C2 Newsletter

Spring 2018

The project is rapidly moving toward its planned conclusion that was originally established for the 16 November 2018. We are however working to have an extension that would provide a valuable occasion to sum up and consolidate the results obtained during the past four years of activity, while pursuing some interesting local analysis and result dissemination at the provincial level.

The first three months of 2018 have been characterized by two important events: the Project Advisory Committee (PAC) meeting that was held on the 6th February and a very successful workshop that was held at the end of February and concluded the research activities of 2017.

This period was also devoted to start the three last topics to be confronted by the Component and assign three research projects dealing with: i) the occupational and training needs of the long-term care sector, ii) the fiscal economic and demographic provincial imbalances, and iii) the long run sustainability of the welfare system.

The statistical corner will be devoted to the third and last part of the analysis of the labour market and welfare implications of the demographic trends that will characterize the countries of the Belt and Road initiative in the next 45 years.

Michele Bruni

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1. 2018 PAC MEETING, Beijing

On the 6th February 2018, the European Delegation to China hosted the fourth Project Advisory Committee (PAC) Meeting of the EU-China Social Protection Reform Project, in Beijing.

Mr. Jerome Pons (EU Delegation, Head of Cooperation Section) chaired the meeting, which was attended by the Representatives of the National Development Reform Commission, the Ministry of Finance, the Ministry of Civil Affairs, the Ministry of Human Resources and Social Security, the European Consortium Members, the European Union Delegation and the project staff.

During this PAC meeting, project stakeholders reviewed the 2017 progresses and outcomes, approved the 2018 Project Activity Plan, and discussed possible project challenges and a project extension.

2. WORKSHOP on 2017 topics

On 26-27th February 2018, the EU-China Social Protection Reform Project- Component 2 held a Workshop in cooperation with the Social Security Department of the MoF on the three topics studied in 2017, namely: "Investment strategies of social funds and risk control methodologies"; "An integrated system for the coordinated management of the social assistance system"; and "The Development of Old Age Services and Long-Term Care System".

During the Workshop, organized in three half-day sessions, Chinese and European experts presented the policy suggestions elaborated after the panel discussions held in August and September. The proposals were discussed by EU and Chinese guests, who contributed with additional insights and personal experiences.

Overall, the Workshop was attended by around 40 participants, including representatives from the Ministry of Finance (Actuarial Division, Dibao Division, General Office, Medical Insurance Division, Veteran Benefit Division), from the academia (Chinese Academy of Social Sciences, Renmin University, China University of Political Science and Law, University of International Business and Economics, Chinese Academy of Governance, Beijing Normal University, China Center for Scientific Research on Aging), from the European Delegation to China, the Italian Embassy, Generali Group, and the project team.

The policy proposals presented and discussed at the Workshop will be formalized in a document to be submitted to the Ministry of Finance.

3. Starting New Research Topics

The C2 team together with the Social Security Department of the Ministry of Finance has identified three main topics to be studied, in 2018,

- **Alternative policy measures to cope with the impact of ageing on the financial sustainability of the social security system** (2.1.3);
- **Social contribution collections: toward a unified system** (2.1.5);
- **The role of public finance and enterprise annuities funds in the Chinese social security system** (2.3.2).

Between February and March 2018, the C2 already started contacts and cooperation with selected Chinese experts from top-level Universities and Research Centers to carry out research in the three areas.

More specifically, the research on topic 2.1.3 was entrusted to Prof. Dong Keyong (Renmin University) and Ms. Jana Maláčová (Ministry of Labour and Social Affairs of the Czech Republic); the research on topic 2.1.5 to Prof. Wang Dehua (Chinese Academy of Social Sciences), and topic 2.3.2 to Prof. Zheng Bingwen (Chinese Academy of Social Sciences), and Mr. Mel Cousins (UK).
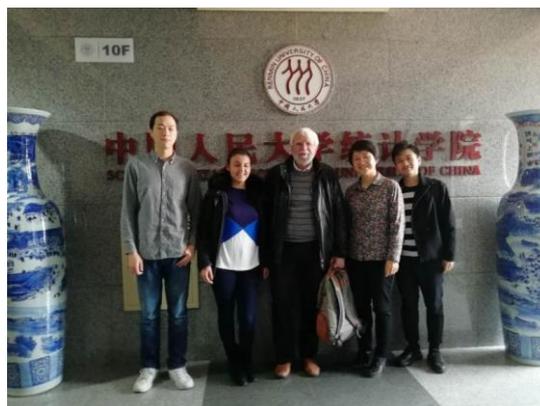
For updated information on the calls for new applications for the EU-China Social Protection Reform Project, see the project web page:
http://www.euchinasprp.eu/en/recruitments-en

4.   RECENT POLICY DEVELOPMENT IN SOCIAL PROTECTION AND RELATED FIELDS

January 2018
Shanxi starts to fully open its senior service market by lowering the threshold of market entrance and supporting social forces to participate in the industry, for which Public-Private-Partnership (PPP) model shall be adopted for operating senior nursing houses.
http://www.gov.cn/xinwen/2018-01/14/content_5256523.htm

Sichuan starts to fully open its senior service market. The provincial government aims at limiting the proportion of government-run senior beds within 50% of the total, and increasing care beds over 30% by 2020, and by the time over 90% of urban communities and over 60% of rural communities will be covered in a home-care network.
http://www.gov.cn/xinwen/2018-01/18/content_5257904.htm

February 2018
During the past 5 years, the number of senior nursing institutions in China had doubled, reaching 144,600.
http://www.gov.cn/xinwen/2018-02/22/content_5268130.htm

Data shows that in 2017 the surplus of pension fund of the Chinese private sector amounted to RMB 4.12 trillion.
http://www.gov.cn/xinwen/2018-02/26/content_5269006.htm

March 2018
By the end of 2017, participants in China's Basic Old-Age Insurance for Urban and Rural Residents were 512.6 million; among then 156 million received an average pension of RMB 125 per month.
http://www.gov.cn/xinwen/2018-03/29/content_5278277.htm
The 5th Session of the 15th National People's Congress of China ends.
During the press conference, Premier Li Keqiang indicates that in 2017, revenues were higher than expenditures, the surplus of employee's pension fund being RMB 4.1 trillion. The pension reserve, Social Security Fund, grew by RMB 1.8 trillion.
http://www.gov.cn/xinwen/2018-03/20/content_5275946.htm

According to the China's National Ageing Committee, by the end of 2017, the people 60+ were 241 million, accounting for 17.3% of the whole population. It is estimated that in 2050, China's old population will peak at 487 million, accounting for 34.9%. In response to this, some representatives of the National People's Congress suggested to increase the scale of pension, promote the combination of medical and nursing services and develop the mutual senior care.
http://www.gov.cn/xinwen/2018-03/20/content_5275681.htm

Over 900 million Chinese people are covered by the pension system, and 135 million are covered by the Basic Medical Insurance system. In China, the system of Disastrous Disease Insurance is established and the system benefits more than 17 million people.
http://www.gov.cn/xinwen/2018-03/26/content_5277366.htm

The newly formed National Health Commission is officially inaugurated: it replaces the National Commission for Health and Family Plan.
http://www.gov.cn/xinwen/2018-04/04/content_5279700.htm

With joint policy document, MOHRSS and MOF confirm that they will improve the mechanisms for determining the benefits of Basic Old-Age Insurance for Urban and Rural Residents, the benefits of the basic pension, the level of individual contribution and the subsidy for contribution.
http://www.mohrss.gov.cn/SYrlzyhshbzb/zcfg/SYzhengcejiedu/201803/t20180329_291013.html
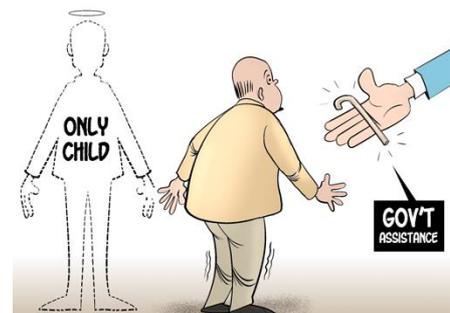
4. THE STATISTICS CORNER

The Belt and Road Initiative. Demographic trends, labor markets and welfare systems of member countries.

The labour market implications

As it was shown in the two previous newsletters and is summarized in Figure 1, between 2015 and 2030 the WAP of the BRI will increase by 348 million as the balance of a decline of 67 million in 25 member countries and an increase of 345 in the remaining 40. Between 2030 and 2060 WAP will increase by only 11 million as a balance between a decline of 331 million in 39 countries and an increase of 342 million in the other 26 countries.

Figure 1 - WAP increase in BRI countries at the beginning of the demographic transition, decline in BRI countries at the end of the demographic transition, and total balance; 2015-30 and 2030-2060; values in million
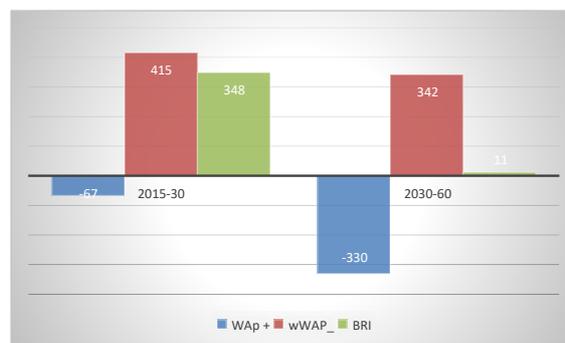
Source: elaboration on UN DESA data; UN DESA 2017

As we have already pointed out, this will be caused by the progress of the demographic transition (DTI) in the countries of the BRI that will:

    I.   reduce the gap between generational entries and exits in the countries in the first phase;

    II.   bring 14 countries from the second to the third phase;

    III.   increase the gap between generational entries and exits in the countries already in the third phase.

We have also seen that, behind these summary data and general trends, the national situations are extremely diversified since BRI countries are widely spread along the path of the DT so that the average yearly rates of change of WAP between 2015 and 2060 are included between +5.7% in Timor and -0.9% in Lithuania.

This situation has far-reaching and opposite labour market implications. More specifically, a growing number of BRI countries will be affected by a situation of potential structural labour shortage, while a decreasing

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number of countries will face a potential structural[1] excess of labour. In the first case the local labour supply will be largely insufficient with respect to the demand, while in the second the labor demand will not be sufficient to satisfy the local supply, over a long-time horizon. We define these situations "structural" since both the positive and negative gap between labour demand and labour supply will be such that labour market mechanisms as well as the adoption of suitable demographic, employment and labour policies cannot generate a situation of equilibrium; only immigration can bring labour market equilibrium in the first group of countries, while only emigration can alleviate unemployment, social tension, and rising poverty in the second.

However, both mass emigration and mass immigration have very high human, social and economic costs. Therefore, both groups of countries should strive strive to reduce as much as possible their opposite labour market disequilibrium through demographic policies, employment policies and active labour policies (Bruni, 2014, 2017, 2018b; Bruni and Tabacchi, 2011).

The first group of countries should try to increase labour supply; in the short run, by

    i. raising labour market participation (also by optimizing the territorial distribution of WAP by providing timely vacancies information);

    ii. raising the legal retirement age;

    iii.   providing training and retraining to reduce qualitative miss-matches between labour demand and supply;

and in the long run by trying to raise fertility.

They should also try to decrease demand by promoting productivity and delocalizing production. The second group of countries should try to reduce fertility and, whenever possible, choose a labour intensive development model.

The different suitability and scope of the policies we have just listed and their possible   impact on the labour market have been extensively discussed in previous papers (Bruni, 2014, 2017, 2018b), while it cannot be the goal of this paper to analyse the extremely different situations of the 65 BRI member countries.

The more limited scope is to argue that:

    ✓ the opposite demographic situations that will characterize the BRI countries and will create serious labour market problems and endanger the sustainability of the welfare systems could be turned in an opportunity

and

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[1] The term potential is used because both situations are the result of the interaction of the demographic and economic spheres so that we can imagine exceptional events that could prevent the very probable outcome we have suggested. We can, for instance, imagine a dramatic economic crisis that would drastically reduce labour demand or a dramatic pandemic reducing supply.

✓ China could exploit its leading situation in BRI not only to its advantage, but to the advantage of all member countries.

Policy suggestions

We have already argued that in the next 45 years if not for all, certainly for the great majority of BRI countries immigration or emigration (depending on the phase of the DT they will have reached) will not be an option but a necessity.

For what relates to China I have already stressed (Bruni, 2018a) that:

China will need foreign labour before becoming old and rich.

The international experience shows that the presence of labour needs promotes irregular immigration flows that not only are at the origin of dramatic legal, social and economic problems, but normally ends up generating a labour supply not in line with the need of arrival countries. There is also notable evidence that the best way to avoid irregular immigration is by eliminating the need of foreign workers and this can be done by regular migration. In substance

Regular migration is the best way to prevent irregular immigration

It would therefore be in the interest of China and all other BRI countries affected by labour shortage to design, develop and implement a policy framework that would allow to manage immigration flows together with the countries characterized by an excess of labour. Such flows should maximize the potential of demand driven migrations providing arrival countries with workers endowed with the skills they need. At the same time, it will be in the interest of the countries with a structural excess of labour to reduce their labour supply in order to reduce labour market pressure, alleviate poverty and social tension.

To reach this goal it is necessary to follow a long path bristling with political and technical problems, while a series of preconditions should be met, even in order to start the process.

In the first place, the thesis presented in this and previous already cited papers and the conclusions to which they bring do not find much consensus neither at the academic, nor political level. A series of reasons stand on the way.

In the first place a structural disequilibrium of the labour market does not fit in the neoclassical theoretical framework in which the real wage is expected to always equate labour demand and supply. This is compounded by the lack of social and political correctness off this thesis. A myopic vision that foreign workers are not needed together with the xenophobic feelings of which no country is devoid could make difficult to adopt a pragmatic approach aimed to provide the market with the needed supply of foreign labour.

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If such rational approach to migration would prevail, then the first step should be the creation of a technical structure (a Labour Market and Migration Observatory, LaMMO) in charge of jointly building labour market and demographic scenarios of labour needs by educational level for China as a whole and for all its provinces (Bruni, 2017). This would require:

- ✓ To build a data base with the necessary demographic, labour market and economic data;

- ✓ To perfect the methodology: i) to analyse labour market flows and skill needs by educational level and ii) to jointly build demographic and labour market scenarios by educational level;

- ✓ To produce an analysis of demographic and labour market trends of the Chinese labour market at the provincial level;

- ✓ To build demographic and labour market scenarios of labour needs by educational level for all the provinces of China and for China as a whole;

- ✓ To produce a report pointing out the relative role that internal and international migration should play and suggest the demographic, economic, social and educational policies to be adopted to reduce the need of foreign labour.

The presentation of the report should constitute the occasion for a high level discussion of the migration issue aimed to validate the methodology adopted and the empirical evidences collected by the LaMMO. If the results will find academic approval and political support, then a second international phase could begin.

China could invite representatives of BRI countries and present the idea of jointly managing migration flows coherently with the needs of the countries characterized by a situation of labour shortage.

Once a political agreement would be reached, then a technical phase could start aimed to produce an international setup of the Observatory with the participation of experts of interested countries and the support of their statistical offices. While the LaMMO would produce the scenarios of shortages and excess of labour by educational level, the interested countries could design and implement the procedure to manage migrations flows and organize the placement and social integration of migrants.

A fundamental point is that the scenarios should allow to define the training activities to be carried on in departure countries to allow migrants to have the skilled needed by arrival countries (but useful also to departure countries). Such training activities should be financed by arrival countries that will enjoy the human capital of the migrants.

The joint management of migration flows will benefit both arrival and departure countries (Bruni, 2012, 2013, 2017, 2018b). The first would be able to have the workers with the skills necessary to continue on the path of economic growth and social development. Regular immigration will also represent the best defense against

irregular migration. Departure countries will benefit by a reduction in their excess supply and the consequent alleviation of poverty, while training activities and the possibility to properly exploit the remittances sent by migrants could represent a key element in promoting economic and social development in the countries affected by a structural excess of labour.

Conclusions - The demographic transition is causing a worldwide transformation of the population age structure. While ageing has attracted a lot of attention from scholar and politicians worried of the financial sustainability of the welfare systems, much less attention has been paid to another even more relevant effect of the DT: the polarization of the word that will be increasingly divided between a growing number of countries whose working age population is dramatically declining and a decreasing number of countries whose working age population is exploding.

The BRI countries that represent a very important share of world population are affected by the same trends: an unprecedented aging phenomenon and a growing demographic polarization.

Once we consider the two trends together, it becomes immediately evident that they create a situation of strong complementarity suggesting that the solution of the ageing problem will require not only specific policy measures on the pension and long-term care systems, but would greatly benefit from a migration policy framework capable of providing a rational answer to both the structural shortage of labour that will affect the countries more advanced along the path of the demographic transition (China *in primis*) and the structural excess of labour that will characterize the countries in the initial phase of the DT.

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