

Socio-Economic Development and Social Security in the PR China

Sustainable development can only be achieved through the balanced progress in three areas, namely

- Meeting at least basic needs through **economic development**;
- Protection against the major risks of life through **social security measures**;
- Ensuring **civil liberties**, and political accountability and rule of law through **public participation**.

China has achieved remarkable progress in the first area, has already undertaken certain steps in the second, but little activity can be seen in the last one.

Economic Development

China started the process of economic reforms remarkably earlier than e.g. the post-Soviet countries. First steps for opening up agricultural markets were undertaken in 1978. Since then, there has been a gradual process of privatizing state-owned enterprises, opening up to foreign investors and developing different industries. The major share of the wealth generated by the reforms went to the urban population. In 2004, per capita annual net income of rural residents was 2,936 RMB¹, presenting an increase of 6.8 percent from the previous year. However, urban residents witnessed a faster income growth of 7.7 percent to 9,422 RMB, resulting in a further increase of income disparities between rural and urban areas. In addition to the rural-urban divide, the income gap within rural and urban populations has also been increasing.

Despite the above it must be noted that the overwhelming majority of the Chinese population has profited from the economic reform process. Whereas e.g. the reforms in East Germany and Eastern Europe are characterized by clear “winners” and “losers” this is not the case in China: Not all have profited to the same degree, but even in the lowest income groups the standard of living is considerably higher than in the late 1970s.

Social Security

During the economic reform process, the old social protection mechanisms were abolished:

- The government no longer allocates a life-long work place
- The work place (or commune in the rural areas) no longer provides for basic needs like health care, pensions or housing

The result was a significant gap in social protection for the entire Chinese population. The filling of this gap in social protection has so far primarily concentrated on the urban population.

Urban Population

Branch	Start of implementation	Funding Mechanism	Population Coverage Rate and Benefits
Pensions	Pilot projects since 1995, further expansion since 1997	Mandatory insurance, contributions by employer and employee; combination of a personal account (financed by enterprise and employee contributions of 3 percent and 8 percent of wages) and a social pension (financed through a contribution of 17 percent of the wage by the employer)	Social Pension: benefits equal to 20 percent of average local wages, (after 15 years of paid contributions) Individual accounts: monthly annuity equal to 1/120th of the accumulated contributions plus interest. Estimated coverage (2006): less than 50% of urban work force
Health Insurance	Pilot projects since 1994, considerable expansion since 1998	Mandatory insurance, contributions by employer and employee; combination of individual Health Savings Accounts and pooled funding	Medical savings accounts cover initial health care expenses up to 10 percent of a worker's annual wages, after which the catastrophic plan (pooled funding) covers costs

¹ 1 Euro = 10 RMB

			between 10 and 400 percent of wages. Coverage: 55 % of urban population (2003)
Unemployment Insurance	1999, the Chinese government issued the Regulations on Unemployment Insurance	The system covers all urban enterprises and institutions and their staff; premiums are paid by employers and employees	Benefit level depends on the local wage level. Benefits are set at a standard lower than the minimum wage but higher than the minimum living allowance for urban residents. Estimated coverage (2004): less than 40% of urban work force

Rural Population

Branch	Start of implementation	Funding Mechanism	Population Coverage Rate and Benefits
Pensions	Traditional risk sharing: family support, income from land		
Health: New Rural Cooperative Medical Scheme (NRCMS)	Rudimentary experiments since 2002	Voluntary, contributions by insure	Reported to cover 50% of rural residents; but covers only about 20% of their medical expenses
Unemployment Insurance	Traditional risk sharing: family support Or illegal migration to urban areas ("floating population")		

In the urban areas, the legal framework for social security is already quite developed. Here, the problem lies mainly in the extension of coverage, and in improving the actual service delivery and financing. For example, funds from the individual pensions accounts have been diverted to cover deficits in the social pension, resulting in considerable underfunding of the personal accounts. In health insurance the focus for the future will have to be on reducing unnecessary services which have caused considerable increases in health expenditures. In all areas, the strengthening of transparency and accountability remains a major issue.

In the rural areas, the development of social security systems is still in its infancy, and in some areas (pensions, unemployment insurance) has not even started. It seems that the political leadership is starting to recognize this problem, but considerable time, effort and funds will be required to extend social security to all population groups and all areas of the country.

Public Participation

In the past, economic growth in China has been fast enough to achieve considerable improvements in the standard of living of the majority of the population. The hardships resulting from the transition from a socialist planning system to a market economy have been considerable, but were largely dealt with through measures like early retirement, re-employment and re-training, or simply through the absorption capacity of the private sector. And more recently the emerging social security system has further contributed to the mitigation of hardships at least for some population groups. But will it be possible to sustain this situation considering

- The almost total absence of public participation in decision making;
- The lack of a free media which would be able to balance political powers and expose corruption;
- The lack of a judiciary which is independent enough to uphold the existing laws in the interest of the "normal people" against the powerful elites;
- The restriction of movement from rural to urban areas resulting in a) the perpetuation of the neglect of rural areas and b) the creation of a totally unprotected urban underclass of illegal "floating population"?

Up to now, the strategy of fast economic development combined with a gradual expansion of social security and an absence of civil liberties and public participation has worked reasonably well, even though civil unrest and strikes have been on the rise. The question is whether this strategy will be sustainable in the future, or if the population will increasingly demand more civil liberties and political participation. It remains to be seen how the leadership of the PR China will react to these demands.

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