



EU-CHINA

Social Protection Reform Project
中国欧盟社会保护改革项目

Background Note for 2016 High Level Event

Perspective of Employment Policy and Social Security Reform — 2016 to 2020 (Beijing - September 28 to 29, 2016)

This Note intends to offer a general introduction to participants in the High Level Event about the main concerns of the Chinese side related to specific points on the Agenda.

The purpose of the EU-China Social protection reform project SPRP is to contribute to the improvement and inclusiveness of China's social protection system through strengthening the institutional capability for developing policies, for implementing legal and regulatory frameworks and for supervising systems of social insurance, social assistance and financial management in the area of social security.

In particular, the Project document specifies that international gatherings of Chinese and European experts and decision makers would be arranged every year as High-level events (HLEs), to exchange views and information on topics of mutual interest.

As part of the project Plan of activities it was decided that the 2016 HLE, to be organized in close collaboration with the Chinese National Development and Reform Commission, would address the Perspective of Employment and Social security reform – 2016-2020.

Since the late seventies China has progressively introduced a « modern » social protection system as a key element for China's transition to a market economy and the Chinese leadership intends to further expand it as part of a transition to an internal consumption centred economic model. At the same time it is clear that the « new normal » economy and the desirable shift from a two-digit, export-oriented basis to a more modest, internal consumption centred economic model is a challenge for both the labour market, and the social security system. As China implements reforms under the “new normal,” maintaining stability in the labour market is a priority. Thus, the Chinese leadership is looking for an approach that balances the needs and limitations of a restructuring labour market, with the need to provide its citizens a better access to social protection and social services. The XIIIth five-year Plan for National Economic and Social Development that was adopted earlier in 2016 by the National People's Congress therefore devotes a particular interest to issues related to employment and social protection, including their relations and mutual influence.

The Europe 2020 Strategy which happens to henceforth cover the same period as the Chinese thirteenth five-years plan also includes in its headline targets employment and social inclusion, thus marking a remarkable convergence in preoccupations between the two entities.

The structure retained for the HLE provides for presentations by both Chinese and European experts over 5 sessions related to various aspects of employment promotion and social protection development, namely the prospective macro-economic situation during the period under review; the strategies to support employment and job creation; the relations between employment and social security policies, and the objective of universal coverage; the social efficiency of social security and its contribution to income distribution; and, the sustainability of social security systems, including financial considerations.

The following paragraphs present the main characteristics and questions of interest under of each of the afore-listed theme from the Chinese perspective, while mentioning the corresponding topics on which European experience might be most relevant to entertain a significant dialogue with Chinese experts and decision makers.

1. Session One - Macro Socioeconomic Situation during the period 2016-2020

The *Chinese 13th Five-Year Plan 2016-2020* (often named “13-5”) is the major tool to provide information on the prospective macro-economic situation¹.

1.1 Major aims for Macro socioeconomic development

The year 2020 is a critical milestone in China’s long-term development, as it will mark the first 100 year of China’s “two 100 years”². Among China’s various long-term social and economic programmes, many decisive results are scheduled to be attained by 2020

The overarching goal of the 13-5 Plan: building a “moderately prosperous society”

The expectation is to achieve medium-to-high economic growth throughout the period. An average annual economic growth rate at 6.5% or above would mean doubling GDP and per capita income by 2020 from 2010 levels.

The main headings of the Plan are as follows:

i. *General improvement in living standards and quality of life*

- moving closer to full employment
- improving access to public services
- eradicating poverty

ii. *Culture and civilization*

- promoting public moral values such as patriotism and collectivism

iii. *Environmental protection*

- encouraging low-carbon production and “green” lifestyle,
- raising energy efficiency
- reducing pollution

iv. *National governance system*

- developing sectorial governance systems
- respecting the rule of law
- establishing the credibility of the judiciary
- paying due attention to human rights and property rights

1.2 Employment policy

In Chapter 62 of the 13th five-year plan “*Implementing the strategy of employment as priority*” it is notably foreseen to:

- **Promote employment quality.** To provide sufficient employment will be one of the major aims for economic and social development. To improve employment, supporting policies will be strengthened for college graduates, rural migrant workers and the self-employed, as well as vulnerable groups. Working conditions and labour regulations will be improved, and harmonious labour relations should be promoted.

¹ While the English text of the Plan was not yet published at the time of writing this Note, very useful details can be found in the report presented by NDRC to the National People’s Congress in 2016, which can be accessed from <http://sprp-cn.eu/reports/NDRC-NPC2016EN.pdf> (pp. 20 sqq.)

(Chinese version: <http://sprp-cn.eu/reports/NDRC-NPC2016CN.pdf> pp. 21 & sqq.)

² China’s “two 100 years” makes reference to the Chinese dream popularized in 2012 by president Xi Jinping with first the material goal of China becoming a “moderately well-off society” by 2021, the 100th anniversary of the Chinese Communist Party, and second the modernization goal of China becoming a fully developed nation by about 2049, the 100th anniversary of the founding of the People’s Republic.

- **Strengthen the service capacity for public employment and entrepreneurship.** Improve the service system for employment and entrepreneurship, and implement a vocational training system based on lifelong education. The plan of *Employment Promotion Action* includes such support policies as promoting labour force quality, work opportunities for college graduates, skills training for migrant workers, training programmes for special groups (young people in poor families, old-age unemployed, veterans, and the disabled).

1.3 Social security

In Chapter 64 “*Reform and Improve social security system*” it is foreseen to:

- **Improve the social insurance system.** Major reform measures include extending coverage for eligible workers, cutting contribution rates and introducing incentive mechanism for contribution, develop a multi-layered pension system, realizing nation pooling on basic pension, improving individual accounts system, promoting favourable taxation for pension insurance, introducing a benefit adjustment mechanism, facilitating portability, improving sustainability by increasing funding and investment of social security funds and so on.

- **Strengthen the social assistance system.** Improve the Minimum Living Guarantee System (“Dibao” system³) and other social assistance schemes for special groups, realizing the goal of full coverage for all eligible families in need. Develop a comprehensive social assistance work system which will provide “one stop” service for all beneficiaries.

- **Support the social welfare and charity system.** Strengthen family support policies for old age, disabled, children and poor groups. Promote welfare facilities and improve social contributions’ mechanism for charities.

1.4 Specific points for Inclusive Development contained in the Plan:

- Improve supply of public goods and services, especially in less-developed and poor rural areas
- Implement two-children policy to counter aging population
- Increase the size of funding dedicated to poverty reduction and improve infrastructure and public service in poverty-stricken regions
- Expand middle-income group and significantly raise income for lower income group
- Improve employment support policy and services, and provide vocational training to raise labour quality
- Expand middle-income group and significantly raise income for lower income group
- Improve social insurance system to cover all residents in China and lower insurance rates to a reasonable level
- Improve public health system through deepening medical reform

1.5 Main matching interest points from EU side

- The EU 2020 growth strategy
- EU’s objectives on employment, innovation and social inclusion
- EU’s social-economic reform situation after 2008 debt crisis

³ The Dibao programme (literally “low guarantee” or minimum protection) provides regular cash and/or in-kind support to poor households up to a locally defined poverty line that is based on a means test. Some details to be found on http://www.euchinaspp.eu/images/documents/Component3/C3_baseline_data_audience_reports/prefinal_baseline_data_report_C3.pdf

- EU's development perspective after British exit

2. Session Two - New-type Urbanization and Support Policies for Employment and Job Creation

2.1 New-type Urbanization

This means a harmonious overall planning between urban and rural areas. Urbanization is the one of the most important driving force for China's future growth which involves rural-urban and inter-urban population migrating, land use, Hukou⁴ reform, development of and access to public services and so on. A major concern is employment and social security policies for migrant workers, whose number is about 270 million in 2015.

2.2 Support Policies for Employment and Job Creation

As China economic growth slows down, pressure on employment and job creation come into light in the "new normal" era. The government has put forward the strategy of employment priority and tried to improve the business environment by supply side reform which includes the reform measures on releasing administration approval, providing access for small business through finance credit, cutting taxes and social security contributions, promoting entrepreneurship and innovation, poverty alleviation vocational training programs for unemployed and so on.

2.3 Main matching interest points from EU side

- Labour Market Policies in the European Countries including active policies and passive policies and their experiences on employment and job creation.
- Coordination policies for migrant worker within EU countries.
- Unemployment insurance protection in EU countries and its reform.

3. Session Three - Universal Coverage of Social Security System and Adaptation to Mobility

3.1 Universal coverage of social security system

Currently, China has almost realized a full coverage aim of social protection. For instance, health care is accessed to all urban and rural population; public pension has covered 850 million insurers. In the 13th Five Year Plan, the government has put forward a plan of "All citizens enrolment in social security" which means that by 2020 everyone eligible will participate in the social security system. A main concern is how to integrate different social security schemes thus providing a universal protection system for rural and urban workers especially for those migrant workers.

3.2 Adaptation to Mobility

This is a special issue for China's social security system. A major reason behind that is

⁴ "Hukou" refers to the system in force in China of household registration system which de facto limits freedom of movement and installation of Chinese citizens inside the country, from rural to urban areas and across urban areas.

the low level of social pooling on social security funds⁵, which results in portability problems when worker move across provinces. Another reason is the fragmentation of social security schemes. To solve those issues, EU's coordination policies on social security system could provide helpful experience.

3.3 Main matching interest points from EU side

- Mutual relations between social security and employment policies in EU countries
- Coordination Policy of Social Security System and Labour Market in EU
- Universal Coverage in European social security schemes
- Integration of social security measures for EU migrant workers

4. Session Four - Social efficiency and Inclusive Growth

4.1 Social Equality issues in social security

Social security in China has to establish a delicate balance between equity (paying individual cash benefits related to individual contributions) and efficiency (paying benefits keeping recipients out of poverty) considerations. Chinese presentations in this session will focus on social equality and the redistribution function of social security system. Major aims in the 13th Five Year Plan include notably 70 million poor people exit from poverty, to provide equalized services for the public, to realize a full employment and social protection coverage. Discussed topics on social security system may include among others national pension (non contributory pension) system; the relationship of social pooling and individual account system and their distribution function; social assistance schemes and their poverty alleviation effects.

4.2 Main matching interest points from EU side

- EU's experience with the redistribution function of social security
- EU' s public pension reform models and their effect on social cohesion
- EU's views on the relationship between benefit adequacy, fiscal capacity and social equality

5. Session Five - Sustainability of Social Security System and the Financial Reform

5.1 Sustainability of social security system

There are some indications showing that sustainability has become a major issue of China's social security system in recent years. The growth of fund revenue is much slower than that of the expenditure and some province have undergone fund deficits. As population is ageing and labour force shrinking, more pressure will be exerted on the social security system. The 13th Five Year Plan has put forward some proposals to improve the financial balance of the social security system such as for example better consideration of the requirements of actuarial balance, more efficient investment of social security funds, the introduction of incentives for contribution compliance.

⁵ A "pooling area" is the competent zone for collecting contributions and paying social security benefits. There are several dozens of pooling areas across China, ranging from the city to the provincial level. The Chinese social security system can therefore be described as legally unified but administratively fragmented.

5.2 Financial reform topics⁶

Those topics may include notably the possible consideration of Notional Defined Contributions pension reform for China; investment of reserve funds; the adjustment mechanism of social security benefits; postponing retirement age.

5.3 Main matching interest points from EU side

- Challenges for Social Security Financing, and Reform Experiences in EU
- Debt crisis and its influence on social security system
- EU's parametric reform measures on public pension systems and their effect
- Influence of EU's automatic adjustment mechanisms on social security finances

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⁶ Previous project research works on these topics can be accessed from the project website under URL <http://www.euchinasprp.eu/index.php/en/components-en/component1-en> (2015 Assessment report)