurance fees. Fiscal revenue has a positive effect on the coverage of employment-based pension program, implying that localities with more revenue are more likely to have higher pension coverage. This is in contrast with residency-based pension coverage where revenue has a negative effect. It implies that localities with enough revenue are likely to develop the employment-based pension program more than the residency-based pension program that guarantees higher benefits. This counters the expectation from the previous literature which has suggested that localities with a fiscal deficit are more likely to expand the employment-based social insurance program (Trieu, 2013). Fiscal transfer level has a negative effect on the expansion of employment-based pension programs. The contrasting effect of fiscal transfer and fiscal revenue shows that the effect of fiscal capacity can vary depending on the source of the fund. While the dependency ratio has a negative effect on the expansion of the employment-based pension program, labor dispute has no significant effect on its expansion. This shows that potential social instability is less an important factor in explaining the expansion of pension coverage.

Empirical results from both survey measures and official statistical measures suggest

that the impact of labor informalization on the development of different pension programs varies depending on the level of labor importation. In provinces with lower levels of labor importation, labor informalization increases the coverage of residency-based pension programs and decreases the coverage of employment-based pension programs, benefiting the growing number of local (informal) workers with modest but universal benefits. In provinces importing a large number of workers from other localities, on the other hand, labor informalization neither increases the residency-based pension coverage nor decreases the coverage of the employment-based pension program. Labor informalization has no effect in these provinces because the shock of labor informalization is externalized and is absorbed by migrant workers imported from other localities. This changing effect of labor informalization on the two pension programs explains why coverages of both programs vary widely across different localities in China and why the two pension programs fail to develop in tandem.

5.5 Robustness Checks

I rely on two methods to test the robustness of my empirical findings. First, I replicate the findings at the provincial level using a city-level data set compiled from various year-books. Second, I use the correlation coefficient of informal workers and interprovincial workers at the city-level drawn from the [CLDS](#) as an independent variable of analysis to directly test if it is the overlap between informal worker and imported workforce that explains the expansion of different pension programs. To address potential endogeneity problems, I also replicate the findings at the provincial level using year-lagged independent variables.

5.5.1 City-Level Analysis

While the Chinese central government has struggled to upgrade the pension pooling level at the provincial level, many localities in China still pool and manage the employment-based pension funds at the municipality level. Hence, a municipal (city) level of analysis can provide a more accurate support for the hypotheses mentioned above. I tested whether the patterns observed at the provincial level are also found at the municipal level by using municipal-level data of 288 municipalities in China from 2011 to 2013. These statistics, however, are limited in that municipal-level data do not provide as detailed information as provincial-level data do. First, municipal-level data provide information regarding pension coverages only after 2011. The most recent available municipal-level statistical yearbook is that of 2013. Hence, it covers a relatively short time span. Also, municipal-level data do not report the number of residency-based pension participants. Hence, with the municipal-level data, hypotheses regarding the coverage of residency-based pensions could not be tested. In addition, the municipal-level data do not provide information for many of the control variables, such as the dependency ratio or the size of labor disputes.

As the municipal-level data cover only short periods of time, I tested the hypotheses with the negative binomial model instead of linear regression model with panel-corrected standard errors. The dependent variable of the analysis is the count of individuals enrolling in the employment-based pension program. The independent variables are the level of labor informality measured as the percentage of employees in private enterprises and self-employed. The level of labor importation is measured as the level of inter-provincial labor mobility normalized by the number of local total population.⁵

⁵ The number of residents holding different township, town, and street community household registration status, the measure that was used in the provincial-level analysis to calculate the level of labor importation, is not available in the city-level data.

The inter-provincial labor mobility is measured as the difference between the local permanent population and local registered population. Cities where outgoing population outnumbers incoming population have negative values for the inter-provincial labor mobility.

For controls, I added local revenue, foreign investment, and the amount of social welfare expenditure. Note that the amount of foreign investment and the amount of China circle investment as a share of total investment are added separately as the measures of the two variables are not significantly correlated with each other at the municipal level. The GDP per capita is dropped as it was highly and significantly correlated with the independent variable. All models include year- and provincial-fixed effects. The first three models (columns 1-3) used the city provincial effect and the next three models (columns 4-6) adopted the provincial-fixed effect. The summary statistics and correlation matrix are in the appendix. (See Table [A.5](#). and Table [A.6](#))

Overall, the results from city-level negative binomial analysis are consistent with that of the provincial-level regression/negative binomial. Although the main effect of labor informality is not significant given no incoming migrant workers, the interaction effect of labor informality and labor informality is positive and significant, implying that the negative effect of labor informalization on the coverage of employment-based pension programs is mitigated or changes from negative to positive as the level of labor importation increases (See Table [5.5](#)).

Table 5.5: Labor Informalization, Labor Importation, and Employment-based Pension Coverage (NBS 2011-2013, City-level Analysis)

VARIABLES	DV: Employment-based Pension Participants (Negative Binomial Regression)					
	(1)	(2)	(3)	(4)	(5)	(6)
Independent Variables						
Labor Informality	0.0009 (0.0014)	0.0010 (0.0014)	0.0011 (0.0014)	-0.0022 (0.0019)	-0.0024 (0.0018)	-0.0018 (0.0019)
Labor Importation	-0.0063** (0.0032)	-0.0060* (0.0032)	-0.0060* (0.0032)	0.0186*** (0.0053)	0.0117** (0.0052)	0.0180*** (0.0053)
Informality × Importation	0.0001* (0.0000)	0.0001* (0.0000)	0.0001* (0.0000)	0.0002** (0.0001)	0.0002** (0.0001)	0.0003*** (0.0001)
Control Variables						
Revenue		-0.0092 (0.0126)	-0.0100 (0.0126)		0.0121 (0.0118)	0.0252** (0.0124)
Foreign Investment		-0.0045 (0.0065)			0.0240*** (0.0037)	
China Circle Investment		-0.0003 (0.0058)			-0.0010 (0.0043)	
Social expenditure		0.0075 (0.0057)	0.0047 (0.0056)		0.0076 (0.0081)	0.0125 (0.0083)
Trade Openness			-0.0013 (0.0021)			-0.0016 (0.0011)
Constant	2.5244*** (0.1907)	2.5063*** (0.2028)	2.5139*** (0.3001)	6.0715*** (0.3411)	5.3033*** (0.4033)	5.6990*** (0.4211)
Log-likelihood	-3106.329	-3104.712	-3028.605	-3994.036	-3969.786	-3914.081
Observations	822	822	805	822	822	805
City-fixed effect	Yes	Yes	Yes	No	No	No
Provincial-fixed effect	No	No	No	Yes	Yes	Yes
Year-fixed Effect	Yes	Yes	Yes	Yes	Yes	Yes

Standard errors in parentheses

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

5.5.2 Correlation-Based Explanation

While the interaction effect of the level of labor importation and labor informalization shows how the effect of labor informalization changes depending on the level of labor importation, it does not directly test whether it is the externalization of informal labor that explains the locally diverging development patterns of the two different pension programs.

In localities where those who are hit by labor informalization are mostly the imported workers (in other words, if informal workers are highly correlated with migrant workers), the residency-based pension program is not likely to expand. Instead, the employment-based pension program may develop as it helps exclude imported informal workers more efficiently from the local welfare system and benefit the local formal workers with more generous benefits. On the other hand, in localities where labor informality is dispersed to local workers and where imported migrant workers are somehow more likely to work in formal sectors (in other words, if the correlation between labor worker and migrant worker is low), the opposite would be observed. Hence, the higher labor informality correlates with migrant workers, the lower the coverage of the residency-based pension programs and the higher will be the coverage of the employment-based pension programs.

In order to test whether the distribution of labor informality across different worker groups (e.g., migrant worker and local worker) affects the type of pension programs developed more in a locality, I measured the correlation coefficient of labor informality and migrant workers in a given municipality using the [CLDS](#) of 2012, and used it as the independent variable of an analysis in which the dependent variable is the coverage of each pension program in each province. Migrant workers are defined as those whose household registration place is different from the city in which the worker is employed.

It includes both intra-province and inter-province migrant workers. The summary statistics and correlation matrix of the covariates are in the appendix. (Table A.7 and Table A.8)

Table 5.6: Informality-Migration Correlations and Pension Coverage (CLDS 2012 & City-level Statistics, 2012)

Variables	Residency-based Pension Coverage (CLDS 2012)			Employment-based Pension Coverage (CLDS 2012)		
	(1)	(2)	(3)	(4)	(5)	(6)
Corr(inter-city migration, labor informality)	4.673 (31.725)	8.181 (36.667)	7.809 (22.352)	65.601*** (23.396)	61.910* (33.717)	65.965* (32.714)
GDP per capita (in log)		1.788 (7.967)	2.141 (7.546)		-1.512 (6.862)	2.658 (9.488)
Foreign Investment		-0.070 (0.289)	-0.174 (0.421)		0.672** (0.318)	0.549 (0.519)
China Circle Investment		0.258 (0.299)	0.241 (0.409)		0.400 (0.513)	0.369 (0.441)
Social Expenditure			0.291 (1.429)			1.598 (1.903)
Revenue			0.735 (2.007)			0.744 (2.651)
Provincial city			13.456 (23.828)			11.196 (16.341)
Constant	38.623*** (1.377)	18.690 (87.218)	-11.692 (90.580)	50.037*** (1.015)	43.791 (77.987)	-38.525 (105.040)
Observations	61	61	61	61	61	61
R-squared	0.542	0.552	0.555	0.606	0.717	0.730
Provincial-Fixed Effect	Yes	Yes	Yes	Yes	Yes	Yes

Robust standard errors in parentheses

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

Sources: CLDS 2012, China City Statistical Yearbook 2012, China Regional Economy Statistical Yearbook 2012

The analysis provides limited but important support for the hypotheses (See Table 5.6). The correlation between labor informality and migrant workers has no significant relationship with coverage of the residency-based pension scheme, implying that the high correlation between informal workers and migrant workers does not necessarily lead to the expansion of the residency-based pension coverage. Yet, the correlation between labor informality and migrant worker is significantly and positively related with the coverage of the employment-based pension scheme. This implies that the higher informal labor is correlated with non-local migrant workers and the higher labor infor-

mality is likely to be externalized, the stronger the welfare regime would develop based on the employment-based pension program.

5.5.3 Endogeneity

While labor informality seems to affect the expansion of different pension programs, it is possible that the type of workforce employed in a region can be influenced by a locality's social insurance policies. When local governments enforce the social insurance law too strictly and promote workers to enroll in the employment-based pension program, for example, firms may have incentives to employ more informal migrant workers so as to evade paying pension contributions for workers. Considering that firms or governments have control over who are employed as informal workers or what type of workers are employed, it is possible that the type of workforce (formal or informal, local or non-local) may be a consequence of local social insurance policies that facilitate the expansion of certain pension programs. Moreover, depending on the social insurance programs developed in a locality, workers can also rearrange their labor market status. Previous literature on labor economics, for example, has extensively discussed how social security benefits workers' employment allocation strategies. A study of Latin American health care service, for example, argues that the development of employment-based pension programs has incentivized workers to participate in the labor market as formal workers and thereby reduce informal employment ([Bérgolo and Cruces, 2011](#); [Camacho et al., 2013](#)). In countries where welfare benefits are distributed independently of one's employment position, workers have little incentive to forego the flexibility of the informal sector for the rigidity of the formal market ([Wibbels and Ahlquist, 2011](#)).

One common approach to deal with the potential of endogeneity is to lag the suspected variables by one period. Although this approach does not entirely rule out the

potential for reverse causality problems, the provincial-level analysis with lagged explanatory variables provides preliminary and a minimum defense against the endogeneity issue. Table 5.7 shows that the relationships between main independent variables and pension coverage remain similar, even when lagged explanatory variables are used.

Table 5.7: Lagged Independent Variables and Pension Coverage (NBS 2005-2015)

	Residency-based Pension Coverage (2010-2015)			Employment-based Pension Coverage (2007-2015)			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Independent Variables						
Labor Informality _{t-1}	0.450*** (0.147)	0.532*** (0.149)	0.500*** (0.100)	-0.358*** (0.064)	-0.288*** (0.057)	-0.273*** (0.056)	-0.229*** (0.054)
Labor Importation _{t-1}	-0.237 (0.355)	-0.022 (0.349)	-0.245 (0.300)	-0.196 (0.125)	-0.065 (0.142)	-0.107 (0.143)	0.003 (0.133)
Labor Informality _{t-1} × Labor Importation _{t-1}	-0.005 (0.008)	-0.009 (0.008)	-0.006 (0.006)	0.010*** (0.003)	0.006** (0.003)	0.006** (0.003)	0.004 (0.002)
Control Variables							
Revenue		-0.799*** (0.291)	-1.235** (0.521)		0.335*** (0.105)	0.261** (0.106)	0.158 (0.134)
Fiscal Transfer		0.425** (0.166)	0.494** (0.212)		-0.118*** (0.028)	-0.136*** (0.032)	-0.135*** (0.034)
FDI		-1.432*** (0.402)	-1.726*** (0.514)		-0.312** (0.124)	-0.271** (0.122)	-0.282* (0.144)
Dependency			-0.504 (0.530)			-0.460*** (0.131)	-0.540*** (0.132)
Dispute size			0.046 (0.046)				0.001 (0.012)
Constant	4.408 (7.234)	12.747* (6.733)	25.613* (13.390)	17.389*** (2.595)	13.611*** (2.325)	20.887*** (3.563)	21.726*** (4.074)
Observations	186	186	155	310	309	309	278
R-squared	0.908	0.917	0.912	0.958	0.962	0.964	0.964
Provincial/Year F.E.	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Standard errors in parentheses
 *** p<0.01, ** p<0.05, * p<0.1

5.6 Conclusion and Implications

This paper examines how and why the two Chinese pension programs develop in a locally fragmented, creating two divergent pension regimes—a narrowly targeting yet generous pension regime based on the employment-based pension program and a broadly encompassing yet modest pension regime based on the residency-based pension program. Using an original provincial level dataset, I provide empirical support for the hypotheses derived from the theory introduced in Chapter 2 that structural changes,

such as labor informalization and labor mobility, alter the composition of group that local government co-opts through social policies.

Localities with a limited level of labor importation are more likely to expand the residency-based pension program as they experience labor informalization. In these localities, due to the limited of labor importation, the shock of labor informalization is absorbed mainly by local workers. As the growing number of labor market outsiders (informal workers) still maintain their position as political insiders, local states are incentivized to develop social insurance program that embraces the growing number of local informal workers. In localities with a high level of labor importation, on the other hand, localities have fewer incentive to embrace informal workers through the residency-based pension program or make a transition from the employment-based to the residency-based pension regime. It is because a large number of informal employment positions are externalized to those who local governments consider as outsiders of the local community—non-local workers.

The local variation in pension regimes discussed in this paper echoes the findings from previous research on Chinese localized welfare regimes. The Chinese east coastal area is known to place more emphasis on welfare programs that increase market productivity, such as education, while the Chinese inland areas is known to invest more on social programs aiming at poverty reduction, such as the minimum livelihood guarantee program (*dibao*) (Ratigan, 2017). These locally distinctive policy priorities can also be found within a same social policy area, as can be seen by the establishment of locally divergent pension regimes: The east coastal localities develop the employment-based pension program that help them attract and retain skilled, highly-educated, formal workers, while the Chinese inland localities develop the residency-based pension program that can provide universal social benefits to a broader segment of workers. These local divergences suggest that the way local governments co-opt their implicit supporters, repro-

duce their local political legitimacy, manage urbanization, and provide public goods for local constituents varies depending on their local conditions and the pre-existing local welfare institutions.

Local government's diverging policy responses to labor informalization depending on the level of labor importation implies that local citizenship remains an important criterion for institutional exclusion in China. This is contrary to the expectation that the Chinese institutional exclusion mechanism will gradually shift from the citizenship-based exclusion to economic status-based exclusion (Wang, 2005), or that the concern for bottom-up rebellion from internal migrant workers will motivate Chinese officials to expand citizenship to its migrant workers (Solinger, 1999).

China is unique in that it stratifies its own domestic workers by (local) citizenship and in that some localities can externalize the burden of labor informalization to these non-citizen workers. Yet welfare exclusion based on local citizenship itself is not unique to China. An increasing number of countries around the world are developing citizenship-based welfare systems to protect domestic workers against immigrants, who are blamed to take domestic workers' employment positions. While most democracies develop or expand universal welfare programs to protect workers exposed to labor informalization, they may further consolidate the existing employment-based welfare systems if the growing number of informal employment positions can be externalized to workers with differential citizenship. If this pattern of welfare expansion is observed in democratic societies, it may raise the possibility that the politics of exclusion is not too different across democratic and authoritarian regimes experiencing permissive labor mobility and growing labor informalization.

Chapter 6

Who Remains Uncovered? Individual-level Determinants of Pension Participation

6.1 Introduction

Previous chapter shows that Chinese localities use different pension programs in incorporating their core supporters whose composition varies by the level of labor informalization and labor mobility. Yet it leaves another important puzzle unanswered: despite the constant expansion of the two pension programs, why can't China achieve the universal pension coverage? Who remains uncovered? How, at the individual level, is worker's pension participation pattern determined? This chapter addresses these questions empirically by examining Chinese workers' pension participation pattern using two rounds of individual-level survey data.

In China and elsewhere, workers' social insurance participation pattern varies widely by their employment positions. Finding the employment-based social insurance pro-

gram financially onerous to enroll, informal workers tend to enroll in the (residency-based) universal social insurance program than enroll in the employment-based pension program. Yet Chinese workers' pension participation is stratified not only by their employment position but also by their local citizenship status. Due to these dual discrimination mechanisms, Chinese informal workers are more likely to enroll in the residency-based pension program only when they are permanent residents of a locality they are working in. Non-local informal workers, on the other hand, are more likely to remain uncovered by any of the pension programs.

In the next section, I browse how previous literature discusses the relationship between labor informality, social insurance preference, and social insurance pattern. This discussion is followed by a description of Chinese workers' social insurance participation status. In the next section, I propose several hypotheses elucidating Chinese workers' pension participation patterns—participation in the employment-based pension program, residency-based pension program, and non-participation. The following section tests the hypotheses by conducting a multinomial logit analysis of individual pension participation. The final section then concludes with a summary of findings and broader significance of the research.

6.2 Labor Informality and Social Insurance Participation

Previous studies of social policies in developing countries have focused on the role of labor informalization in diversifying individual's welfare preference ([Carnes and Mares, 2013a,b](#); [Häusermann and Schwander, 2012](#); [Margalit, 2013](#); [Rueda, 2006](#)). This section reviews the previous discussion and examines how this discussion provides an important yet limited insight in accounting for Chinese workers' diverging social insurance participation status.

6.2.1 Between Individual Welfare Preference and Social Insurance Participation

Research on individual's social insurance preferences finds that labor market insiders (formal workers) have widely different social insurance preferences than labor market outsiders (informal workers) (Carnes and Mares, 2013b,a; Hausermann et al., 2014; Rudra, 2007; Sane and Thomas, 2013). The diverging welfare preferences between formal and informal workers are derived from two main differences between the two worker groups—employment security and income level.

Most formal workers enjoy higher employment security and earn more income than informal workers. Formal workers' high employment security makes them confident about their ability to complete the contribution requirement imposed by the employment-based pension program (Hausermann et al., 2014; Rueda, 2006). Conversely, informal worker's volatile employment position makes them less confident about their ability to complete their contribution requirement of employment-based social insurance programs. In consequence, informal workers are likely to support universal social insurance programs that are financed through general tax revenues and distribute welfare benefits universally as a part of citizenship right, irrespective of participants' employment status (Moene and Wallerstein, 2002; Rehm, 2009; Rehm et al., 2012).

The income gap between formal and informal workers further consolidates the divergence in welfare preferences between the two worker groups. High income earners do not prefer universal social insurance program as the adoption of the universal social insurance program levies them a higher tax in exchange for standardized modest benefits shared evenly across different income groups. They are also less likely to be intrigued by the meager and standardized benefits coming from universal social insurance program. Conversely, lower income earners prefer universal social insurance programs as

they can benefit from the program without paying high taxes ([Esping-Andersen, 1990](#); [Huber et al., 2008](#); [Meltzer and Richard, 1981](#)). Having a higher average income, formal workers are likely to reinforce their preferences for the employment-based pension program. To the contrary, informal workers, who are mostly likely to be in lower income level, will further reinforce their preferences for the (residency-based) universal social insurance program.

To what extent does this diverging preference of the two worker groups inform us about their actual social insurance participation patterns? The discussion on the individuals' social insurance preference may enrich our understanding of individual workers' social insurance participation pattern considering that those who prefer a certain social insurance programs are more likely to participate in the program. Nevertheless, an attention paid exclusively to individual's social insurance preference only incompletely explains individual workers' diverging social insurance participation pattern.

First, individual workers' actual social insurance participation status does not always align with their social insurance preferences. Supporters of certain social insurance program are more likely to participate in the social insurance program only when they are eligible to enroll in whichever social insurance program they prefer. In many developing non-democracies, however, individuals' social insurance preferences and their actual participation pattern may not resonate as workers' social rights to enroll in social insurance programs are often denied or restricted. It is not a coincidence that most of literature examining the impact of labor informalization on individual's welfare preference is grounded in (emerging) democracies. Many informal workers in developing countries are left uninsured due to their middling economic positions and the underdevelopment of adequate social insurance programs to cover them ([Handayani, 2016](#); [Dartanto et al., 2016](#)). In China, as well, around a half of non-agricultural workers belong to this non-participant group, despite the increasing social insurance coverage.

Considering the size and importance of non-participants, especially in the context of developing non-democracies, a direct examination on workers' actual social insurance participation is necessary. In the following section, I examine Chinese workers' pension participation pattern by making a sensitive distinction between participants of the two pension programs and non-participants.

Second, the existing measurement of social insurance preference makes only an incomplete and inaccurate distinction between the supporters of different social insurance programs (Berens, 2015b). Most of studies measure individual's support for universal social insurance programs (as opposed to support for employment-based social programs) by asking individuals whether they believe it is the state responsibility to provide welfare to the retirees (Berens, 2015a; Carnes and Mares, 2013a). This approach stems from the fact that, in many Latin American states, employment-based social insurance programs have been (re)launched with welfare privatization while universal social insurance programs have been ran by the state.

Yet, there are countries (even among Latin American states) where the state intervenes heavily both in employment-based and universal social policy programs. In China, for example, the (local) state has intervened heavily in managing both the residency-based pension program and the employment-based pension program. As discussed in Chapter 3, the local state has played a pivotal role in managing the pension fund pooled at the local level. Moreover, while increasingly more Chinese workers see the provision of pension benefits as the state's responsibility (Frazier, 2010) and find the legitimacy of the state from the state provision of welfare to the citizens (Dickson et al., 2016), it does not necessarily mean Chinese workers have opted out from the employment-based pension program or their support for and participation rate of the residency-based pension program has increased.

6.2.2 Chinese Workers' Pension Participation Patterns

How do Chinese workers' welfare participation patterns look like? To answer this question, I examine Chinese non-agricultural employees' pension participation patterns using two rounds of national sample survey data, the CLDS conducted in 2012 and 2014.¹ I examine Chinese workers' pension participation pattern by classifying individual workers as three separate groups by their social insurance participation status—universal social insurance participants, employment-based social insurance participants, and non-participants.

A cross tabulation of labor informality and pension participation status show that around a half of formal workers enroll in the employment-based pension program. Conversely, only a small proportion of Chinese informal workers participates in the employment-based pension program. Many informal workers remain uncovered or enroll in the residency-based pension program (See Table 6.1). While around a half of informal employees remain uncovered, a third of informal worker enroll in the residency-based pension program. Among all residency-based pension participants, 68.48% and 79.05% were informal workers in 2012 and 2014, respectively. It resonates with the findings from previous literature that informal workers are more likely than formal workers to support (and hence are more likely to participate in) universal pension programs.

Yet contrary to their enthusiasm for state redistribution of welfare and their increasing consciousness of their social rights, around a half of Chinese workers do not enroll in any pension program at all (See Table 6.1). According to the survey, the proportion of non-participants has been growing. In 2012, for example, 40.23% of Chinese non-agricultural workers report that they are not enrolled in any pension program at all. The size of nonparticipants has increased in 2014 to 57.87% of the Chinese non-agricultural

¹ In order to get the point estimate and standard errors right, I considered the weighting, clustering, and stratification of the survey design by using svyset command in Stata.

workers, implying that there can be more employees who are not enrolled in any pension program than employees participating in either of the two pension programs. Of course, the proportion of non-participants are higher among informal worker groups. 85.08% and 82.21% of non-participants were informal workers in 2012 and 2014, respectively.

Table 6.1: Pension Participation by Workers with Different Employment Positions (CLDS 2012, 2014)

	CLDS 2012			CLDS 2014		
	Formal	Informal	Total	Formal	Informal	Total
No Pension	17.55	52.01	40.23	31.78	59.59	51.54
Employment-based Pension	52.66	14.37	27.46	48.94	10.86	21.87
Residency-based Pension	29.79	33.62	32.31	19.28	29.56	26.59
	100	100		100	100	
Un-weighted Calculation						

Why do some Chinese informal workers remain uncovered by any of the pension programs and while other informal workers enroll in the residency-based pension program? I argue that it is because the Chinese labor market stratifies workers not only on the basis of workers' employment position as in democracies, but also based on their local citizenship status. The interaction between local citizenship and employment position explains the misalignment between welfare preferences and actual participation patterns, as well as the high proportion of Chinese workers uncovered by either of the pension programs.

6.3 Hypotheses

The Chinese social insurance law itself does not prevent informal workers to enroll in the employment-based pension program. In practices, however, like in informal workers elsewhere, Chinese informal workers often find the employment-based pension program

onerous to enroll. The vulnerable employment position and lower wages of informal employees in the formal sector further refrain them from enrolling in the employment-based pension program. Instead of contributing to a certain portion of their wages for more the fifteen years, the informally employed would rather want to save the money for themselves. Some Chinese workers who are informally employed in the formal sector bargain with their employers to get pay increase in exchange for their non-participation to the employment-based social insurance program (Park et al., 2012). Under the new social insurance law, the self-employed can voluntarily enroll in the employment-based pension program. However, it is even more onerous for the self-employed (than the informally employed in the formal sector) to enroll in the employment-based pension program as they have no employer to pay employer contributions for them (Wu, 2013). For these reasons, Chinese workers are less likely to participate in the employment-based pension program as their employment position changes from formal to informal.

Hypothesis 1: Chinese workers, both local and non-local, are less likely to participate in the employment-based pension program as they become informal workers.

If the employment-based pension program is less likely to embrace informal workers, how does the social insurance participation of informal workers look like?

For many Chinese workers, the residency-based pension program functions as an alternative to or an escape from the employment-based pension program. Under the Chinese labor law and social insurance law, all workers employed in firms are obliged to enroll in social insurance programs. Many informal workers enroll in the residency-based pension program in order to get an exemption for the costly employment-based pension program. While the expected benefits of the residency-based pension are modest, the requirement for this pension program is a much less onerous for informal work-

ers. An interview with a local labor bureau official conducted in 2016 confirmed this point.²

“When firms hire part-time workers, they first make sure that the workers are enrolled in the residency-based pension program. They know that a worker cannot enroll in two pension programs simultaneously and that the state cannot force firms to have their workers enroll in the employment-based pension program if the workers are already enrolled in the residency-based pension program. It’s a win-win strategy for both firms and workers. Workers do not want to pay money for a pension and firms also want to save money for social insurance.”

Yet, not all informal workers find the residency-based pension program as an appealing option. Informal workers are comprised of extremely heterogeneous groups with different income levels, educational attainment, and social cleavages (Portes and Hoffman, 2003; Trager, 1987; Tokman, 1989). Informal workers with certain characteristics have lower expectations toward the state redistribution of welfare either because they have little experience benefiting from state redistribution or because they have been systemically discriminated from receiving the social benefit.

In China case, one of the most important cleavage that stratifies workers’ social insurance participation status and affects informal workers’ expectations regarding the state’s welfare redistribution is their local citizenship status. Compared to local informal workers who can easily enroll in and benefit from the residency-based pension program, non-local workers are no more likely to resort to the residency-based pension program even when they experience labor informalization. It is because the state institutions make it hard for them to enroll in and benefit from the alternative social insurance program—the residency-based pension program. In consequence, workers coming from

² subject # 11, Interview with a labor bureau official, Shanghai, March 9, 2016.

different localities are more likely to remain uncovered by social insurance programs as they experience labor informalization.

In the Chinese localized welfare regime, non-local workers—who came from different cities or provinces—have to process more bureaucratic red tapes in order to enroll in the residency-based pension program. First of all, they cannot directly enroll in the residency-based pension program at the localities where they work. Those who want to participate in the residency-based pension program have to register to the residency-based pension program of their hometown. However, this administrative hassle and inconvenience coupled with non-substantial benefit of the residency-based pension program often discourage non-local informal workers enrolling in the residency-based pension program. Moreover, as urbanization deepens, an increasing number of these workers want to settle in the cities of employment instead of returning to their hometown. Not knowing where they will settle in the future, non-local workers see less benefits in enrolling in a residency-based pension program. Hence, for non-local workers, a shift of their employment position from formal to informal one would not dramatically change a worker's pension participation pattern from the employment-based to the residency-based.

The positive impact of labor informalization on increasing one's chance of enrolling in the residency-based pension program will be shown only among local workers. Local informal workers can easily enroll in the residency-based pension program at a very low stake and have a higher expectation to benefit from the program. Local government also encourages local workers' enrollment in the residency-based pension program, either because local leaders are genuinely concerned about local informal worker's social security status or because they want to increase social insurance coverage while deterring local workers from placing more pressure on employers by enrolling in the employment-based pension program. In other words, the impact of labor informalization on one's

likelihood of enrolling in the residency-based pension program will be conditioned by one's local citizenship status. Based on the theoretical discussion, the two following hypotheses are generated:

Hypothesis 2A: Non-local workers are no more likely to enroll in the residency-based pension program as they experience labor informalization.

Hypothesis 2B: Local Workers are more likely to enroll in the residency-based pension program as they experience labor informalization.

On the other hand, Chinese informal workers' lack of experience of benefiting from state welfare provision and low level of trust in government may discourage them from enrolling in any pension programs of the country. Moreover, unlike noncontributory universal social programs adopted in many other developing countries, the Chinese residency-based pension program requires its participant to pay pension premiums to benefit from the program. While the defined contribution of 15\$ per year may not be an onerous requirement for general informal workers in China, they may find no reason to waste the money for an ineffective pension program. Hence, workers experience changes in their employment position from formal to informal are likely to remain uninsured.

Hypothesis 3A: Workers are more likely to be uninsured as their employment position changes from formal to informal ones.

Because non-local workers are less likely to find the residency-based pension program as an appealing pension option, they are even more likely to remain uninsured as they experience a shift of employment position from formal to informal ones. This implies that non-local informal workers are most likely to be marginalized from the Chinese social safety net.

Hypothesis 3B: Non-local workers are even more likely than local workers to remain uninsured as their employment position changes from formal to informal ones.

6.4 Empirical Analysis

6.4.1 Measurement and Model

This section tests the above-mentioned hypotheses by making a sensitive to the distinction to different types of pension participation options—participation in the Urban Employment-based Basic Pension (UEBP), Urban and Rural Residency-based Pension (URRP), and non-participation. I coded the dependent variable 0 if a worker does not participate in any pension program at all, 1 if a worker participates in the employment-based contributory pension program, and 2 if a worker participates in residency-based pension programs. Since the dependent variable is multinomial, a multinomial logistic regression model is applied to this analysis.

The independent variables of this analysis are individual's employment position and local-citizenship status. Following the definition made in Chapter 4, I coded a worker as **informal** if the worker is self-employed, is not paid on monthly basis, is hired indirectly by labor dispatch, does not work as a full-time worker, or lacks a labor contract. I assigned a value of 1 for informal labor, and 0 for formal labor. The percentage of informal workers was 67.5% and 71.7% in 2012 and 2014, respectively, when measured by the broader definition of informal labor. When it comes to informal employment in the formal sector, defined as employment lacking labor contract, 50.32% and 51.7% of formal sector employees were informal in 2012 and 2014, respectively.

Another important variable of interest is workers' **local citizenship status**. As discussed in Chapter 4, worker mobility has different forms—workers can move across different cities within a province or move across different provinces. In China, workers coming across different provinces are the most severely discriminated among all non-local workers (Davies and Ramia, 2008; Nielsen and Smyth, 2008). I coded a worker as non-local if the province the worker is working in differs from the province where his or her hukou is registered (**Inter-Prov**).

While the Chinese central government attempts to urge local governments to have a unified social insurance system that can be administered at the provincial level, most pension programs are still administered at the city level. While workers coming from different cities within the same province may have lower institutional barriers than inter-provincial migrant workers, they may also encounter some difficulty in enrolling in and benefiting from the residency-based pension program of the cities in which they work. I used an alternative measure for non-local workers and re-conducted the analysis for a robustness testing by coding workers as non-local if their hukou registration place is different from the cities in which they currently live. (**Inter-City**). This measure includes both workers coming from different cities within the same province and workers coming from different provinces.

Along with independent variables, I also included a battery of individual-level control variables, such as the hukou type, income level, gender, age, education level, and employment sector.

Hukou type I included a dummy for different hukou type to differentiate agricultural and non-agricultural hukou workers. Although the gap between types of welfare benefits across different hukou types has been shrinking (Chan and Buckingham, 2008), agricultural hukou workers are still marginalized from getting urban-based social welfare. In the past, hukou type (agricultural and non-agricultural) used to determine the

type of social benefits an individual worker could receive. Agriculture hukou holders used to be excluded from the state provision of welfare and were expected to use land as their last resort. Most of non-agriculture hukou workers, on the other hand, used to be employed by state-owned enterprises and were provided with various welfare benefits—such as pensions, health insurance, and other fringe benefits. Although the gap between different hukou types is shrinking and the merger between the rural residency-based pension programs and urban residency-based program has removed some barriers for agricultural hukou workers, the employment-based pension program is still, for the most part, biased toward urban citizens who hold non-agricultural hukou. To control the effect of hukou, I coded workers who hold agricultural hukou as 1 and workers holding non-agricultural hukou as 0.

Urban/ rural residency Aside from hukou type, the type of place workers reside in also affects the type of pension program workers choose. In urban areas, workers are more likely to be aware of their social rights and are more likely to need social insurance to guard against uncertainty in the future. In the rural areas, however, workers may have limited knowledge and may not see the importance of social insurance. Aside from the importance of urban-rural divide in China originating from its unique household registration system (hukou), the impact of type of place (i.e. urban or rural) on one's likelihood of participating in social insurance programs has been discussed widely by previous literature grounded on other countries ([Onwujekwe et al., 2010](#)). I coded workers living in urban area as 1 and workers living in rural area as 0.

Income level Classical theories on welfare and social insurance preference emphasize how individual welfare preference differs by income level ([Meltzer and Richard, 1981](#)). A large portion of the literature demonstrates a linear negative relationship between income level and support for universal noncontributory social insurance programs, and a positive relationship between income level and support for employment-based social in-

insurance programs (Carnes and Mares, 2013b; Hausermann et al., 2014; Rehm et al., 2012). A recent research on social insurance participation in developing countries also confirms the positive and significant effect of income on one's social insurance participation (Onwujekwe et al., 2010). In order to control for the effect of income level on individuals' pension participation patterns, I included a log of individual workers' annual incomes.

Age Pensions differ from other types of social insurance programs in that they require a longer time frame for participants to receive the actual benefits of the program. In China, in order to receive employment-based pension benefits, workers have to contribute for more than fifteen years. Those who retire before completing the contribution requirement must make up the balance to get the full benefit from the employment-based social insurance program. Not seeing the immediate benefit of enrolling in the pension program, younger workers are less likely to participate in pension programs than older workers. Older workers nearing their retirement age are also less likely to enroll in pension programs. As social insurance laws and systems have been reformed only recently, older workers are less likely to benefit from the reformed social insurance programs. Hence, it is likely that older workers are less likely than middle-age workers to participate in pension programs. I used an age variable and the quadratic form of age to account for the effect of age on one's pension participation pattern.

Gender While the wage gap between female and male workers is one of the lowest in China among many other East Asian countries, female workers have constantly earned lower income than male workers. Moreover, female workers in China have been forced into early retirement during the economic reform and SOE restructuring processes (Cooke, 2008). The unfair treatment in labor market and discriminatory labor conditions for female workers may have lowered female workers' likelihood of participating in the employment-based social insurance program. The fact that women are more likely to be employed as informal employees also contributes to the diverging so-

cial insurance participation status between women and men. To control the effect of gender on one's likelihood of enrolling in pension programs, I coded female workers as 1 and male workers as 0.

Education level The relationship between education level and preferred type of pension program has been much discussed in the previous literature on welfare policies (Hausermann et al., 2014; Rehm, 2009; Rehm et al., 2012). Literature based on welfare policies in developed countries expects a negative relationship between education and support for universal social insurance programs. Higher educational attainment and skills protects workers from labor market instabilities and makes educated workers certain about the possibility that their human capital will be compensated for in the market (Rehm, 2009; Hausermann et al., 2014). Education thereby reduces one's need for universal social insurance programs and increases individual's support for employment-based social programs. In addition, educated workers have higher level of legal knowledge and are likely to claim their social rights more actively than non-educated workers. A recent study of informal worker's social insurance participation in Indonesia's health insurance program also finds that lack of knowledge is the main obstacle to the expansion of health insurance programs among informal workers (Dartanto et al., 2016). Hence, skilled and educated workers are more likely to participate either in the employment-based pension program or in the residency-based universal pension program than less educated workers. I classified education level as four types: 1) primary school and below, 2) middle school, 3) high school, and 4) college and above.

Ownership type The divide between the state and the non-state sector is another salient labor market cleavage that affects workers' preference regarding welfare policies (Huang, 2013). Since the socialist era, state sector workers have benefited from employment-based social policy programs and have resisted the attempt to change the status quo social policies Frazier (2010). In this regard, the previous literature argues

that employees in the state sector prefer the existing employment-based contributory pension program, while employees in the private sector lack incentives to enroll in the employment-based contributory pension program unless the government provides them with extra incentives to do so (Huang, 2013). Research on Chinese health insurance participation patterns reveals that employees in private enterprises are less likely to enroll in the employment-based health insurance program versus commercial health insurance, when compared with their state-sector counterparts (Huang, 2013). In order to control the effect of employment sector on workers' pension participation patterns, I included the dummies of firm ownership in the model. I grouped employees in government, party, public sector, and state-owned enterprises into a category, (**SOEGov**) as they are likely to be the proponents and beneficiaries of the status quo employment-based pension programs. I also added the dummies for foreign enterprises (**foreign**), private enterprises (**private**), and collective enterprises (**collective**). I collapsed workers in other firms into a group and used it as the baseline of the analysis (**others**).³ Table A.9 shows the summary statistics of the variables used in the analysis.

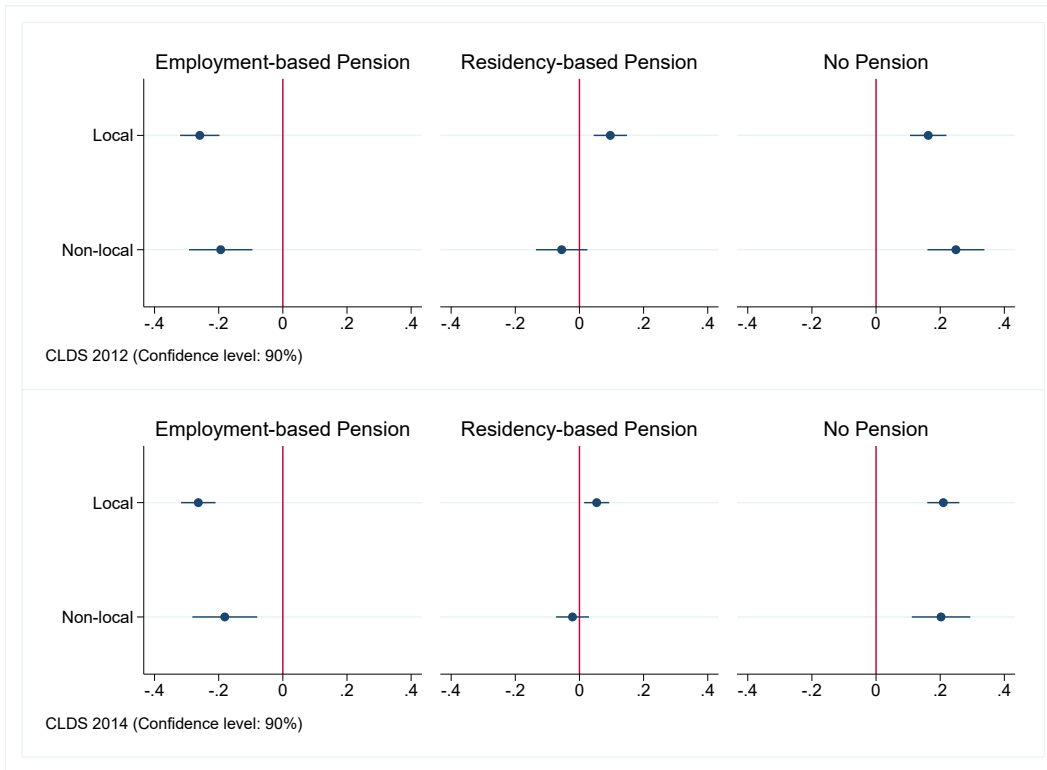
6.4.2 Analysis and Results

Table 6.2 reports the full result of the analysis. The coefficients in the multinomial logit only contain information about the relative choice between two of the three pension options. For a more intuitive account for the effect of each covariate, I visualized the marginal effect of the main independent variable, labor informality, on the predicted probability of participation in each pension option (See Figure 6.1). The plots show how a shift from formal to informal worker changes the probability of local and non-local

³ These unspecified types of firms are suspected to be a major source of informal employment. For more detailed discussion see Park A and Cai F. (2011) The informalization of the Chinese labor market. In: Kuruvilla S, Lee CK and Gallagher M (eds) From iron rice bowl to informalization: Markets, workers, and the state in a changing China. Ithaca, NY: Cornell University Press.

workers to participate in each pension option. For this substantive plot, variables other than informality and migrant status are held constant.⁴ The red vertical line indicates no marginal impact of labor informality on each pension participation mode.

Figure 6.1: Marginal Impact of Labor Informality on Pension Participation



Source: CLDS 2012, 2014.

As discussed, labor informality decreases workers' probability of enrolling in the employment-based pension program for both local and informal workers (Hypothesis 1). Local workers are less likely to enroll in the employment-based pension program as they experience labor informalization. Local informal workers' lower likelihood of enrolling in the employment-based pension program is partly explained by their higher likelihood of participating in the residency-based pension program.

⁴ Income, age, and education level are held at means. Hukou status is held as urban and firm type is held as private.

For non-local workers, a shift of employment position from formal to informal does not significantly increase their likelihood of enrolling in the residency-based pension program (Hypothesis 2A). For local workers, on the other hand, a shift of employment position to informal workers increases their likelihood of enrolling in the residency-based pension program (Hypothesis 2B). It shows how the impact of labor informalization is conditioned by the local citizenship status of workers.

For both local and non-local workers, labor informalization increases their likelihood of uninsured by any of the pension programs (Hypothesis 3A). The impact of labor informalization on increasing workers' likelihood of remaining in the non-participants group is even more extensive for non-local workers (Hypothesis 3B).

To sum up, the impact of labor informalization on workers' social insurance participation is not homogeneous. Local workers are more likely to enroll in the alternative social insurance scheme—the residency-based pension program as they experience changes in their employment position from formal to informal, while non-local workers are more likely to be uncovered by the public pension program.

6.4.3 Discussion

Workers having **agricultural hukou** are more likely to remain uninsured than participating in the employment-based pension program. Having agricultural hukou also increases one's likelihood of enrolling in the residency-based pension program versus the employment-based pension program. This demonstrates that the employment-based pension program is still biased toward non-agriculture hukou workers and that agricultural hukou acts as a barrier for workers to enroll in the employment-based pension program.

Similarly, **urban residents** are less likely to enroll in the residency-based pension programs relative to the employment-based pension program. Living in urban area also

Table 6.2: Pension Participation, Inter-Provincial Migrant, and Informality (CLDS 2012, 2014)

VARIABLES	(1)	(2)	(3)	(4)	(5)	(6)
	UEBP v.s. No pension	URRP v.s. No Pension	URRP v.s. UEBP	UEBP v.s. No pension	URRP v.s. No Pension	URRP v.s. UEBP
Independent Variables						
Informal Employee	-1.605*** (0.134)	-0.751*** (0.173)	0.853*** (0.153)	-1.591*** (0.141)	-0.435*** (0.151)	1.156*** (0.177)
Inter-province migrant	0.158 (0.252)	0.153 (0.303)	-0.005 (0.217)	-0.288 (0.282)	-0.348 (0.295)	-0.061 (0.352)
Informal × Interprov	-0.309 (0.301)	-1.132*** (0.312)	-0.823** (0.327)	0.373 (0.376)	-0.422 (0.349)	-0.795* (0.432)
Control Variables						
Argicultural Hukou	-0.983*** (0.227)	-0.029 (0.226)	0.954*** (0.179)	-0.602*** (0.193)	0.132 (0.160)	0.734*** (0.218)
Urban	0.349 (0.291)	-0.617** (0.251)	-0.967*** (0.266)	0.066 (0.277)	-0.800*** (0.168)	-0.867*** (0.298)
Income (in log)	-0.009 (0.151)	0.129 (0.114)	0.138 (0.167)	0.118*** (0.037)	0.039* (0.022)	-0.079** (0.039)
Age	0.142*** (0.046)	0.144*** (0.040)	0.002 (0.041)	0.194*** (0.032)	0.137*** (0.030)	-0.057 (0.038)
Age squared	-0.001** (0.001)	-0.001** (0.000)	0.000 (0.001)	-0.002*** (0.000)	-0.001*** (0.000)	0.001 (0.000)
<i>education</i>	<i>Baseline : Primary school or below</i>					
Middle School	0.486** (0.186)	0.174 (0.137)	-0.312 (0.197)	0.729*** (0.171)	0.295** (0.125)	-0.433** (0.189)
High School	0.865*** (0.207)	0.352** (0.164)	-0.513** (0.251)	1.501*** (0.228)	0.443** (0.177)	-1.058*** (0.243)
College & above	0.709*** (0.241)	0.368* (0.211)	-0.341 (0.288)	1.763*** (0.244)	0.489** (0.245)	-1.274*** (0.294)
<i>employment sector</i>	<i>Baseline : Other firms</i>					
SOE/Gov	2.054*** (0.287)	0.472** (0.180)	-1.582*** (0.279)	0.289 (0.219)	-0.281 (0.179)	-0.570** (0.257)
Collective	2.173*** (0.370)	0.835*** (0.306)	-1.338*** (0.303)	1.474*** (0.192)	0.570** (0.258)	-0.904*** (0.254)
Foreign Enterprises	2.744*** (0.291)	0.639** (0.292)	-2.105*** (0.286)	1.972*** (0.509)	0.033 (0.297)	-1.939*** (0.530)
Private Enterprises	1.372*** (0.250)	0.051 (0.144)	-1.322*** (0.268)	0.911*** (0.188)	0.006 (0.122)	-0.904*** (0.226)
Female	0.250** (0.109)	0.129 (0.099)	-0.121 (0.125)	0.156 (0.095)	0.219*** (0.080)	0.063 (0.115)
Constant	-4.704*** (1.061)	-3.317*** (0.912)	1.387 (0.890)	-7.293*** (0.651)	-4.292*** (0.744)	3.001*** (0.883)
Observations	8,592	8,592	8,592	11,929	11,929	11,929

Standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

significantly decreases one's likelihood of enrolling in the residency-based pension program over no pension at all in both 2012 and 2014. It implies that urban residents are still more likely than rural residents to rely on the employment-based pension program, *ceteris paribus*.

Income level does not show any significant impact on the choice between the residency-based pension program and the employment-based pension program in 2012. In 2014, however, income increases the odds of participating in any of the two pension programs versus remaining uninsured. The positive relationship between income level and the likelihood of enrolling in any of the pension program (versus nonparticipation) implies the regressive characteristics of the Chinese pension programs—those who have lower income and hence are in need of more welfare benefits are actually more likely to remain uninsured than being covered by the public social insurance programs. As individuals' income level increases, one is less likely to enroll in the residency-based pension program over the employment-based pension program. It is partly consistent with the argument from the classical theory expecting a negative relationship between income-level and support for re-distributive universal social programs.

Age has a non-linear relationship when it comes to participation in either of the pension program versus non-participation. An increase in age first increases a worker's likelihood of enrolling in any of the two pension programs over not enrolling in any pension program at all. After a certain point, however, increase in age reduces the likelihood of participating in any of the two pension programs (versus not enrolling in any pension program). It means that middle aged workers are most likely to participate in any of the two pension programs, while younger or older workers are more likely to remain uninsured at all. This tendency is understandable, considering that younger workers are less interested in preparing for their retirement and older workers are less aware of their social rights.

Education, in general, increases one's chance of enrolling in either of the pension programs versus non-participation in any of the pension programs. In particular, those with a higher educational attainment are more likely to participate in the employment-based pension program than the residency-based pension program. The relationship is ambiguous in 2012; but in 2014, the effect of higher educational attainment on individual's pension participation status is more substantial and significant.

Employment sector has a significant impact on workers' pension participation patterns. Compared to those work in other (independent) enterprises, those work in collective, foreign, or private firms are more likely to participate in the employment-based pension program than enrolling in the residency-based pension program or not enrolling in any of the two pension programs. Compared to workers employed in independent firms, those work in collective firms are also more likely to enroll in the residency-based pension program than remaining uncovered.

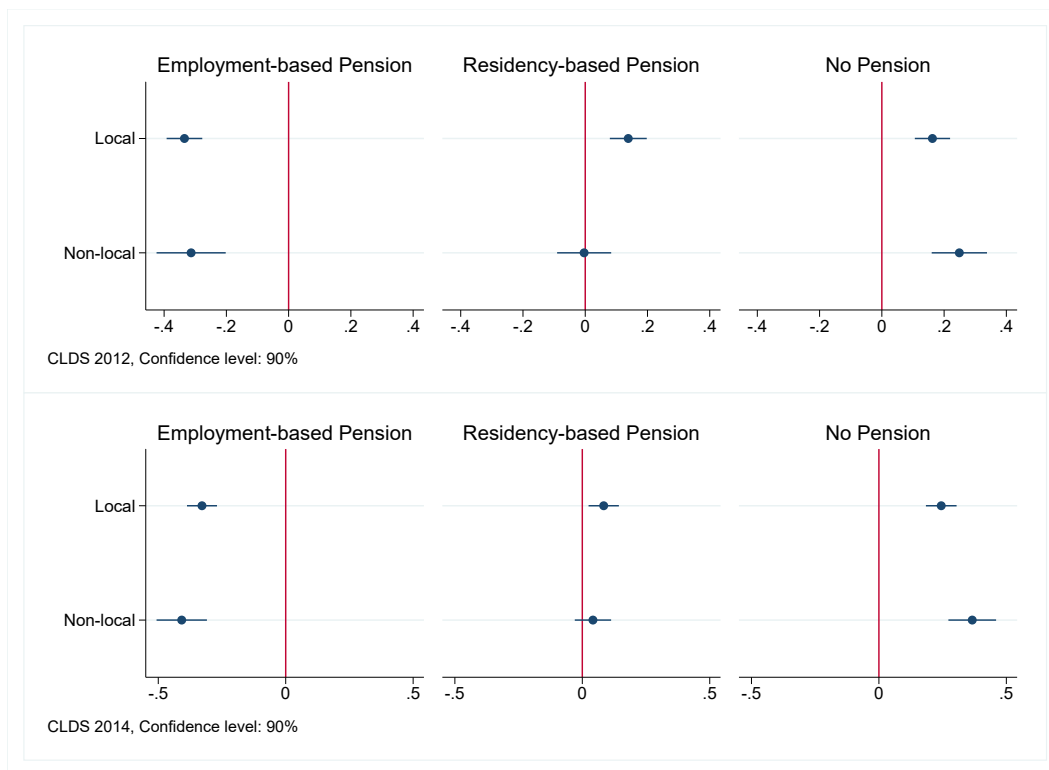
Gender has a less coherent and substantial impact on individuals' pension participation pattern. In 2012, female workers are more likely to enroll in the employment-based pension program than remaining uncovered by any of the two pension programs, but female workers are no more likely to enroll in the employment-based pension program in relative to the residency-based pension program. In 2014, female workers are more likely to enroll in the residency-based pension program than remaining uncovered by any of the two pension programs. While the results are inconsistent, it at least shows that female workers are no less likely, if not more likely, than male workers to participate in the public pension program of the country.

6.4.4 Robustness Checks

In chapter 4 of this dissertation, I argue that the possession of labor contract does not necessarily make a worker as a formal employee and those who have various forms

of precarious employment position should also be counted as informal workers. Previous studies of Chinese labor informality with more traditional approach, however, do not count precarious workers who have labor contracts as informal workers (Park and Cai, 2011). To see if the relationship between labor informality, local citizenship, and social insurance participation pattern holds even when labor informality is defined in this traditional way, I replicated the analysis by using a measure of narrowly defined labor informality. Informal workers in this replication indicate either self-employed (in informal sectors) or formal sector workers employed in the absence of labor contract. So-called ‘precarious workers’ whose labor market status is vulnerable despite their possession of labor contracts were not counted as informal workers in this alternative measure.

Figure 6.2: Marginal Impact of Narrowly Defined Labor Informality on Pension Participation



Source: CLDS 2012, 2014.

The marginal effect of each variable remains generally the same as the one from the analysis with a broadly defined labor informality (See Figure 6.2). Most importantly, local workers who experience labor informalization is more likely to participate in the residency-based pension program. Non-local workers whose employment positions have shifted from formal to informal ones, however, are no more likely to enroll in the residency-based pension program. It shows that relationship between local citizenship, labor informality, and social insurance participation holds even when labor informality is narrowly defined.

As most pension programs are administered at the municipal level, discrimination against non-local workers may not be confined to inter-provincial workers but may also affect intra-provincial workers coming from different cities. As a robustness check, the same model is tested with an alternative measure of non-local workers—workers coming from different cities (**intercity**).

While the joint effect of labor informality and workers' migrant status is not significant in the analysis with the 2012 survey data, the relationship between labor informality, workers' migrant status, and pension participation patterns remains the same as the analysis with the 2014 survey data. Informal workers are more likely to enroll in the residency-based pension program than enrolling in the employment-based pension program in general. For non-local informal workers, however, the positive impact of labor informality in increasing their likelihood of enrolling in the residency-based pension program as opposed to the employment-based pension program is alleviated (Column 6 in Table 6.3). Informal workers are less likely to enroll in the residency-based pension program than remaining uninsured, but the negative impact of labor informality is even more outstanding for non-local informal workers (Column 5 in Table 6.3).

Table 6.3: Pension Participation, Inter-city Migrant, and Informality (CLDS 2012, 2014)

VARIABLES	(1) UEBP v.s. No Pension	(2) URRP v.s. No pension	(3) URRP v.s. UEBP	(4) UEBP v.s. No Pension	(5) URRP v.s. No Pension	(6) URRP v.s. UEBP
Independent Variables						
Informal Employee	-1.628*** (0.139)	-0.852*** (0.170)	0.776*** (0.152)	-1.561*** (0.147)	-0.350** (0.142)	1.211*** (0.163)
Inter-city Migrant	-0.460** (0.222)	-0.594** (0.260)	-0.134 (0.227)	-0.129 (0.255)	0.055 (0.329)	0.184 (0.383)
Informal × Inter-city	-0.176 (0.296)	-0.326 (0.267)	-0.150 (0.301)	0.067 (0.334)	-0.832** (0.360)	-0.899** (0.407)
Control Variables						
Agricultural hukou	-0.865*** (0.224)	0.089 (0.222)	0.953*** (0.186)	-0.574*** (0.200)	0.163 (0.156)	0.737*** (0.220)
urban	0.472* (0.281)	-0.506** (0.251)	-0.978*** (0.272)	0.105 (0.272)	-0.736*** (0.173)	-0.841*** (0.285)
Income (in log)	0.032 (0.151)	0.163 (0.112)	0.131 (0.166)	0.120*** (0.037)	0.041* (0.021)	-0.079** (0.039)
Age	0.138*** (0.046)	0.140*** (0.040)	0.001 (0.041)	0.192*** (0.031)	0.135*** (0.030)	-0.056 (0.037)
Age squared	-0.001** (0.001)	-0.001** (0.000)	0.000 (0.001)	-0.002*** (0.000)	-0.001*** (0.000)	0.001 (0.000)
<i>education</i>	<i>Baseline : Primary school or below</i>					
Middle School	0.483** (0.185)	0.189 (0.137)	-0.294 (0.197)	0.724*** (0.171)	0.306** (0.126)	-0.419** (0.189)
High School	0.852*** (0.212)	0.365** (0.162)	-0.487* (0.251)	1.493*** (0.229)	0.459** (0.180)	-1.034*** (0.246)
College & above	0.706*** (0.241)	0.391* (0.212)	-0.316 (0.288)	1.758*** (0.243)	0.500** (0.248)	-1.258*** (0.296)
<i>Employment sector</i>	<i>Baseline : Other firms</i>					
SOE & Gov	2.023*** (0.286)	0.423** (0.176)	-1.599*** (0.278)	0.295 (0.218)	-0.280 (0.176)	-0.574** (0.257)
Collective	2.132*** (0.375)	0.777** (0.302)	-1.355*** (0.302)	1.476*** (0.191)	0.559** (0.258)	-0.917*** (0.257)
Foreign Invested Enterprises	2.825*** (0.300)	0.670** (0.299)	-2.154*** (0.281)	1.983*** (0.504)	0.048 (0.303)	-1.935*** (0.527)
Private	1.381*** (0.250)	0.025 (0.142)	-1.356*** (0.267)	0.915*** (0.188)	0.012 (0.123)	-0.903*** (0.228)
Female	0.227** (0.109)	0.104 (0.099)	-0.122 (0.125)	0.161* (0.093)	0.218*** (0.080)	0.057 (0.113)
Constant	-4.667*** (1.050)	-3.236*** (0.906)	1.431 (0.885)	-7.319*** (0.654)	-4.380*** (0.731)	2.939*** (0.873)
Observations	8,592	8,592	8,592	11,929	11,929	11,929

Standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

6.5 Conclusion

Using two rounds of individual-level survey data, this chapter finds that the impact of labor informality on individuals' social insurance participation can be heterogeneous. It also discusses how workers' social insurance preference and their actual participation pattern might not align in societies where workers are stratified not only by their employment positions but also by other exclusion mechanisms.

In China case, the other layer that stratifies workers is worker's local citizenship status. While labor informalization in general discourages informal workers from participating in social insurance programs, its impact is even stronger for workers coming from different localities. Both local and non-local workers are less likely to participate in the employment-based pension program when their employment status changes from formal to informal. Yet, only local workers are more likely to participate in the residency-based pension program than their non-local counterpart as their employment status changes from formal to informal. As a result, non-local workers are more likely to remain uninsured by any of the social insurance programs of the country, creating an important stratification within informal worker groups.

This discrimination and the restrictions imposed on internal migrant workers coming from different localities is analogous to those imposed on international migrant workers in other countries.

Chapter 7

Conclusion

7.1 Summary of Findings

Why do some authoritarian (local) states provide welfare benefits more universally than other authoritarian (local) states? What explains the different patterns of welfare inclusion and exclusion in authoritarian (local) welfare states? This dissertation project provides an answer to these questions, focusing on a top-down logic of authoritarian welfare provision. This dissertation starts from the assumption that authoritarian leaders are held accountable to their political insiders even in the absence of electoral mechanisms. The concept of political insiders remotely approximates ‘winning coalition’ in the selectorate model in a sense that support from political insiders is crucial for state actors to stably govern the community and that they have right to political representation and participation within a geopolitical community. Yet unlike the membership of winning coalition assumed to be set constant by the leader selection institution of a country, I argue that the membership composition of political insiders are subject to change depending on the structural conditions. As the scope and composition of political insiders change, authoritarian leaders use different welfare inclusion strategies. In many author-

itarian regimes (including China in the pre- and early reform period) where the political insiders are by and large the same population as labor market insiders, state actors adopt a narrow, exclusive, and selective welfare provision strategy based on the employment-based welfare programs. In authoritarian regimes where the membership of the political insiders is dispersed across different labor market sectors, however, a more universal, broader, yet shallow welfare provision strategy centered on the citizenship(residency)-based welfare programs develops. I examine sub-nationally different pension expansion patterns and coverage in an authoritarian country, China, to illustrate how local states' welfare provision strategies differ as the scope and composition of political insiders change.

In China, two divergent pension programs—the employment-based pension program and the residency-based pension program—coexist, while expanding at sub-nationally different patterns. The two pension programs target different groups of workers and provide different levels of benefits. While local state actors do not have power to change the general structure of the social insurance system, they can strategically choose how to implement the social insurance policies to accomplish their goals. Their first and utmost goal is to maximize their chance of career promotion. This political incentive makes local state actors to be held accountable to local residents and increase social insurance coverage. Their second goal is to maximize the revenue. This economic incentive has made local state actors resist the central government's attempt to centralize the pension system and further expand the pension coverage. Local state actors have taken strategic approaches in implementing pension policies in order to show off their accountability to local residents by increasing social insurance coverage on the one hand and to maximize their revenues by holding their grip on pension fund on the other hand. Local state actors' strategic implementation of pension policies has resulted in the sub-national fragmentation of the Chinese pension system (Chapter 3).

In the past, the Chinese pension regime was based mainly on the employment-based pension program which selectively benefited local SOE workers. The localized citizenship institutions defined by the hukou system made workers with a legitimate membership of the local geopolitical community as political insiders who have (implicit) political influence on local governance. The secure and permanent employment positions as SOE workers made them as labor market insiders as well. The high overlap between the political and labor market insiders incentivized the regime to maintain the narrow welfare regime that selectively targets the local SOE workers. The growing labor mobility and labor informalization, however, have broken the long maintain overlap between local urban workers (political insiders) and formal SOE workers (labor market insiders). The interaction of the two structural factors consolidates, intensifies, or mitigates the internal division between labor market insiders and outsiders and changes the scope and composition of the groups local state actors are held accountable to (Chapter 4).

The locally diverging membership composition of political insiders induce local governments adopt different pension expansion strategies. In Chinese inland localities with limited level of labor importation, labor informalization directly affects the employment positions of the political insiders (local workers). Local state actors develop universal social insurance programs so that they can protect the increasing number of labor market outsiders who still maintain their positions as political insiders. In Chinese coastal localities with a plenty of non-local workers imported from elsewhere to absorb the shock of labor informalization on behalf of local workers, the overlap between political insiders (local workers) and labor marker insiders (formal workers) remains intact despite the growing labor informalization. In this case, local governments maintain the narrow and exclusive welfare regime, evidenced by the high coverage of the employment-based pension program (Chapter 5).

The similar pattern stands out at the individual-level as well. Individuals who are labor market outsiders (informal workers) are less likely to enroll in the employment-based pension program. Yet informal workers' pension participation pattern diverges by their local citizenship status. Those informal workers who are local resident are more likely to enroll in the residency-based pension program and receive modest yet meaningful welfare benefits from the state as a legitimate member of the local community. Those informal workers who are non-local residents, however, are more likely to remain uninsured (Chapter 6).

The changes and divergences in pension coverage at the national, local, and individual levels suggest that the way authoritarian (local) states reproduce their political legitimacy, control social instability, and manage urbanization through welfare provision varies depending on the composition and scope of the political and labor market "insiders". The deepening labor market dualization, rise of the gig economy, growing labor mobility, and urbanization are expected to further consolidate the locally fragmented welfare regimes in China. The emergence and persistence of localized welfare regimes may have helped local governments to better serve their "insiders" or at least help them build the image of benign and caring governments. At the same time, however, the diverging welfare provision patterns and the dualized welfare regime may have exacerbated rampant inequalities between labor market insiders and outsiders and between local and non-local workers. It may have also aggravated the chronic regional inequalities of the country. Whether the dualized welfare expansion patterns will help the regime maintain social stability or create an obstacle to stable urbanization and balanced growth remains to be seen.

7.2 Future Directions

In this dissertation, I presented a theoretical framework for understanding variation in authoritarian welfare regimes and applied it to China case. Many of the steps suggested in this dissertation project, however, leave further works to be done. In the concluding paragraphs, I will discuss the limitation of the current project and outline some directions for future efforts that can fill in the gaps.

First, this dissertation describes Chinese local residents as political insiders who have implicit or explicit power to influence local governance and the legitimacy of the local states. As discussed, Chinese local state leaders are incentivized to take care of local residents and prioritize local residents over non-local workers. The career evaluation system that nullifies every other achievement of local state actors in case of local social instability incentivizes local state actors listen to local resident's demands and carefully monitor where discontents come from (Manion, 2014). Local state actors also improve public good provision to increase public support and trust in local state institutions (Dickson et al., 2016). Yet both this dissertation project and previous research do not sufficiently delve into how the upper-level governments monitor and reward local state actors' accountability to local residents and through what mechanisms local state actors accommodate local residents' policy preference in the absence of electoral mechanisms. Chapter 4 of this dissertation also discusses that the way local state actors recognize a citizen as a 'local' or a legitimate member of the geopolitical community reshapes as the social insurance system or hukou institutions change. Yet it does not scrutinize how specifically local state actors' concept of 'local residents' or 'political insiders' shapes and how their political accountability to local residents changes. More through qualitative research is needed to examine these mechanisms. Gathering more information about the political dynamics between local state actors and local residents will not only lay a foun-

dition for a more generalizable theory of authoritarian welfare inclusion and exclusion but also will improve our understanding of political accountability and responsibility in authoritarian regimes.

Second, although empirical evidence has shown that there are links between labor mobility, labor informalization, and pension coverage in each locality (in Chapter 5 and 6), this dissertation does not discuss in detail the substantial policy variation across localities. Several policy areas may show local governments' diverging approaches to welfare expansion and their changing welfare preferences. First, localities have taken different approaches in integrating the social insurance programs fragmented along the rural-urban divisions and administrative levels. Although the urban and rural residency-based pension programs have been rapidly integrated with the implementation of the social insurance law of 2011, some places have been more active in integrating the rural and urban (residency) social insurance programs than the others. The rural-urban integration has invited a high level of bureaucratic struggle in some localities, but has contributed to the expansion of the residency-based social insurance programs by incorporating not only uninsured urban residents but also rural residents into the social safety net. Some Chinese localities, on the other hand, have pursued the within-program integration by upgrading the social pooling level of social insurance programs scattered across different sub-national units and accomplished a unitary management of the social insurance funds by upper-level local governments. These policy changes might have been triggered by the increasing labor mobility within the same sub-national units (e.g. intra-provincial migration) and the increasing demand to broaden the concept of 'locals' (or political insiders).

Chinese local governments also have different policies and regulations for the incorporation of non-local workers into the local social safety net. While some localities guarantee non-local workers' participation in the local employment-based pension pro-

gram and enact local regulations regarding the inter-provincial transferability of the pension funds, other localities do not have relevant policies for them. Looking at the specific policy variation can reveal how local governments' welfare inclusion strategies differ and how they actually pursue their welfare inclusion strategies while effectively excluding irrelevant workers outside the local social welfare system. In future works, I will examine more closely how the changing composition of political insiders affect the specific local social insurance policies, including the pension integration policies and migrant incorporation policies.

Third, focusing mostly on the state's welfare inclusion strategies, this dissertation falls short of uncovering how business interests are intertwined in designing and implementing pension policies. Given the heavy financial burden imposed on employers in funding the employment-based pension program, many employers may have exerted a political pressure on local states to lower the contribution rates for the employment-based pension program or to give them permission to skip social insurance payment. According to an interview conducted by the author, due to the varying regulations and industrial policies, enterprise-level compliance to the social insurance laws varies widely across localities.¹ Some even interpret the recent expansion of the residency-based pension program as an attempt to transfer the financial burden imposed on employers under the pension regime based on the employment-based pension program to individuals and the state ([China Labour Bulletin, 2016](#)). Despite the importance of employers in shaping social insurance policies, the role of employers or the impact of state-business relations in shaping welfare policies has been under-discussed. This is partly due to a lack of publicly available enterprise-level data showing employers' welfare preferences. Although the World Bank conducted enterprise-level surveys in China in 2005 and 2012 respectively, they do not provide information on Chinese employers' welfare preferences or so-

¹ subject # 21, Interview with a research associate, Beijing, December 14, 2017.

cial insurance compliance levels. Another reason why employers' welfare preferences are under-discussed is because all Chinese employers are assumed to resist welfare expansion, fearing the rising financial burden and labor costs. In fact, research has suggested a possibility that employers have heterogeneous welfare preferences. Firms of larger size and firms in need of skilled workers, for example, are likely to embrace the social insurance costs imposed on them if the employment-based welfare provision helps them to retain skilled workers and improve worker skills and qualifications (Mares, 2005). Given the deepening labor shortage of skilled workers and high turnover rates, employers of some Chinese firms are likely to play an important role in the expansion of the employment-based pension program in certain regions. In future works, I will examine how business interests affect the local welfare expansion policies and how employers' welfare preferences vary by local political economy.

Fourth, in discussing how structural changes influence authoritarian welfare provision strategies, this dissertation project focuses mainly on labor informalization and growing labor mobility. Another important, yet under-discussed, structural factor that influences local government's labor and welfare policies is (perception of) labor shortages. Scholars have debated over whether China has reached a point where unskilled rural labor has already been depleted and the Chinese government worries about labor shortages (Cai and Du, 2011; Golley and Meng, 2011; Zhang et al., 2011). While a large number of academic studies contend that Chinese rural surplus labor has already been exhausted and resulted in labor shortages in the urban sector (Cai and Du, 2011; Du and Wang, 2010), others refute that there still are plenty of rural surplus workers who cannot migrate to urban areas due to the institutional restrictions—*hukou*—that prevent migrant workers' from accessing to urban social welfare (Golley and Meng, 2011; Meng, 2012; Wang, 2014). Deepening labor informalization and labor mobility further complicates out understanding of the nature of Chinese labor shortages. The growing

labor market flexibility by labor informalization, and more recently labor automation, is considered to make the Chinese policymakers worry less about a growing level of labor shortages. The unidirectional movement of labor from the underdeveloped inland areas to the developed coastal areas has, however, exacerbated the labor shortage in inland areas. The shortage of skilled labor in inland provinces has further been exacerbated as the exclusive yet generous welfare provision in labor receiving areas make the coastal provinces as more attractive places for skilled labor. Depending on the type and scale of labor shortages, local governments may design different labor and social insurance policies to attract workers. Understanding how the interaction of the two structural factors, labor informalization and labor mobility, influences the actual level of labor shortages and local policymakers' perception of labor shortage would deepen our understanding of how structural factors change and shape local policymakers' welfare preferences and welfare provision strategies.

Last but not least, the theoretical framework developed in this dissertation project can be applied to other country cases. The structural dynamics that reshuffle the composition and scope of "insiders" are happening not only in China but also many other countries. The growing level of labor mobility across border and increase of non-citizen workers have reshaped the concept of "welfare states" by blurring the division between who should and should not be protected by the state (Faist et al., 2015). The trend of growing labor immigration and influx of non-citizen workers have coupled with labor informalization in many societies. The concentration of these non-citizen workers in low-skilled, precarious, and non-standard employment sector has linked to the rise of populist politics and welfare backlash, evidenced by the withdrawal of the United Kingdom (UK) from the European Union (EU), the rise of far-right parties in many European countries, and the election of a president in support of anti-immigration policies, Donald Trump, in the United States. Even one of the most inclusive and tolerant welfare states,

Sweden, has recently followed the common trend that marginalizes the growing number of low-skilled immigrants from welfare protection and emphasizes the possession of national citizenship as the main qualification for welfare entitlement (Schierup and Ålund, 2011). Like non-local informal workers in China, immigrant workers of precarious employment positions lack both political and economic power to create political pressure on the governments of the hosting countries. This trend might suggest that the theoretical framework proposed in this dissertation project can be applied to other country settings. It also suggests that the logic of welfare inclusion and exclusion may not fundamentally differ between democracies and autocracies in that both selectively incorporate political and labor market insiders, leaving outsiders of the welfare system. Whether we can see the pattern seen in China case in other country cases can provide us important insight in understanding varieties of welfare regimes, changes of welfare configurations across countries, and global inequalities.

Appendix

Table A.1: Summary Statistics: CLDS 2012-2014

Variable	Mean	Std. Dev.	Min.	Max.	N
Employment-based pension coverage from CLDS (%)	24.925	13.06	4.37	69.03	56
Residency-based pension coverage from CLDS (%)	28.549	11.336	9.6	55.28	56
Migrant worker (%)	9.706	9.379	0	41.1	58
Labor Informality (%)	59.48	14.049	17.77	86.67	58
GDP per capita (in log)	10.672	0.411	9.882	11.564	62
Fiscal Transfer (as a share of GDP)	15.216	20.174	2.058	115.633	62
SOE investment (as a share of total investment)	28.772	11.653	11.792	68.837	62
Foreign Investment (as a share of total investment)	4.65	4.172	0.084	18.494	62
Trade Openness	29.05	31.85	2.72	136.27	62
Skilled labor (%)	19.75	10.17	7.99	57.27	59
Dependency (%)	12.504	2.66	7.5	20.04	62
Labor Dispute size (%)	20.615	15.934	1.878	77.594	62
year	2013	1.008	2012	2014	62

Table A.2: Cross-correlation Table : CLDS 2012-2014

Variables	Migrant (%)	Informality	GDPpc	Revenue	Transfer	nSOE	FDI	Openness	skilled	Dependency	Disputesize
Migrant(%)	1.000										
Informality	-0.675 (0.000)	1.000									
GDPpc	0.525 (0.000)	-0.419 (0.001)	1.000								
Revenue	0.478 (0.000)	-0.619 (0.000)	0.415 (0.001)	1.000							
Transfer	-0.186 (0.163)	0.076 (0.573)	-0.485 (0.000)	-0.115 (0.373)	1.000						
SOE	0.035 (0.794)	-0.137 (0.307)	-0.440 (0.000)	0.118 (0.363)	0.788 (0.000)	1.000					
FDI	0.616 (0.000)	-0.492 (0.000)	0.610 (0.000)	0.499 (0.000)	-0.404 (0.001)	-0.391 (0.002)	1.000				
Openness	0.718 (0.000)	-0.526 (0.000)	0.683 (0.000)	0.535 (0.000)	-0.304 (0.016)	-0.285 (0.025)	0.859 (0.000)	1.000			
Skilled	0.394 (0.002)	-0.502 (0.000)	0.713 (0.000)	0.646 (0.000)	-0.380 (0.003)	-0.177 (0.180)	0.405 (0.001)	0.551 (0.000)	1.000		
Dependency	-0.430 (0.001)	0.239 (0.071)	0.079 (0.540)	-0.083 (0.522)	-0.419 (0.001)	-0.344 (0.006)	0.059 (0.649)	-0.087 (0.500)	-0.044 (0.739)	1.000	
Dispute	0.442 (0.001)	-0.418 (0.001)	0.442 (0.000)	0.561 (0.000)	-0.282 (0.026)	-0.193 (0.134)	0.473 (0.000)	0.551 (0.000)	0.464 (0.000)	0.015 (0.906)	1.000

Table A.3: Summary statistics: NBS statistics 2005-2015

Variable	Mean	Std. Dev.	Min.	Max.	N
Residency Pension Coverage (%)	28.054	15.103	1.255	55.955	186
Employment Pension Coverage (%)	14.584	9.26	1.579	54.698	341
Residency-based Pension Participants	1301.921	1209.674	24.7	4855.2	186
Employment-based Pension Participants	634.729	634.604	4.5	4613.2	341
Labor Informality (%)	42.254	9.372	18.18	66.091	341
Labor Importation	16.836	12.387	0.313	65.118	341
GDP per capita (in log)	10.263	0.623	8.541	11.59	341
Revenue	14.832	4.251	6.2	32.1	341
Fiscal Transfer	13.96	18.17	1.837	129.744	341
SOE investment	32.324	12.165	11.449	80.981	341
FDI	5.904	5.112	0.084	24.319	339
Labor Disputes	22.04	21.2	1.878	182.128	310
skilled	12.4	8.9	0.9	57.3	302

Source: NBS Statistics 2005-2015

Table A.4: Cross-correlation Table: NBS statistics 2005-2015

Variables	Informality	Labor Import	urban	GDP	Revenue	Transfer	SOE	FDI	Depend	dispute	Skilled
Informality	1.000										
Labor Import	0.198 (0.000)	1.000									
Urbanization	0.091 (0.092)	0.804 (0.000)	1.000								
GDPpcc	0.357 (0.000)	0.746 (0.000)	0.822 (0.000)	1.000							
Revenue	0.078 (0.149)	0.630 (0.000)	0.542 (0.000)	0.448 (0.000)	1.000						
Transfer	0.263 (0.000)	-0.283 (0.000)	-0.507 (0.000)	-0.269 (0.000)	-0.105 (0.052)	1.000					
SOE	-0.120 (0.026)	-0.266 (0.000)	-0.458 (0.000)	-0.480 (0.000)	0.055 (0.313)	0.714 (0.000)	1.000				
FDI	0.112 (0.039)	0.458 (0.000)	0.579 (0.000)	0.302 (0.000)	0.235 (0.000)	-0.412 (0.000)	-0.375 (0.000)	1.000			
Dependency	0.124 (0.022)	-0.052 (0.342)	0.215 (0.000)	0.159 (0.003)	0.012 (0.820)	-0.429 (0.000)	-0.378 (0.000)	0.232 (0.000)	1.000		
Dispute	0.062 (0.273)	0.356 (0.000)	0.378 (0.000)	0.274 (0.000)	0.249 (0.000)	-0.152 (0.007)	-0.120 (0.034)	0.278 (0.000)	0.075 (0.190)	1.000	
Skilled	0.100 (0.083)	0.743 (0.000)	0.757 (0.000)	0.747 (0.000)	0.586 (0.000)	-0.203 (0.000)	-0.210 (0.000)	0.200 (0.000)	0.025 (0.670)	0.329 (0.000)	1.000

Source: NBS Statistics 2005-2015

Table A.5: Summary statistics: City Statistics 2011-2013

Variable	Mean	Std. Dev.	Min.	Max.	N
Employment-based pension participants	88.475	143.001	0	1342.98	864
Informal labor (%)	45.951	13.188	0	81.320	864
Labor Importation	-2.467	16.528	-45.95	77.614	822
GDP per capita (in log)	10.495	0.612	8.773	13.056	864
Revenue (as a % of GDP)	7.67	2.869	2.961	19.121	864
Foreign investment (as a % of total investment)	7.811	9.393	0	50.553	864
China circle investment (as a % of total investment)	5.771	7.461	0	42.385	864
Social expenditure	11.972	3.98	0.745	44.275	864
Trade openness	20.024	32.807	0.029	237.766	844

Source: China city statistical yearbook, China Regional Economy Statistical Yearbook 2011-2013

Table A.6: Cross-correlation table: City Statistics 2011-2013

Variables	Informality	Migrant	GDPpc	Revenue	Foreign invest	China circle	Social exp	Trade Openness
Informality	1.000							
Migrant (%)	0.005 (0.895)	1.000						
GDP per capita	0.010 (0.778)	0.707 (0.000)	1.000					
Revenue	-0.020 (0.563)	0.381 (0.000)	0.301 (0.000)	1.000				
Foreign Investment	0.097 (0.004)	0.569 (0.000)	0.492 (0.000)	0.313 (0.000)	1.000			
China Circle Investment	0.094 (0.006)	0.365 (0.000)	0.246 (0.000)	0.117 (0.001)	0.502 (0.000)	1.000		
Social expenditure	-0.005 (0.873)	-0.282 (0.000)	-0.332 (0.000)	-0.230 (0.000)	-0.252 (0.000)	-0.210 (0.000)	1.000	
Trade Openness	0.078 (0.023)	0.640 (0.000)	0.471 (0.000)	0.303 (0.000)	0.711 (0.000)	0.525 (0.000)	-0.295 (0.000)	1.000

Source: China city statistical yearbook, China Regional Economy Statistical Yearbook 2011-2013

Table A.7: Summary statistics: 2012 CLDS & City Statistics 2012

Variable	Mean	Std. Dev.	Min.	Max.	N
Residency-based pension coverage	33.778	20.637	0	89.59	94
Employment-based pension coverage	22.622	20.549	0	79.33	92
Corr (Interprovincial migrant, informality)	0.011	0.19	-0.693	0.304	66
Corr (Intercity migrant, informality)	0.066	0.171	-0.288	0.438	61
GDP per capita (in log)	10.57	0.584	9.084	11.722	115
Foreign Investment (%)	10.288	11.364	0	48.85	115
China Circle Investment (%)	8.199	9.125	0	39.934	115
Social expenditure	11.048	3.207	2.672	19.193	115
Revenue (as a share of GDP)	8.177	3.071	3.613	18.552	115

Sources: CLDS 2012 & City Statistical Yearbook 2012

Table A.8: Cross-correlation Table: 2012 CLDS & City Statistics 2012

Variables	Corr(Prov)	Corr(City)	GDP	Foreignn Invest	China circle	Social Exp	Revenue
Corr (interprov)	1.000						
Corr (intercity)	0.399 (0.002)	1.000					
GDPpc (in log)	0.341 (0.005)	0.201 (0.120)	1.000				
Foreign Investment	0.179 (0.150)	0.177 (0.172)	0.632 (0.000)	1.000			
China Circle Investment	0.051 (0.683)	0.012 (0.927)	0.288 (0.002)	0.583 (0.000)	1.000		
Social Expenditure	-0.182 (0.145)	-0.254 (0.048)	-0.400 (0.000)	-0.380 (0.000)	-0.290 (0.002)	1.000	
Revenue	0.118 (0.344)	0.010 (0.939)	0.376 (0.000)	0.410 (0.000)	0.104 (0.268)	-0.297 (0.001)	1.000

Sources: CLDS 2012 & City Statistical Yearbook 2012

Table A.9: Summary statistics

Variable	Mean	Std. Dev.	Min.	Max.	N
2012					
Pension Option	0.89	0.868	0	2	6495
Informal Labor	0.658	0.474	0	1	5066
Informal Labor (Narrow)	0.566	0.496	0	1	5061
Non-local (inter-province)	0.155	0.362	0	1	6495
Non-local (Inter-city)	0.175	0.38	0	1	6495
Rural Hukou	0.601	0.49	0	1	6495
Income (in log)	1.214	0.6	0	5.994	6300
Age	38.941	11.417	15	83	6494
Education	2.486	1.035	1	4	5660
SOE/Gov	0.258	0.438	0	1	6495
Collective	0.031	0.174	0	1	6495
Foreign Enterprise	0.048	0.214	0	1	6495
Private Enterprise	0.35	0.477	0	1	6495
Urban	0.531	0.499	0	1	6495
Female	0.426	0.495	0	1	6495
2014					
Pension Option	0.742	0.854	0	2	8324
Informal Labor	0.687	0.464	0	1	8210
Informal Labor (Narrow)	0.607	0.488	0	1	8215
Non-local (inter-province)	0.096	0.295	0	1	9458
Non-local (inter-city)	0.154	0.361	0	1	9447
Rural Hukou	0.65	0.477	0	1	8194
Income (in log)	9.819	2.234	0	15.596	9458
Age	40.39	11.606	15	114	9391
Education	2.528	1.05	1	4	9442
SOE/Gov	0.227	0.419	0	1	9458
Collective	0.077	0.267	0	1	9458
Foreign Enterprise	0.038	0.192	0	1	9458
Private Enterprise	0.328	0.47	0	1	9458
Urban	0.565	0.496	0	1	9458
Female	0.423	0.494	0	1	9458

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