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Crisis country case study

People's Republic of China

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ISSA crisis case study: China

Summary

To cope with the impacts of the financial and economic crisis, which were mainly confined to massive job losses in the export-oriented enterprises due to decreasing trade, China took a multidimensional social security response. This delivered positive outcomes and cushioned the negative impacts of the shocks. Among the drivers for such a success was strong political will coupled with financial commitments from the central government.

Social security institutions covered

The Ministry of Human Resources and Social Security (MoHRSS).

Overview of the social security system

The development of the Chinese social security system, which was initiated in 1951 on the basis of the Soviet Union model with the promulgation of the Labour Insurance Regulations, can be briefly divided into three stages.

The first is the labour insurance period (1951–78). The 1951 Labour Insurance Regulations (amended in 1953, 1958 and 1978) covered social insurance benefits except for unemployment. However, the scope of coverage until the mid-1980s was confined to urban workers, with a focus on state-owned enterprises (SOEs). The second is the reform period (1978–2002) during which the government initiated employment-based and contribution-financed social insurance programmes (mainly in urban areas). Unemployment, maternity and work injury insurance schemes were introduced in 1986, 1995 and 1996, respectively. Major decisions were made in 1998 and 1999 in terms of nationwide implementation of the basic medical insurance and the basic pension insurance for urban employees. The third stage has been the rapid expansion period since 2003 (see table 1), which is characterized by unified planning for both urban and rural areas and enhanced efforts for coverage extension. The government has committed itself to building up a comprehensive social security system covering the whole population by 2020.

Table 1: *Social insurance coverage in China by branch, 2003–2008*

Year & growth Branch	2003 (million+ coverage ratios)	2004 (million+ coverage ratios)	2005 (million+ coverage ratios)	2006 (million+ coverage ratios)	2007 (million+ coverage ratios)	2008 (million+ coverage ratios)
Urban basic pension	116.46 45.42%	122.50 46.27%	131.20 48.00%	141.31 49.92%	151.83 51.73%	165.87 54.91%
Urban and rural medical care	189.42 14.66%	231.04 17.77%	317.83 24.31%	567.32 43.16%	953.11 72.13%	1 133.22 85.33%

Urban unemployment	103.73 40.46%	105.84 39.98%	106.48 38.96%	111.87 39.52%	116.45 39.98%	124.00 41.05%
Urban work injury	45.75 17.84%	68.45 25.85%	84.78 31.02%	102.68 36.27%	121.73 41.48%	137.87 45.64%
Urban maternity	36.55 14.26%	43.84 16.56%	54.08 19.79%	64.59 22.82%	77.75 26.49%	92.54 30.63%

Source: Zhu (2009).

MoHRSS is mainly responsible for five social insurance schemes covering an urban basic pension, urban medical care, urban unemployment, urban work injury and urban maternity. It is also in charge of the new pilot pension programme for farmers, which was launched in late 2009 and benefited nearly 70 million people by May 2010 including around 52 million contributing members and about 16 million people under pension benefit.¹

Impact of the crisis

Chinese financial institutions were not significantly affected by the crisis. This can partly be explained by the fact that the Chinese Yuan Renminbi (CNY) was not convertible, there was little investment in equities and social security fund investment had not yet been made overseas.

The real impact has been on export-oriented enterprises as the overseas demand (especially that of the developed countries) fell dramatically. As a consequence, many local industries (especially export-oriented ones) encountered difficulties in production and business operations which, in some cases, translated into significant losses. Beginning from the 4th quarter in 2008, 40 per cent of enterprises witnessed a net decrease of job posts, with a net retrenchment of around 5 per cent or three million urban employees nationwide. At the same time, more than 20 million rural migrant workers lost their urban jobs and returned to rural areas. In the second half of 2009, Chinese's exports fell by more than 50 per cent compared to the pre-crisis period. Persisting decline in demand from external markets thus resulted in factory closures, layoffs and a sharp decline in newly created urban jobs. In the first quarter of 2009, Chinese economic growth reached only 6.1 per cent, a 19-year record-low.

From a social security perspective, these unfavourable economic developments resulted in difficulties in the collection of contributions and had a significant impact on overall social security coverage.

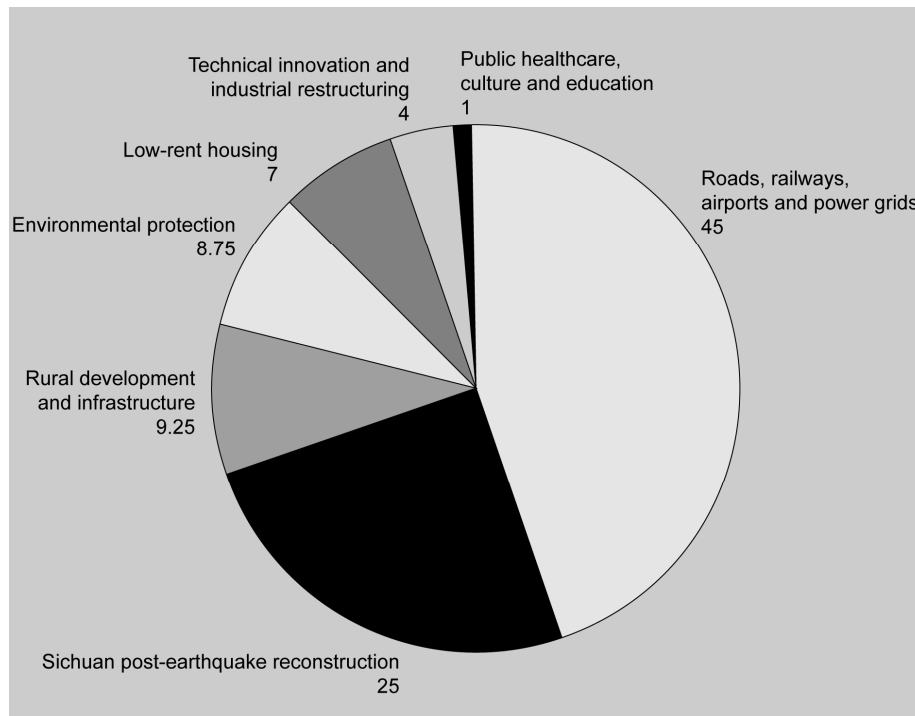
Responses to the crisis

The first response was to expand domestic demand by rolling out in November 2008 a US-dollar (USD)586 billion² two-year stimulus package plus a USD73.2 billion massive tax concession programme each year. This response aimed to ensure an 8 per cent GDP growth and create 9 million new urban jobs in 2009. Most of the investment of the stimulus package went to infrastructure and social security projects (see figure 1).

¹ Official statistics from the National Bureau of Statistics show that in 2009, the rural population in mainland China totalled 712.88 million, accounting for 53.4 per cent of the total population. More information in Chinese is available at: http://www.stats.gov.cn/tjgb/ndtjgb/qgndtjgb/t20100225_402622945.htm.

² One US dollar is equivalent to CNY6.83.

Figure 1: *China's stimulus package at a glance*



The second measure involved an effort to revitalize, with an input of USD54.17 billion into ten major industries (such as vehicles and information and communication technology (ICT) through credit support and tax concessions as well as technological upgrading and structural adjustment.

The third measure set out to increase the budgetary input in scientific research and technical innovations so as to generate a new focus for economic growth.

Last but not least was the enhancement of the social security system via a multidimensional approach with a focus on promoting employment and improving various types of social security schemes. Measures included:

- An employment promotion package (in 2009, for instance, the expenditure on employment promotion totalled USD27.53 billion, an increase of 131.2 per cent over 2008).
- Pilot implementation of a new type of pension for farmers with government subsidies (under which the government committed to cover 10 per cent of rural areas by the end of 2009, benefiting around 10 million farmers aged 60 and above).
- Upgrading of social insurance pooling levels (targeting a provincial pooling of pension funds by end 2009 and envisaging a national pooling of pension funds by 2012).
- New policies on portability of pension and healthcare benefits (new regulations on inter-provincial portability of pension and health care benefits were issued in late 2009).
- A pension scheme for rural migrant workers.

- The USD125 billion three-year plan on top of the stimulus package aimed at building a universal healthcare scheme by 2011.

In addition, to reduce the financial burden of enterprise, the government allowed enterprises experiencing difficulties to delay or reduce the payment of social security contributions for a certain period of time. In 2009, for instance, the unemployment insurance funds alone spent about USD3 billion on deferred or reduced social insurance contribution payments as well as social insurance contribution subsidies and post subsidies. This benefited 25,000 enterprises experiencing difficulties which encompassed 7.4 million workers.

Lessons learned

The Chinese policy responses were widely considered effective in countering the impact of the crisis. The GDP growth rate registered 9 per cent for 2008, 8.7 per cent for 2009 and growth is expected to reach about 8 per cent for 2010.

Statistics from the National Statistical Bureau show that by the end of June 2009, more than 97 per cent of the 150.97 million farmer-turned-migrant workers seeking a living in urban areas had found jobs.

MoHRSS spokesperson, Mr Chengji Yin, disclosed at a January 2010 press conference that in 2009, the five social insurance schemes reported a total revenue of USD190 billion. This represented an increase of 16.6 per cent over 2008. The expenditure of the five schemes totalled USD181 billion, an increase of 24.9 per cent over 2008. Thus even within the context of the crisis it seems the finances of Chinese social security were able to prosper.

By the end of 2009, a total of 127.15 million people nationwide participated in the unemployment insurance schemes. This marked an increase of 3.16 million since the end of 2008. Meanwhile, there were a total of 9.21 million registered urban unemployed people, and the registered urban unemployment rate was 4.3 per cent.

In 2009, new jobs were created for a total of 11.02 million people (122 per cent compared to the annual target of 9 million) and 5.14 million laid-off or unemployed people were re-employed (103 per cent compared to the annual target of 5 million). An additional, 1.64 million people with employment difficulties became employed (164 per cent compared to the annual target of 1 million). Through policies such as deferred payment of contributions, tax concessions and special subsidies, the financial burden of the enterprises with difficulties was reduced nationwide by USD6 billion, benefiting at least 1.7 million enterprises encompassing a total of 66 million employees. The MoHRSS issued together with the Ministry of Finance and the State Administration of Taxation a joint notification, which will keep the relevant employment support policies valid until the end of 2010.

By the end of 2009, a total of 234.98 million people (including retirees) had participated in the basic pension scheme for urban enterprise workers. This represented an increase of 16.07 million or 7.3 per cent since the previous year. The provincial pooling of pension schemes was implemented in all 31 provinces in mainland China, and the government hopes to accomplish national pooling by 2012.

Major progress has been made in extending medical insurance coverage. The government-subsidized urban residents' medical insurance scheme realized full system coverage of all urban residents one year ahead of schedule. By the end of 2009, a total of 400.61 million people participated in the urban basic medical insurance scheme, an increase of 82.39 million

people compared to 2008. Taking into account both the urban and rural schemes, the Chinese basic medical insurance system covered more than 1.2 billion people by the end of 2009. Reportedly, the central government set aside a total of USD6.28 billion to bring all retirees of closed or bankrupted enterprises under medical insurance coverage and ensure the medical benefits of other kinds of personnel. Table 2 provides an overview of the increased central government budget expenditure on social security from 2008 to 2010.

By the end of 2009, the urban work injury insurance programme and the urban maternity insurance programme covered 148.61 million people and 108.60 people, respectively, representing a corresponding increase of 10.74 million and 16.06 million compared to 2008.

Table 2: Central government budget expenditure on social security, 2008–2010

Item Year	Total central budget for expenditure (billion USD) & annual increase	Central budget expenditure for healthcare (billion USD) & annual increase	Central budget expenditure for social security and employment (billion USD) & annual increase	Central budget expenditure for social housing projects (billion USD) & annual increase
2008	531.77 22.8%	12.11 24.5%	40.12 19.2%	2.66 114.8%
2009	642.77 20.87%	18.70 54.46%	48.27 20.16%	8.06 202.69%
2010*	683.16 6.28%	20.34 8.78%	52.45 8.66%	14.53 80.28%

*The figures for 2010 are projected while those for 2008 and 2009 are based on actual implementation.

Clearly China's management of the crisis illustrates that a multidimensional social security response can deliver positive outcomes and soften the impact of financial and economic shocks. Having said this, it is important to temper this interpretation with the fact that China does represent a special case in terms of its robust economy and its huge disposable income. Nonetheless, the philosophy of good practice contained within its approach serves as inspiration for others to replicate, but on a different scale.

Conclusion

Reflecting on the evidence presented in this case study it seems fair to say that China and its social security system coped with the crisis well. The Chinese economy was somewhat shielded from the crisis because it was not tied in so closely with volatile capital markets. However, reduced trade and foreign demand for its goods nevertheless affected it.

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