

## **Appendix I: Terminology, Concepts and Definitions**

In the following section of the study a brief discussion on the empirical data, definitions and broad categorisation of social security programmes is being conducted. The reason is simple: such a short evaluation is an important step before proceeding into the descriptive country-specific and following comparative analysis of social security provision.

### **Chinese authoritarian regime, ideology and the concept of ideocracy**

More recently the limitation of the discourse on autocracies in comparative political science has emphasised the need for a more sophisticated typology of autocratic system and particular in regard to the relevancy of ideology for these regimes and their policy choices (Kailitz 2009a, 2013, Backes and Kailitz 2010). The earlier discussion and minimal definition of political regimes by Hadenius and Teorell (2007) offered a clear definition of the political regime types.

In Hadenius and Teorell (2007) the party system served as core variable that could predict the feature of the regime type. Accordingly to the data, China can be defined as ‘one party system’ (Brooker 2000:40, Authoritarian Regimes Dataset 2014). Also the Polity IV project which rates China as a ‘*fully institutionalized autocracy*’ (rating of -10). Taking both interpretations into account China clearly represents a stable and fully institutionalized autocracy with a one party system. However, for country-specific analysis a more sophisticated typology is crucial to understand the specific policy processes, choices and perception of the actors.

The concern with ideology arises from the Chinese political system and party dominance of the CCP itself. Ideology, however, seems to be a trait of the political decision-making, it directly and indirectly shapes the intra-party, personal and programmatic perceptions and decision-making which has not been taken into account in the previous categorisation. In her work ‘*Post-Mao China. From Totalitarianism to Authoritarianism?*’ Sujian Guo takes up the still lasting question in literature how to characterize the Chinese regime type correctly. A point of departure has been offered by the German political science discourse on autocracies.

The currently debate on China’s political regime type (Linz and Stephan 1996:40), is heavily affected by the limits of the classical definition of totalitarian regime<sup>1</sup> and its inability to distinguish between totalitarianism and post-totalitarianism, i.e. the theoretical limitation to

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<sup>1</sup> Typically the definitions of totalitarian regimes also assume that a feature of these regimes are concentration camps or central planned economies (Friedrich and Brzezinski 1965: 205-275, Arendt 2005:907-943) which has been true for totalitarian regimes before 1945 but is not anymore the case for the so-called post-totalitarian regimes (Beckes and Kailitz 2010).

distinguish the transition from Stalin personal rule to the ideological regulated party rule in Russia. In attempting to overcome the limitation, the core element of the *ideocracy concept* (Kailitz 2009a, 2010:9-11) reduces the scope of the definition to the single dimension of political legitimacy based on the ideology.<sup>2</sup> In doing so, the broad category of ‘*totalitarian*’ countries<sup>3</sup>, such as Burma, Cuba, Libya, Sudan, China, North Korea and Uzbekistan, can be adequately distinguished by ideocracies, such as China, Cuba, North Korea and Libya and the totalitarian regimes relying mainly on the instruments of oppression to foster their legitimate rule without the ideological dimension, such as Burma, Sudan, Uzbekistan (Beckes and Kailitz 2010:9-11). In contrast to other authoritarian regime, the single dimension of political legitimacy in these systems is reduced to the ideology. Consequently, the ruling party either in a one party system or one-party dominance is under pressure to realize – at least to some degree - the ideological goals. The existence of a dominant party which is founded on ideological terms is essential for ideocracies to provide the nexus for political rule. The party does not only advocate the political but also the social control legitimated by the ideology in which political and social goals are determined. A common phenomena in such contexts is the strategically use of ideology by the party elites to penetrate all levels of political and social life to assure the participation of the people and elites<sup>4</sup>. In the context, oppression and cooptation are instruments or end to means for achieving the political legitimacy. Consequently, in these settings, the ruling party tend to be constantly dominated by the internal struggle between pragmatics and ideologists on how to proceed and balance ideological and programmatic issues in the political strategy (Beckes and Kailitz 2010:8-10). China fulfils perfectly the categories for an ideocracy (Kailitz 2009a). The Chinese autocratic regime has established a one party system ruled by the CCP (Hadenius and Teorell 2007). Every five years, the CCP formulates the political, economical and social goals for the CPR and ambitious tries to realize the ideological ambition to combine socialism and market economy. Consequently, ideology is the essential dimension for political legitimacy of the CCP, the outcomes of the distinctive policy strategies, i.e. ‘Great Leap’ or ‘Harmonious Society’, have to be understood not only from a rational point of view, such as the part liberalisation of the economy, but also in reference to the communistic party ideology and the contemporary internal party discourse (Guo 2000, Sen 2000, Hu 2005).

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<sup>2</sup> In its concept reflects an intellectual flexibility concerning the subtle definition between the poles of totalitarianism and authoritarianism which perfectly fits for autocracies, such as North Korea and China (Kailitz 2009a, 2010, 2013, Beckes and Kailitz 2010).

<sup>3</sup> For a sophisticated review on the intellectual debate and resulting concepts of totalitarianism see the first chapter by Sujian Guo (2000).

<sup>4</sup> Grass root party committees are set up on all levels of society to tighten the grip of the party and imprint the ideology in the education of the children, public media, at the workplace and even in the family (Guo 2000).

In contrast to personal authoritarian rule, ideocracies tend to fall more easily prey to constant internal party conflicts between the two positions of idealism and pragmatism. Along, of course, with many other topics<sup>5</sup> social security provision has been and still is a controversy topic in the CCP (Guo 2000, Zheng 2004). Whether the socio-economical challenges, whether ideological traditions of socialistic ideology or because the attempt of the political leaders to establish public support for their politics, the internal party conflict between pragmatic faction and hard-liners has become a permanent feature of Chinese policy making (Kailitz 2009a, 2013).

A landmark has been the historical transition from Mao's ideological communistic reign to Deng Xiaoping's market-orientated socialism in 1978. But the process is currently distinctive visible after the power grasp of the fourth generation of leadership in 2002 and the remodelling of the social security system and experiences with party internal democratic patterns which again perfectly illustrating the attempt of the CCP to realize their ideological goal of a socialistic market economy and the resulting internal struggle on how to achieve it (Köllner 2013:272ff).

### **Concept of the Rule of Law**

But what does the concept of *rule of law* imply? How to operationalize a comparable dimension of *rule of law*? Although the concept is widely discussed category, the academic debate has produced two theories and related concepts: the '*formal*' or '*thin*' as opposed to the '*substantive*' or '*thick*' conception of *rule of law*.

A postulated fundamental criterion for democratic system is the existence of the rule of law. The judiciary is playing a major role in protecting the civil rights of the individual against the state and ensuring the division of power, especially the limitation of the executive power (Raz 1978). In Tocqueville's (1990:269f) notion democracies assure the equality of all people by law and offer compensation and justice to violated subjects or groups. Prominent examples for independent courts defending the citizens' rightful legal claims are given by the European Court, the German *Verfassungsgericht* or the Indian Supreme Court (Austin 1966, Conrad 1995, Schmidt 2000a, 2012).

Justice includes the possibility for a citizen to enforce socio-economical demand or his civil rights even against state authority itself if the state has become an unlawful violator. In established democracies rule of law has long standing tradition (Dahrendorf 1978). Inspired

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<sup>5</sup> In particular, foreign policy and official statements to the downfall of the UDSSR have produced significant internal conflict between the moderate party-internal group, including Deng Xiaoping, and the orthodox left-totalitarian perception of the ruling elites (Kailitz 2009a).

by the liberal reasoning of Rousseau a thick concept of the rule of law has been formulated. In a liberal tradition of Jacques Rousseau the substantive concept of *rule of law* and the political system have to be separated. For Rousseau and other liberal scholars a statutory law is essential to guarantee justice, orderly rule and civil rights. Rousseau emphasised that a modern state<sup>6</sup> contrary to a monarchy is in demand for a legislation, constitution and laws which not only determine the legal framework but serve as boundaries, defining and limiting the power of the state (Hayek 1994:80).

Contrary to Albert Venn Dicey (1885), who did not speculate on the normative implications, the thick concept embodies a normative perception on the need for liberty, freedom and civil rights. A prominent definition is given by Hayek (1994:73): 'Within the known rules of the game the individual is free to pursue his personal ends and desires, certain that the powers of government will not be used deliberately to frustrate his efforts.' In his study on the American *rule of law* Hayek emphasises its political morality in providing not only check and balance for the state but also guarantee freedom of the individual. In his widely cited article, law Professor Ralf Dahrendorf (1977:9) pointed out that a thick rule of law requires that laws are '*prospective, clear open accessible, and noncontradictory, (as well as) an independent and impartial judiciary, independent legal profession, and honest and apolitical law enforcement*'<sup>7</sup>.

A common consensus by the advocates of a thick conception of the *rule of law* emphasise that the '*independence of the 'judicial department' may be indeed be regarded as the very definition of the 'rule of law': It is certainly an important part of it*' (Dahrendorf 1977:9).<sup>8</sup> It is not surprisingly that democracies have been directly associated with *rule of law*, however, the liberal definition and the central premise of human and civil rights is limiting the comparativeness of the thick concept.<sup>9</sup> Accordingly, the approach has its flaws for comparative political science, especially in comparing authoritarian regimes with orderly rule and democracies (Peerboom 2002).<sup>10</sup> In the tradition of British constitutionalist Albert Venn

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<sup>6</sup> In Rousseau's notion the modern state which evolved out of the monarchy is represented by a populist parliamentary system of governance (Schmidt 2000b).

<sup>7</sup> In his prominent work "*The Morality of Law*" Lon Fuller (1969:41-90) evaluates, similar to Dahrendorf (1977), the same eight conditions in need for a thick rule of law. Consequently, in Fuller's notion (existing) laws have to be general, public, prospective, clear, consistent, and capable of being followed, stable, and enforceable.

<sup>8</sup> Accordingly, a crucial factor is degree of independence, professionalism and effectiveness of the judicial system as well as law enforcement agencies (Peerboom 2002, 2007). A second factor is the extension to which the courts and law agencies fight against corruption as well as their own immunity to corruption which will be only general evaluated and not in detail.

<sup>9</sup> Thick concept has traditionally focused on normative aspects, such as liberty and freedom, implying the need for legal protection of these rights (Dahrendorf 1977).

<sup>10</sup> As mentioned before, the thick concept lacks the ability to explain orderly rule or the rule of law in authoritarian regimes. Consequently, various scholars critically questioned the usefulness of the thick concept (Raz 1979).

Dicey (1885), the thin concept of rule of law has emerged out of the ambition to extend the comparability and explain also variation of rule of law without the theoretical limitations of normative assumptions.

The intellectual concern of the thin concept was to develop a parsimony definition which restricts its attention to the institutional criteria for a functioning of a legal system in any country. Joseph Raz (1979:214-216) pointed out that the thin concept includes only *'the basic intuition from which the doctrine of the rule of law derives: the law must be capable of guiding the behaviour of its subjects. It is evident that this conception of the law is a formal one. It says nothing about how the law is to be made: by tyrants, democratic majorities, or any other way. It says nothing about fundamental rights, about equality, or justice . . . Racial, religious, and all manner of discrimination are not only compatible but often institutionalized by general rules'*.

By adding an authoritarian understanding of the thin rule of law, Joseph Raz (1979) built a definition for the thin rule of law in which *'people should obey the law and be ruled by it'* (1979:210-211) and that *'in political and legal theory it has come to be read in a narrower sense, that the government shall be ruled by the law and subject to it. (...) Actions not authorized by law cannot be the actions of the government as a government (1979:211-12).'* Accordingly, the thin concept of rule of law grants a more useful conception for the task ahead, to compare the legal embodiment of India and China's social security policies.

### **Organised/Unorganised Sector and formal/informal employment**

Commonly the economy and the employment-related social security system for formal employed have to be understood in relation to the separation of the economy into the organised and informal/unorganised<sup>11</sup> sector (Hart 1973, Wadhawan 1987).<sup>12</sup> What is significant is that the sector determines not only the employment situation but furthermore the available coverage by employment-related social security. In the unorganised sector commonly the employment situation is informal without any available social security coverage. Employment relations are determined by the personal employer-employee relation and not by any contracts (Wadhawan 1987). But it should be mentioned, that informal employment is not restricted to the family business or agrarian sector (NCEUS 2006, 2007).

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<sup>11</sup> The terms "unorganized" and "informal" sectors are often used interchangeably in literature and official documents and reports (National Statistical Commission Government of India 2012:4).

<sup>12</sup> As presented by Das (2010) for both and in detail by Ghai (2007) for India and Hurst (2009) for China, the informal sector and unorganised employment are still dominating employment in various branches, in particular in the agrarian sector, smaller manufacturing enterprises (mostly in rural areas) as well as service.

In India the category ‘*organised sector*’ mainly refers to the size of the economical enterprise. Accordingly, the organised sector in India consist of all government institutions, enterprises using electricity and employing more than ten persons and also those without electricity but employing 20 or more persons (ILO 2000:2). The legislature for the categorization is the Indian Factory Act, 1938. Since the classification is problematic, the lines between formal and informal sector and related assumed numbers on the informal sector are not so clear in India. India’s informal economy or commonly referred as the unorganised sector in the literature is estimated to harbour 91 per cent of India’s working population and contributes 30 to 50 per cent of the GDP (ILO 2007b, DGB 2007:7, World Bank 2010).

*Table 41: Percentage distribution of expenditure classes by social identity, informal work status and education 2004-2005*

Sl No	Economic status	Social categories (percentage share in own total)				Percentage of unorganised workers	Education* (per cent)	
		SCs/STs	All OBCs except Muslims	All Muslim except SCs/ STs	Others (without SCs/ STs, OBCs & Muslim)		Illiterates	Primary and below primary
1	Extremely poor	10.9	5.1	8.2	2.1	5.8	8.1	5.0
2	Poor	21.5	15.1	19.2	6.4	15	19.0	14.2
3	Marginally poor	22.4	20.4	22.3	11.1	19.6	22.2	19.4
4	Vulnerable	33	39.2	34.8	35.2	38.4	36.9	40.0
5	Middle income	11.1	17.8	13.3	34.2	18.7	12.8	18.9
6	High income	1	2.4	2.2	11	2.7	1.0	2.5
7	Extremely poor and poor (1+2)	32.4	20.3	27.4	8.5	20.8	27.1	19.2
8	Marginal and vulnerable (3+4)	55.4	59.6	57.1	46.3	57.9	59.1	59.4
9	Poor and vulnerable (7+8)	87.8	79.9	84.5	54.8	78.7	86.2	78.6
10	Middle & high income (5+6)	12.2	20.1	15.5	45.2	21.3	13.8	21.4
	All	100.0	100.0	100.0	100.0	100.0	100.0	100.0
	All (million)	302	391	138	258	423	270	164

*Note:* \* Refers to persons aged 15 and above.  
*Source:* Computed by NCEUS (2007) from 1933 61st Round 2004-3, Employment-Unemployment Survey.

The National Commission for Enterprises in the Unorganized Sector (National Statistical Commission Government of India 2012:4) has characterized the informal sector, corresponding to the definition of the ILO’s International Conference of Labour Statisticians, ‘*as consisting of units engaged in the production of goods or services with the primary objective of generating employment and incomes to the persons concerned. These units typically operate at a low level of organization, with little or no division between labour and capital as factors of production and on a small scale. Labour relations - where they exist - are based mostly on casual employment, kinship or personal and social relations rather than contractual arrangements with formal guarantees*’. An important aspect to be emphasised is

the employment relationship in the unorganised sector<sup>13</sup>: The NCEUS (2006:7, 2007) emphasised in its various reports that the informal employment situation in the unorganised sectors is characterized as '*consisting of casual and contributing family workers; self-employed persons in unorganized sector and private households; and other employees in organized and unorganized enterprises not availing any social security benefits given by the employers*'.<sup>14</sup> In China a similar picture can be painted on the problem of informal employment. In the various business entities and factories, either the village or foreign owned, founded all over the rural provinces, informal employment of migrants is not the exception but the reality. In most cases the local administration and union representatives are ignoring the problem to protect their tax revenues.

### **Below the Poverty Line Households**

In the expansion of social security to the poorer segments of society various schemes and programmes have explicated target the people of house holds below the poverty line. *Below the poverty line* (BPL) is the official term in Indian social politics to term the absolute poor people in urban and rural areas. *'The Government of India has defined the poor as those who do not get the minimum required daily calorie intake of 2400 (rural) or 2100 (urban) Kcal per capita per day. In order to get the minimum food to obtain these calories, the estimated income requirement is Rs. 229 or Rs. 264, respectively, per capita per month at 1993-94 prices – that is an income of at least Rs. 1150 (rural) or Rs.1300 (urban) per month equals about US\$26 per month for a family of five* (Sülzer 2008:213).<sup>15</sup> As a consequence, the BPL as a target criterion for poverty reduction programmes in India has been massively under critique due to its limited scope but also concerning the administrative problem to identify the BPL households (Rao, Rajasekhar and Suchitr 2006).

### **Chinese Laid-off workers or xiàgǎng**

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<sup>13</sup> For a detailed discussion on the unorganised sector see the explicit reports of the NCEUS (2006, 2007).

<sup>14</sup> In their report in 2001 the NECUS estimated that only 7 per cent of the 370 million strong workforce are covered by formal social security protection. But informal employment is not restricted to the unorganised sector. Employers took heed of the missing regulations, accordingly to the Employment-Unemployment Survey issued in 2006 (cited ILO 2007b:22) estimates that roughly 25 millions of the total 56 million employees in the formal sector are informal workers.

<sup>15</sup> The World Bank (2007) estimates that roughly over 300 million people in India are BLP and live in absolute poverty and earn less than US \$1 a day. Furthermore, a large part of society roughly over 500 million are only marginally better off and have an income below US \$ 2 per day.

The Chinese word of 下岗 ('xiàgǎng')<sup>16</sup> or in literature referred to as 'laid-off' workers is not identical with the term of 'unemployed' workers. These laid-off workers are not officially declared unemployed but are in transition (Gang et al. 1998). *Laid-off* workers refer to the masses of workers which have become unemployed in the course of the economical transformation of the SC in the 1990s. The paramount objective of enhancing the economical performance of the SOEs, included the shutting down of bankrupt entities and employment reduction. As a side-effect, in the next decade the number of *laid-off* workers rapidly increased. For the state government these workers are in transition, not surprisingly, a report of the United Nation Development Program on the human development in China noted that they are 'technically connected to their enterprises' and 'they were not registered or counted as unemployed' (Zhiyuan et al. 2000:58). Therefore the Chinese state government took heed of the resulting unemployment and ordered the SOEs to set up *Reemployment Service Centres* (RSC) to accelerate re-employment and shorten the transition phase.<sup>17</sup> Officially statistics on unemployment do not include these 'laid-off' workers in their accounts on unemployment.

### **Household Registration System**

*Household Registration System* (HRS) or so-called *Hukou System* has been enacted in 1958 to coordinate, administer and monitor the citizens' access to job opportunities, social security schemes and entitlement of public services. Every citizen is required to register his regular residence and any changes of residency have to be applied for by the local authorities. Therefore, the HRS 'functioned as a *de facto* internal passport mechanism' (Chan et al. 1999:427) and as a mechanism to control the geographical mobility of the citizens. The increasing demand for rural workers in the fast growing urban areas and the better employment opportunities in the cities laid out several demands for the reformation of the strict HRS. These demands resonated widely by citizens and urban authorities. In the 1980s the state government relaxed the HRS and allowed 'temporary' migration. In the meantime the function of the HRS has not faded and the system still manages the residency and the rights of citizens, including the temporary migrants. Two types of migrants are being separated, one type with residency rights and entitlement to local public services, so called

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<sup>16</sup> The Chinese 'xiapang' means more or less "left-post workers" and describes the situation perfectly (Chan et al 2008:9). See Zhang, Chewei (2003:47f) '张车伟, 失业率定义的国际比较及中国城镇失业率' ("An International Comparison of the Definition for Unemployment and the Rate of Unemployment in Urban China") for a detailed discussion on the Chinese concept of unemployment.

<sup>17</sup> Furthermore, the employment relationship to their former employer and the access to the RSCs officially lasted for three years. The RSCs are designed to provide training for re-employment and self-employment, social services and information for the laid-off workers. The functioning of the RCS will be discussed in the next chapter.



Hukou migrants, and the majority without residency rights, so called non-Hukou migrants. The majority of migrants gain no residency right. Alone in 1988 shortly after the relaxation of the HRS, the number of non-Hukou migrants without residency rights jumped to 70 millions (Chan 2003:111ff). In effect, the HRS is the crucial institution in determining the residential status and therefore the access of the citizens to job opportunities, social security schemes and entitlement of public services.

### **Deng Xiaoping's generation model – formalization attempt**

Elections are institutional mechanism for more than one purpose (Nohlen 2007). In his minimal concept of democracies Przeworski's (1991:50-51) maps the three main dimensions of democratic system, namely '*ex ante uncertainty*', '*ex post irreversibility*' and '*regularity*'. Elections are the crucial mechanism to assure participation as well as the ability of the voters to punish the elected government.

In China, political participation and more or less democratic elections are newly adapted mechanisms and still restricted to the lower levels in CCP (Dittmer and Wu 1995, Wang 2002). Consequently, the recruitment patterns for the political elites and CCP leadership are not conducted by democratic electoral mechanism but are nominated by a small group of political leaders (Guo 2013a/b). A major problem in the past has been the quality and inefficiency of the former recruitment patterns which have become distinctive visible in its limitation to produce viable candidates for the CCP leadership.<sup>18</sup>

As a reaction, Deng Xiaoping re-modelled the mechanisms and introduced the concept of generation leadership and generation transfer model to regulate the succession of political leaders in the CCP in his favour in 1989 (Bo 2007:42ff). The generation transfer model refers to his interpretation of the CCP's history and ignored the leaders in 1921 to 1935: The first generation of political leadership the generation revolutionaries i.e. Mao Zedong as well as Zhou Enlai or Zhu De. The second generation, according to Deng, have initiated the reforms in 1978 under his leadership<sup>19</sup>. At the 14<sup>th</sup> National Congress of the CCP in 1992 Deng officially retained the current 3<sup>rd</sup> generation under Jiang Zemin and announced the era of the fourth generation under the lead of his candidate Hu Jintao. At the 16<sup>th</sup> National Congress of the CCP in 2002 the 4<sup>th</sup> generation entered the Central Committee of the CCP and the Politburo in 2007 (Bo 2013: 7ff).

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<sup>18</sup> In the late 1970s Deng implemented a '*two-front*'. Deng introduced an institution the Central Advisory Commission to support the first front, including the top political leaders. The constant intervention of the Commission in the policy decision undermined the leadership and resulted in the *Tiananmen Incident* (Bo 2013).

<sup>19</sup> Mao's successor Hua Guofeng has also be excluded in the generation model because of his lack in ideology and initiative for reforms, according to Deng Xiaoping (Deng 2003).

The 3<sup>rd</sup> generation of leadership in the 1990s has been dominated by the strong passive influence of former elites and especially the reform politician Deng Xiaoping. Deng Xiaoping even remodelled the succession of the CCP leaders and initiated the take over of the 4<sup>th</sup> generation including his candidate at the helm. Ten years after the 14<sup>th</sup> National Congress in 1992 and Deng's death in 1997 the *'baton was passed from the third generation to the fourth generation leadership'* (Bo 2013:8). Although the take over of the 4<sup>th</sup> generation under the lead of Hu Jintao and Wen Jiabao has happened 2004, the political and administrative power has been limited until 2007 and their proportional acquisition of the Politburo.

Since the 1990s the Chinese ideocracy has not produced a strong leadership due to the still strong influence of older elites. The 3<sup>rd</sup> and 4<sup>th</sup> generation both suffered from the same problems. While the 3<sup>rd</sup> generation has been limited in their policy making by Deng Xiaoping<sup>20</sup> and his still active bureaucratic elites, the 4<sup>th</sup> generation witnessed a similar fate than the 3<sup>rd</sup> generation leadership in being dependent on the cooperation of the old administrative elites until 2007. A turning point has been the year 2007. Hu Jintao (2005) used the opportunity to gain personal majority in the Politburo (Bo 2013). In the same year the Central Committee of the CCP announced significant policy changes to achieve *'socialistic harmonious society'*.<sup>21</sup>

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<sup>20</sup> Deng had an extreme positive effect on the foreign policy of the CCP.

<sup>21</sup> The SC announced the realization of a universal health insurance for all urban citizens until 2020. It further issued the document *'国务院关于开展城镇居民基本医疗保险试点的指导意见'* (*'Guiding Opinions of the State Council about the Pilot Urban Resident Basic Medical Insurance'*) in 2007 (D. Liu 2011:120).

## Appendix II:

### Indices, methodological issues and relevance for the research design

The following paragraphs on the WGI and HDI provide a short discussion why these two aggregated indices have been selected to strengthen the qualitative approach. In the following for each index the methodological notes, alternative indices as well as the reason for taking the index instead of any other will be elaborated.

#### World Governance Indicator:

The WGI (2014) provides coherent and aggregated individual data<sup>22</sup> about the view on the ‘quality of governance’<sup>23</sup> for 215 countries from 1996 to 2013 (including India and China) to measure ‘governance’. The WGI is ‘*constructed using a statistical methodology known as an unobserved components model, which in effect estimates governance for each country as a weighted average of the underlying indicators available for that country*’ (Kaufman et al. 2006). The strength of the indicator is its combination of different data sources as well as the fact that the individual country scores have been calculated by taking standard errors into account (Kaufman et al. 2010:10-11).<sup>24</sup> Furthermore, using the timeline of the WGI it is possible to compare the ‘quality of governance’ over a period of years (1996 to 2009) which increases the accountability of the data itself<sup>25</sup> as well as the resulting assumption made by the study. Concerning the methodology the WGI can be best associated to an ‘unobserved components model’ including 6 dimensions of governance (Voice and Accountability, Political Stability and Absence of Violence, Government Effectiveness, Regulatory Quality, Rule of Law and Control of Corruption)<sup>26</sup> which consists of aggregated data from 32 underlying data sources (Kaufman et al. 2010: section 5, WGI 2014).<sup>27</sup>

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<sup>22</sup> The individual data gives an insight in the views on the ‘quality’ of governance ‘*of a large number of enterprise, citizen and expert survey respondents in industrial and developing countries*’ (WGI 2014)

<sup>23</sup> Governance is defined by the WGI (2014) as ‘*the traditions and institutions by which authority in a country is exercised. This includes the process by which governments are selected, monitored and replaced; the capacity of the government to effectively formulate and implement sound policies; and the respect of citizens and the state for the institutions that govern economic and social interactions among them.*’

<sup>24</sup> See Kaufman et al. (2010:10ff) for the mathematical calculation.

<sup>25</sup> Small and marginal changes from one year to another year can often result of technical or marginal errors which do not reflect significant ‘changes’ in the performance of the government.

<sup>26</sup> These six aggregate governance indicators are presented ‘in their standard normal units, ranging from approximately -2.5 to 2.5’ as well as ‘*in percentile rank terms from 0 to 100, with higher values corresponding to better outcomes*’ (WGI 2014). As indicated in the table 26 the study uses the indicators in their standard normal unit (ranging from -2.5 to 2.5).

<sup>27</sup> The 32 data sources consists of surveys of households and firms (9 data sources), Commercial business information providers (4 data sources), Non-governmental organizations (11 data sources), and Public sector

Accumulated data is aggregated in three major steps.<sup>28</sup> In step one the accumulated data from the 32 sources for each country is assigned to the related governance indicator. In step two, the main objective is the rescaling of the aggregated data, deprived from the surveys, from 0 to 1.<sup>29</sup> However, the individual country data can range from 0 to 10 scales and is less comparable in its shape.<sup>30</sup> Accordingly to provide comparable cross-national values in step 3 the WGI relies on an *'unobserved Components Model (UCM) is used to make the 0-1 rescaled data comparable across sources, and then to construct a weighted average of the data from each source for each country. The UCM assumes that the observed data from each source are a linear function of the unobserved level of governance, plus an error term. This linear function is different for different data sources, and so corrects for the remaining non-comparability of units of the rescaled data noted above.'* Therefore the aggregated data in the third step *'assigns greater weight to data sources that tend to be more strongly correlated with each other. While this weighting improves the statistical precision of the aggregate indicators, it typically does not affect very much the ranking of countries on the aggregate indicators. The composite measures of governance generated by the UCM are in units of a standard normal distribution, with mean zero, standard deviation of one, and running from approximately -2.5 to 2.5, with higher values corresponding to better governance: Ranging from 0 (lowest rank) to 100 (highest rank).'*<sup>31</sup>

The WGI has its advantages compared to other indices in providing calculations for the performance of the government in different areas on national level. Other indices, such as the HDI (UNDP 1998) or the measurement of the GDP (World Bank 2014), based on only a limited range of indicators give no causal insight in the performance and stability of the government, rule of law and/or competency of the bureaucracy. Furthermore, broader indices, such as the Freedom House (2014) index, do not offer the needed categories and concentrate on the political participation of the citizens including a strong democratic bias. As argued before, the 'democratic-ness' of the country is not of relevance for the study and the elaboration of social security provision.<sup>32</sup>

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organizations (8 data sources). For a detailed insight in the individual surveys see the table provided by the World Bank <http://info.worldbank.org/governance/wgi/table1.pdf> (2014-09-05).

<sup>28</sup> A short summarize is being provided here, for further reading and technical notes see Kaufman et al. (2010: section 5) as well as the WGI Homepage's section on the methodology (2014-09-05).

<sup>29</sup> *'If, for example, a survey question asks for responses on a scale from a minimum of 1 to a maximum of 4, we rescale a score of 2 as  $(2 - \min) / (\max - \min) = (2 - 1) / (4 - 1) = 0.33$ . When an individual data source provides more than one question relating to a particular dimension of governance, we average together the rescaled scores'* (WGI 2014, see <http://info.worldbank.org/governance/wgi/index.aspx#reports> for the rescaled individual data). The higher the value of the data, the higher the score.

<sup>30</sup> In most cases the value is between 6 and 10 (Kaufman et al. 2008, WGI 2014).

<sup>31</sup> <http://info.worldbank.org/governance/wgi/index.aspx#doc> (2014-09-05)

<sup>32</sup> See for instance the *Bertelsman Index* (2014) which is discussed in the following section.

How to measure governance? As earlier indicated, changes in the governance performance are often only gradual and problematic to measure. Before proceeding to the common critics in literature on the WGI, three prominent alternative indices will be discussed and why they have not been taken to elaborate the underlying determinants of social security provision in India and China:

*Bertelsman Index* (BI) (2014)<sup>33</sup> is both straightforward and encompassing. Its aim is to develop an index measuring the state of development on the way to democracy and a market economy. The BI elaborates two measuring in the two dimensions of ‘political’ (based on 18 sub indicators)<sup>34</sup> and the ‘economical’ (based on 10 sub indicators) transformation. Without going further into the critics of the constructed sub indices or methodology the main issue here is the normative weighting of the ‘political indicator’ and the assumed goal of democracy. Accordingly, the BI is not very useful in exploring non-democratic countries in terms of their governance performance. Furthermore, the BI is paying less attention to the provision of public goods or services in its calculation.

*Millennium Development Goals* (MDG) Index (World Bank 2014) following the United Nations Millennium Declaration in 2000 has opted to improve the world wide human development. The MDG initiative aims to develop a global partnership in the attempt to reduce extreme poverty, child mortality, combat HIV and Aids, poverty and hunger as well as promote universal primary education, maternal health, gender equality and empower women (Mishra and Ravendran 2011:iii). By this means of data reduction to the outcomes in the specific areas, the MDG index provides only a limited investigation in the provision of public goods (not taking into account the typical social security related categories, see Chapter 9). Hence, the aggregated data of the MDG does correspond to neither the outcomes of social security provision or help to explain the related performance of the involved institutions in the provision of social security.

To sum it up, the WGI seems to be the ‘*probably the most carefully constructed governance indicators*’ (Kaufman et al. 2006:1) which provides at the moment comparable and reliable data for India and China over time without including a weighting either for Chinese higher economical performance or India’s democracy.

Before closing the consideration, the recent critics of the WGI in literature (Glaeser et al. 2004, Arndt, and Oman 2006, Knack 2006)<sup>35</sup> will be addressed. Arndt and Oman (2006:61)

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<sup>33</sup> See <http://www.bti-project.de> (2014-12-12).

<sup>34</sup> i.e. political participation, rule of law, stability of democratic institutions, etc.

<sup>35</sup> Arndt, Christiane and Oman, Charles. 2006. ‘*Uses and Abuses of Governance Indicators*’, OECD Development Center Study; Glaeser, Edward, Rafael LaPorta, Florencio Lopez-de-Silanes, and Shleifer, Andrei. 2004). ‘Do Institutions Cause Growth?’, *Journal of Economic Growth*, vol. 9, no. 3: 271-303; and Knack,

have argued that the WGI *'cannot reliably be used for monitoring changes in levels of governance over time, whether globally, in individual countries, or among specific groups of countries'*. The critics are based on the fact that the underlying data sources vary from country to country and in time. Accordingly, comparing two countries or time periods the indicator(s) can be based on two very different, and even non-overlapping, data sources.

In response to the critics, Kaufman et al (2006) argue that this is one of the strength of the WGI which allows comparing two countries to each other or in time even without available similar data sources. What has been addressed by Kaufman et al. (2005, 2006, and 2008) is the fact that in theory the changing indicators can result in large changes in the scores of the countries, however, as argued on empirical evidences the effect is only marginal.<sup>36</sup> So, *'one way to think about our aggregation methodology is that it provides a reasonably sophisticated way of placing very different underlying data sources into common units, and this is precisely what permits comparisons across countries that do not appear in the same sources (2006:5).'*

Criticism has been raised in respect to the measurement methods of the WGI which *'do not allow for a reliable comparison of levels of governance over time'* (Arndt and Oman 2006: 68). Criticism of the WGI is mainly based on the fact that countries seem to experience no significant changes in their governance performance over time. Although the statement is true, the missing *'significant'* changes in the governance performance are not exactly a methodological flaw. Contrary, the continuity of the average governance performance illustrates the common consensus in comparative political science for the continuing policy performance under stable political conditions. Without denial by Kaufman et al (2008), there are always marginal errors in cross-national calculations when making comparisons across countries or in time.

What has to be addressed is the critic in respect to the postulated *'business-friendly'* bias of the aggregated individual surveys. It has been argued that the surveys mainly reflect the perception of the business elites, and *'thus so are the aggregate indicators'* (Knack 2006). The issue has been addressed in the revision of the WGI in 2005. Since then the survey data include four sources of survey data: (1) cross-country surveys of firms and individuals, (2) commercial expert assessments, (3) expert assessments produced by NGOs, and (4) expert assessments produced by multilateral organizations (Kaufman et al. 2006:19). In expanding

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Steven. 2006. 'Measuring Corruption in Eastern Europe and Central Asia: A Critique of the Cross-Country Indicators', *World Bank Policy Research Department Working Paper 3968*.

<sup>36</sup> See Kaufmann, Daniel, Aart Kraay and Massimo Mastruzzi. 2005. 'Governance Matters IV: Governance Indicators for 1996-2004', *World Bank Policy Research Working Paper No. 3630*. Washington, D.C

the survey data the WGI has added also the perception of less biased local business focus groups (Kaufman et al. 2006:19, 2008).

Another point of critic has been that the WGI is overly influenced by recent economical performance and therefore inherent a bias for ‘rich’ or ‘fast-growing’ countries. Knack and colleagues (2006) or Glaeser et al. (2004) emphasise in their papers the point that ‘fast-growing’ countries achieve higher score only in respect to their improved economical performance. The point of departure is related to commonly misconception or so-called ‘halo-effect’ (Glaeser et al. 2004, Kaufman et al 2004) assuming a causal relation between ‘good’ governance and economical performance without empirical proof.

While the critic is relevant for the common persisting perception of economical actors, the WGI and it’s authors (Kaufman et al 2004) have been sensible for the problem and have provided an in length investigation to prove that their index and its calculation is relative immune to the assumed ‘halo-effect’.

Although the WGI has been announced to be ‘*probably the most carefully constructed governance indicators*’ (Kaufman et al. 2006:1), the empirical calculations are used to support the qualitative findings of the previous chapters on the social security provision in India and China.

## **Human Development Index**

As mentioned before, the Human Development Index (HDI) is used here as an indicator to illustrate the intra-national differences in the overall human development. For a national elaboration of the overall human development the HDI is not really useful concerning the extreme regional differences (see table 2). The wide divergence between the different localities in India and China seriously questions the estimated national value.

Without doubt, the HDI has methodological short comes. It has been criticised for the focus on the economic assessments to capture the realities of human lives instead of using aggregate income data (UNDP 2010:62).<sup>37</sup> Another methodological issue has been the limited number and selected indicators for the HDI. The HDI is constructed on three comparable variables. The HDI is constructed out of three indicators: ‘*longevity, as measured by life expectancy at birth; educational attainment, as measured by a combination of adult literacy (two-thirds weight) and the combined first-, second- and third-level gross enrolment ratio (one-third*

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<sup>37</sup> UNDP. 2010. ‘Human Development and Related Concepts’, *Human Development Research Paper 2010/01*. and UNDP. 2013. ‘*Technical notes. Calculating the human development indices—graphical presentation*’, available at [hdr.undp.org/sites/default/files/hdr14\\_technical\\_notes.pdf](http://hdr.undp.org/sites/default/files/hdr14_technical_notes.pdf) (2014-12-12).

weight); and standard of living, as measured by real GDP per capita (PPP\$) (UNDP 1998: 107).’

The general formula for the construction of the individual indices which vary between a maximum (1) and minimum (0) value<sup>38</sup> is as followed:

$$\text{index} = \frac{\text{actual value} - \text{minimum value}}{\text{maximum value} - \text{minimum value}}$$

In the following step, the aggregated values of the sub indices are combined accordingly to the geometric formula:

$$(I_{Life}^{\frac{1}{3}} \cdot I_{Education}^{\frac{1}{3}} \cdot I_{Income}^{\frac{1}{3}}).$$

Precisely, the strength of reduced scope of the index to three main indicators is also a point for critics in the explanatory power. As mentioned before the national HDI value for a nation does not reflect existing divergence inside the country. Furthermore on methodological level, the HDI has also been criticised for its inability to take short-term changes into account, i.e. the life expectancy indicator is less sensible for short-termed changes. Another issue has been the strong relevance of the GDP and GDP per capita which is not automatically an indicator to elaborate divergences in the provision of welfare, health care or nutrition of the people.

Still the HDI is not the only index suffering from methodological flaws for comparing the provision of social security and outcomes. A more narrowed perspective in taking only the GDP or GDP per capita into account provides a control variable for the outputs and to a degree for the real PPP\$ but can not explain intra-national divergence in the socio-economical outcomes or, as argued earlier, for the policy choices on national level in India and China. Other approaches with similar narrowed focus, i.e. the poverty index of the World Bank (2014), tend to concentrate policy on outputs by the governments for public policy, suffer a similar problem in their limited explanatory potential to illustrate the policy choices, socio-economical dynamics and outcomes.

Another point of departure is related to the new attention to the relationship of physical and psychological well-being or often referred to as ‘happiness’ resulted in an outpouring of ‘happiness’ literature which attempted to measure the subjective ‘happiness’ of people. These

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<sup>38</sup> The maximum values are fixed (1998-2012). The minimum are subsistence values and ‘are set at 20 years for life expectancy, at 0 years for both education variables and at \$100 for per capita gross national income (GNI). The low value for income can be justified by the considerable amount of unmeasured subsistence and nonmarket production in economies close to the minimum, not captured in the official data’ (UNDP 2013:2). In the case of the sub index for education an ‘equation 1 is applied to each of the two subcomponents, then a geometric mean of the resulting indices is created and finally, equation 1 is reapplied to the geometric mean of the indices using 0 as the minimum and the highest geometric mean of the resulting indices for the time period under consideration as the maximum’ (ibid 2013:2).



indices, such as the OECD project on ‘Measuring the Progress of Societies’, tend to share the similar problem with the HDI in terms of relying on economic assessments instead of aggregated income (UNDP 2010:62f). Furthermore, a methodological issue therefore is the comparability of the underlying subjective definition for ‘happiness’, which is either relative wide, i.e. Bhutan’s Gross National Happiness index, or relative narrowed. A resulting problem of both definitions is the limited access to the data for investigating the subjective happiness in cross-national perspective (UNDP 2010:63). Moreover, ‘happiness’ is subjective and can not account for provision of public goods and services in a cross-national or even intra-national perspective due to the variations of the individual concept of ‘happiness’ as well as the causal link between public policy and ‘happiness’ (Sen 2000).<sup>39</sup>

Still, the HDI provides a broad index for illustrating the national divergence in India and China and the need for a qualitative investigation of the social security provision. As earlier argued throughout the study the life expectancy and living standards (GDP per capita) of the people are relevant for social security provision (SSA 2012). Although the third variable, education, is less relevant on the first look, such a perspective neglects the close interlink of social security programs targeting either directly educations of the beneficiaries and their families or passively by improving the overall situation of families. For instance, as illustrated earlier, the Indian social security schemes provide additional sums for education of the beneficiary’s children.<sup>40</sup>

## Tables/Diagrams

In the next section additional tables and data are listed:

*Table 43: Social Security for formal sector in India*

Name	Type	Contribution	
		Employee	Government
Employees Provident Fund	Mandatory	none	none
Employees Pension Scheme	Mandatory	none	1.66
Employees Deposit Linked Insurance Scheme	Mandatory	none	none

Source: GoI (2014)<sup>41</sup>

<sup>39</sup> The UNDP report (UNDP 2010:66) remarks on this issue that ‘*in developing countries, is that subjective data may reflect a person’s actual subjective state, and they may also reflect, to some extent, the respondent’s culture, aspirations, personality or mood at the moment of the survey (which may change depending on the order of questions)*’.

<sup>40</sup> See the chapters IV and V and the conducted detailed report on the social security schemes and their benefits. In particular, India’s social security schemes have opted grant additional funds for primary education of one to two children of the beneficiary household to improve the overall low literacy level.

<sup>41</sup> Statistical data available at <http://labour.gov.in> (2014-04-14).

Table 44: Import/Export Ratio

	1999	2000	2001	2005	2008	2009
<b>India</b>						
Exports (billion US \$)	33.12	34.01	41.51	74.23	136.8	137.89
Imports	37.57	39.9	48.36	107.46	223.64	222.41
Trade balance	- 4.45	- 5.89	- 6.85	- 33.23	- 86.84	- 84.52
Exports (annual change %)	26.6	2.7	22.1	21.6	28.2	0.6
Imports (annual change %)	7.3	6.2	21.2	31.8	35.8	-0.8
<b>China</b>						
Exports (billion US \$)	194.9	249.2	266.1	762	1430.7	1201.6
Imports	165.7	225.1	243.6	660	1132.6	1005.9
Trade balance	29.2	24.1	22.6	102	298.1	195.7
Exports (annual change %)	6.1	22.4	6.8	28.4	17.5	-16
Imports (annual change %)	8.2	21.2	8.2	17.6	18.5	-11.2

Source: Asian Development Bank (2012a, b)

Table 45a: Organised Labour power in China

Year	No. of union confederations	Scope of bargaining	Membership	estimated organisational power
1995	1	0	31	31
2000	1	0	44	44
2001	1	0	45	45
2002	1	0.1	54	59.4
2003	1	0.1	48	52.8
2004	1	0.1	52	57.2
2005	1	0.1	49	53.9
2006	1	0.1	54	59.4
2007	1	0.1	65	71.5
2008	1	0.2	66	79.2

Sources: Labour Yearbook, Metcalf and Li (2005), Hurst (2009, 2010), Bo (2013)

As indicated in table 45a, the organisational power calculation (Cameron 1984) does not add up for Chinese case, even by taking the extremely limited scope of bargaining (Hurst 2009, 2010) as well as independent aggregated membership numbers (Metcalf and Li 2005, Bo 2013) into account.<sup>42</sup> Contrary to the accumulated evidence for the dependency of Chinese organised labour<sup>43</sup>, the outcomes suggests that organised labour in China has a relative high potential to affect political processes with an average ranking above 60 (Scale 0 to 100) which would be comparable to democratic countries with strong unionism, such as Scandinavian countries (OECD 2014). In the case of India, the organisational labour calculation provide additional empirical evidence for a low rating, however, the value has to be even mor reduced due to the flawed calculation.

<sup>42</sup> The official numbers published by the Chinese governmental statistics rank even above 90 per cent (Chinese Statistical Yearbook 2001-2007)

<sup>43</sup> See Metcalf and Li (2005), Qi 2011, M. Liu (2011), Bo 82013)

Table 45b: Organised Labour power in India

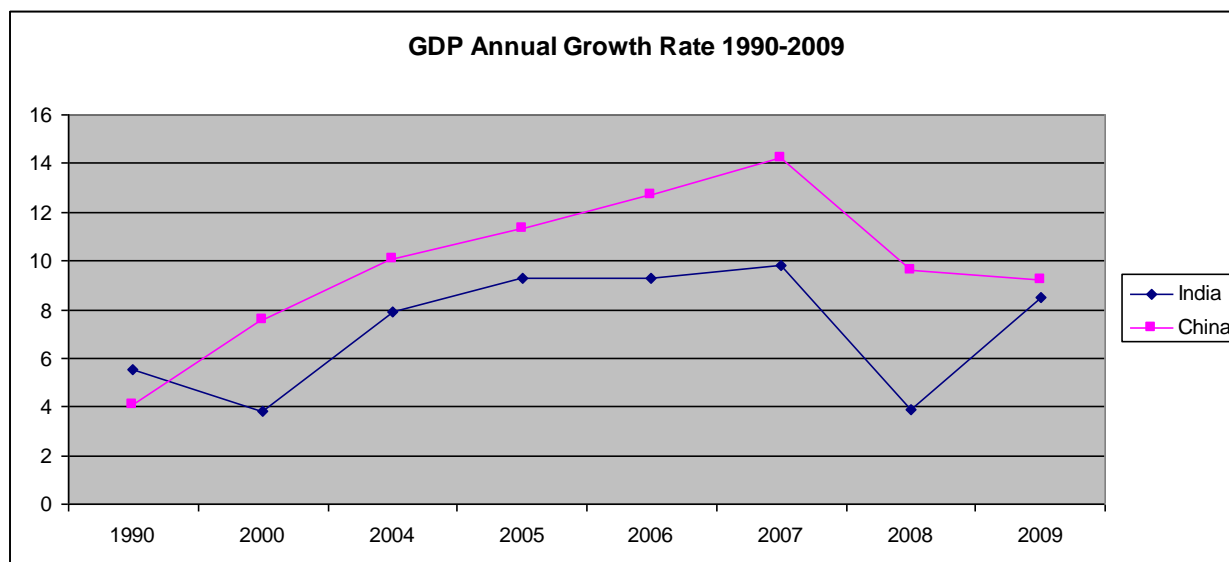
Year	No. of union confederations	Scope of bargaining	Membership (in formal sector roughly 7 per cent of the total workforce)	estimated 'formal' organisational power*
1995	0.2	0.5	23	16.1
2001	0.2	0.2	21	8.4
2002	0.2	0.2	26	10.4
2003	0.2	0.2	23	9.2
2004	0.2	0.2	13	5.2
2005	0.2	0.2	33	13.2
2006	0.2	0.2	32	12.8
2007	0.2	0.2	33	13.2
2008	0.2	0.3	36	18

Sources: Trade Union Report (2008), Sharam (2006), Das (2011)

\* The official numbers by the ILO and MoL are limited to the formal sector.

Accordingly official numbers concerning the union membership have to be taken with care because it is only calculated for the formal work-force (roughly presenting 4 to 7 per cent of the total workforce). Furthermore, any calculation are flawed by the internal political fault lines, existence of private 'craft' unions without any alliances to the union confederations and the increasing amount of union members in the unorganised sector which can neither be mobilised nor represented by their union organisations.<sup>44</sup>

Diagram 9: GDP Annual Growth Rate 1990-2009



Source: various sources (Worldbank 2014, Asian Development Bank 2012a, b)

<sup>44</sup> Another issue, as argued in length in Chapter 9, is that such a calculation has been developed for strong formalized settings and does not take into account the traditional formal as well as informal 'party-union-state' relationship.

Table 46: Total expenditure and social security

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>India (Billion Rupees/US \$ 2014)</b>										
<b>Government Expenditure</b>										
Total expenditures	4016.9 / 65.19	4490.2 / 72.87	4783.9 / 77.64	4934.6 / 80.09	5575.9 / 90.49	6227.4 / 101.07	6981.8 / 113.31	8062.1 / 130.84	9586.6 / 155.58	
Social security	168.7 / 2.74	208.7 / 3.39	236 / 3.83	209.8 / 3.40	233.5 / 3.79	263.9 / 4.28	442.4 / 7.18	459 / 7.45	538.9 / 8.75	
Social Security (% of total expenditures)	3.8	4.6	4.9	4.3	4.1	4.2	6.3	5.7	5.6	
<b>Government Finance percent of GDP at current market prices</b>										
Total revenues	9.8	9.7	10.9	12.6	11.5	9.7	10.3	11.7	9.7	9.4
Overall budgetary surplus/deficit	-5.7	-6.2	-5.9	-4.5	-3.9	-4	-3.3	-2.5	-6	-6.5
<b>Growth of Output annual change, percent</b>										
GDP	4.4	5.8	3.8	8.5	7.5	9.5	9.6	9.3	6.7	8.6
<b>China (Billion Yuan/US \$ 2014)</b>										
<b>Government Expenditure</b>										
Total	1588.7 / 258.72	1890.3 / 307.83	2205.3 / 359.13	2465 / 401.42	2848.7 / 463.91	3393 / 552.54	4042.3 / 658.28	4978.1 / 810.67	6259.3 / 1019.32	7630 / 1242.53
Social Security	73.9 / 12.03	133.5 / 21.74	182.9 / 29.78	176.1 / 28.68	208.3 / 33.92	253.4 / 41.27	302.2 / 49.21	544.7 / 88.70	680.4 / 110.80	760.7 / 123.88
Social Security (% of total expenditures)	4.6	7	8.2	6.6	7.3	7.5	7.5	11	10.8	9.9
<b>Government Finance percent of GDP at current market prices</b>										
Total revenues	13.5	14.9	15.7	16	16.5	17.1	17.9	19.3	19.5	20.1
Overall budgetary surplus/deficit	-2.8	-2.5	-2.6	-2.2	-1.3	-1.2	-0.8	0.6	-0.4	-2.3
<b>Growth of Output annual change, percent</b>										
GDP	8.4	8.3	9.1	10	10.1	11.3	12.7	14.2	9.6	9.2

Source: Asian Development Bank (2012a, b)