

# Why Emerging Economies Need Social Policy: the Cases of China and India

by Arjan de Haan, International Development Research Centre (IDRC)<sup>1</sup>

**Emerging economies are reshaping** global economic power. Their growth rates have been consistently above those of the old hegemonic powers, and they managed the impacts of the financial crisis remarkably well. While this rise has been associated with integration into global markets, this has not been associated with unbridled liberalisation, but active state intervention has been behind a significant part of the growth story.

What about the role of social policies in this global transformation? Much of the economics literature either does not pay much attention to social policy or regards it as secondary or residual at best or as a market enemy at worst. In emerging economies, also, there are strong views that see social policy as threatening growth—for example, by creating ‘welfare dependency’ or through ‘fiscal drain’. However, economic history in the OECD and elsewhere, as analysed in particular in the UNRISD project led by Thandika Mkandawire (UNRISD, 2006), suggests that there is a crucial role for social policy in economic transformations. Sustainable social policies are those that are formulated as part of economic policies and transformation, and, in turn, shape the conditions of enhancing markets and productivity.

De Haan (2013) discusses the role of social policy in the economic transformation of China and India. The author analyses how the ‘great transformation’ of both countries—rapid economic growth, urbanisation, and migration—shapes social policy responses, even if with perceived lags. Though social spending in both countries appears rather low, and many deficits remain in terms of effective social protection, social policies in both countries are evolving rapidly, with, for example, in China the world’s largest rural medical insurance programme, and in India the national rural employment guarantee scheme (NREGA). Policies vis-à-vis minorities are integral parts of countries’ social policies, consistent with broader approaches, and in turn creating the conditions for state–citizen as well as market relationships.

Political and institutional differences between the two countries have a big impact on how social policies evolve, of course. In China, social policy reforms are directly driven by the large-scale privatisation which created large gaps in social protection and growing inequalities and social unrest. The public policy choices made in the process are the outcome of political contestation—as they are elsewhere—in turn having significant implications for state–citizen relations. While striving towards universal coverage, China’s social policy choices show strong elements of a ‘productivist’ orientation, keeping social spending low (despite the stimulus package after the financial crisis) and, for example, poverty alleviation programmes focusing on enhancing productivity and economic transformation. China’s government balances centralised decision-making with a process of piloting before rolling out national schemes. Local governments have a critical role in implementation, reinforcing the focus on economic investment and keeping social investment low, particularly in poorer regions.

Approaches in India show remarkable differences from those in China, driven partly by history, partly by political differences—though social spending in India too has remained low. Despite an ideology of universalism, social programmes are often targeted. Political pluralism and ‘vote-bank politics’ have contributed to manifold and often uncoordinated schemes. India’s social policies have a much stronger emphasis on ‘welfarism’ than China’s—protecting livelihoods or well-being, with less attention to economic transformation—for example, in terms of promoting a rural–urban transition. Like China’s, and perhaps inevitable given the size of both countries, India’s social policies are implemented through decentralised structures, with notable successes in terms of enhancing citizens’ participation in implementation, but also potentially under-serving the poorest areas and increasing fragmentation.

Social policy, thus, is not merely about the redistribution of income or wealth generated by economic growth; it is integral to the way economic processes are structured, a role that changes but obtains heightened significance as economies open up. These social policies show a great deal of path dependence and are closely intertwined with national histories, ideologies and models of citizenship and inclusion, and bureaucratic structures.

It may be tempting to compare the outcomes of the systems of the two countries, but such comparisons can be made only with great care. The comparisons suggest that implementation of social policies will be radically different because of institutional context. This suggests a large research agenda, conceptually and empirically. To understand public policy’s impact on well-being and growth, it is critical—and, of course, more challenging—to look beyond individual schemes. There is a clear need for improved comparable (public spending) data, to allow understanding of the state’s role in redistribution and addressing inequalities (for example, Lustig et al., 2013). And there is a clear need to go beyond analysis—and ‘lesson learning’—of effectiveness of schemes as popularised in particular through randomised control trials, and to focus on the institutional features of schemes and underlying administrative and political conditions.

## References:

- De Haan, Arjan (2013). ‘The Social Policies of Emerging Economies: Growth and Welfare in China and India’, *IPC-IG Working Paper No. 110*. Brasília, International Policy Centre for Inclusive Growth.
- Lustig, N., C. Pessino and J. Scott (2013). ‘The Impact of Taxes and Social Spending on Inequality and Poverty in Argentina, Bolivia, Brazil, Mexico, Peru and Uruguay: An Overview’, *Commitment to Equity Working Paper*, No.13. New Orleans, LA, Commitment to Equity Database, 1 April 2013, <<http://www.commitmenttoequity.org/publications/latinamerica.php>> (accessed 9 April 2013).
- UNRISD (2006). ‘Transformative Social Policy: Lessons from UNRISD Research’, *Research and Policy Brief*, No. 5. Geneva, United Nations Research Institute for Social Development.

## Note:

1. Arjan de Haan is Program Leader, Supporting Inclusive Growth, International Development Research Centre (IDRC), Canada. The views and opinions expressed in this article are those of the author and do not necessarily reflect those of IDRC.