Helpdesk Research Report: Social Protection Systems in China
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Query: How have social protection systems contributed to social and economic development in China?

- When and why were social protection systems introduced in China?
- What was the level of development and structure of their economies at this time and what sort of social protection systems were introduced?
- What is the evidence of the contribution of the social protection systems to national social and economic development?

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1. Overview

After the formation of the People’s Republic of China in 1949, social protection systems were gradually introduced and now cover many contingencies, including old age, unemployment, healthcare, maternity and occupational injury. However, for a long time these benefits did not apply to the majority of the workforce in China. Despite having a comprehensive system for its ‘legal’ urban population, China is only recently extending this system to the much larger rural population.

The system of social protection is in transition, as China attempts to address a rapidly transforming economy and society. Programmes are continually being developed, piloted and extended that aim to address social concerns, for example: increasing unemployment and the ‘informalisation’ of the urban economy; inequalities and income disparities; vulnerability of poor households to sudden shocks; providing social protection for rural-urban migrants without urban hukuo (household registration) status; and an aging population.

Studies of social protection programmes have found significantly better provision in urban than in rural areas. However, China’s social welfare policies are moving in a more equitable direction, with programmes such as the:
Minimum Living Standards (Guarantee) Scheme (MLSS/MLSGS, also known as dibao), providing cash subsidies to poor families;
New Cooperative Medical Scheme (NCMS) – a mixed provision health insurance scheme;
New Rural Old-Age Insurance programme – a pension programme for rural residents; and
Medical Financial Assistance programme (MFA) to help the rural poor cover medical expenditures.

These rural social protection initiatives are relatively new, or have only recently been extended to rural areas in the last five years. It is therefore not surprising that most studies report only a modest impact on social and economic development. As Gao (2010, p.18) has noted, “The outcomes of these initiatives, especially their redistributive effects, require close observation and await evaluation”.

This report reviews the introduction of social protection systems in China, what programmes are involved and what prompted their introduction. It also looks at the contribution of social protection systems to social and economic development in China.

This report is to be read in conjunction with other GSDRC Helpdesk reports on social protection mechanism, in particular:

- Social protection systems in Singapore (accompanying report)
- Social protection systems in Indonesia (accompanying report)

2. Introduction of social protection systems in China

When and why were social protection systems introduced in China?

After the foundation of the People’s Republic of China (PRC) in 1949, the Communist government established a centrally planned economy and in 1951 introduced Regulations on Labour Insurance, providing the framework for the provision of various social protection benefits based on the principle of lifetime employment and association with a state owned enterprise (SOE). The system was based on the Soviet model and was applicable to nearly all urban workers including government employees and those in related sectors such as schools, youth organizations, universities, health care. However, social protection benefits did not apply to the majority of the workforce in China, the rural peasants (Whiteford, 2003).

Over the past two decades, the system of social protection has been subject to significant change and experimentation, as it attempted to adjust to broader changes happening to the Chinese economy and society, including: the transition from a rural society to a more urbanized and industrialized society; from a low income to a middle income, but more unequal society; and the demographic transition that will result in a substantially higher proportion of older people in the population in the next 25 to 50 years. As Whiteford (2003, p.46) has noted, “Overlaying this is the fact that China is the largest society in the world, so that the scope of the challenges to be addressed often appears daunting if not overwhelming.

Recent changes and expansion of the social protection system in China aim to address the problems associated with rapid economic transformation, such as increasing unemployment, vulnerability of rural dwellers to sudden shocks, and the threat of political unrest that might arise from this situation (Barrientos and Hulme, 2008). However, without the basic structure already in place, the Chinese
state would not have been able to scale up its social safety net in response to concerns about new forms of vulnerability so rapidly (DFID, 2011).

What was the level of development and structure of the economy at this time?

These social transitions are mirrored by broader changes that have happened within the economy, as China moves from a centrally planned to a ‘socialist market’ economy. Over the last decade, the Chinese economy grew above the OECD average at a rate of 10 percent on average, and has continued to do so even after the global economic downturn of 2008 (OECD, 2010). GDP per capita has also increased rapidly from US$175 per capita income in 1978 to around $3,700 in 2009. However, economic growth has been uneven across China and over the last three decades, income disparities have increased, particularly between rural and urban populations within provinces (UNICEF China, 2010).

Market-oriented reforms led to many state-owned and collective enterprises going bankrupt or laying off staff, causing urban unemployment rates to rise. At this time, social insurance benefits were typically provided by individual enterprises under mandate from government regulations, thereby tying the social protection system to the job security system. So, when workers lost their jobs, they also lost their benefits (Friedman, 2009). During the market reform process, the proportion of ‘non-unit employment’ (approximate to informal employment) increased from around 20 percent of urban employment in 1995 to only 58.5 percent in 2006. As Juwei (2010) has noted, “the informalization of urban employment means that more and more people lack basic social protection” (p.373).

3. What sort of social protection systems were introduced?

Over time, China has gradually expanded its range of social protection mechanisms, including social insurance programmes, as well as social assistance and welfare programmes. However, the three basic systems apply differently to urban and rural residents, due to the dual socio-economic system. Historically, the social security system applied to people with urban Hukou (the household register system), while the rural population had land to guarantee their basic livelihood. Since the early 1950s, the government has also provided a limited safety net through the Wubao programme for those rural people without family, such as orphans and the childless elderly, based on the ‘five guarantees’ (food, clothing, housing, medical care and burial expenses).

As Juwei (2010) has observed, “Theoretically, there are two approaches to providing basic social protection for all in China. One choice is to build a uniform social security system to cover all, regardless of the rural and urban divide. That is, both rural and urban residents would be covered by the same system of rules. However, under the circumstance that Hukou and land systems still exist and continue to play their roles, the dual economic and social order will not disappear in the short term, so it can only be a “vision” to build such a system, which cannot be turned into reality. The remaining alternative is to set up different social protection systems for urban and rural areas respectively” (pp.373-4).

The chart below shows how the three basic systems are administered by different government ministries. The Ministry of Human Resources and Social Security (MHRSS) is responsible for social insurance for urban workers and covers many of the contingencies usually covered in developed countries, including old age, unemployment, health care, maternity and occupational injury. The Ministry of Health is responsible for the new rural medical insurance scheme and the Ministry of Civil Affairs for social assistance and social welfare schemes, including the minimum livelihood guarantee scheme.
In 1993, a public assistance programme, the Minimum Living Standards (Guarantee) Scheme (MLSS/MLSGS, also known as dibao) was first piloted in Shanghai to provide a safety net for poor families. The programme aimed to be the ‘last line of defence against poverty’ to provide income support to households disadvantaged by the ‘three noes’ – no stable income, no capacity to work, and no family support. The scheme was later expanded to other cities, although long-term poor migrants remain excluded. There has also been a broadening of the system, focused initially on mainly income transfers, but later including education and health exemptions, community work, and housing (Chen and Barrientos, 2006).

In 2007, the government mandated the nationwide scaling-up of the programme to provide cash subsidies to poor families. The key targets of the rural MLSS are long-term poor rural residents, such as the sick, the disabled, old people and people who have lost the ability to work. Official statistics show that the total number of rural recipients was almost 40 million by 2008. However, as Gao (2010) observes, “it is important to note the huge disparity between the rural and urban dibao programmes: in October 2008, per capita dibao expenditure was 44 yuan in rural China compared to 133 yuan in urban China” (p.17).

In rural China, the main social protection innovation has been the introduction of the mixed provision health insurance scheme, the New Co-operative Medical Scheme (NCMS). This is a ‘voluntary’ and heavily subsidised scheme designed to reduce the financial burden of illness on the rural population. The Ministry of Health takes the overall responsibility to manage and supervise the scheme while the policy implementation responsibilities are decentralized to county level governments. The NCMS mainly covers inpatient services (Yu et al, 2010). The NCMS was prompted by the collapse of the ‘old’ cooperative medical scheme and the rapid increase in health care costs, especially the high incidence of impoverishment due to ‘catastrophic’ out-of-pocket health spending. There was also evidence that the cost of healthcare was deterring use of services (Wagstaff, 2008). The NCMS was piloted in 2002 and rapidly scaled up so that by 2008, 95 percent of rural counties and 92 percent of the rural population in covered areas had enrolled in the scheme (SPA, 2010).
Meanwhile, the Medical Financial Assistance programme (MFA) was launched in 2002 to support the participation of rural poor households in NCMS and to give them direct support for receiving medical services (Xu et al, 2008). The MFA is a decentralised programme, jointly funded by central and local government, with local government having discretion over both policy design and implementation. By the end of 2006, most counties and cities with rural population had established the scheme (Xu et al., 2008).

For several decades, China has had a fragmented and decentralised pension system, with a considerable proportion of rural workers and informal sector workers uncovered by pension schemes. In the 1990s, social pension insurance programmes began to be introduced in rural China. However, because the pension was contributory in nature, payments were below the minimum living guarantee for living residents and subscription rates in many pilot areas declined sharply. Since 1998, the rural pension policy became increasingly marginalised, leaving millions of Chinese people in rural areas unable to get security in old age. In response, a number of local governments have initiated pilot pension projects, such as the New Rural Old-Age Insurance programme.

### 4. Evidence of the contribution of social protection systems to social and economic development

**Reducing poverty and inequality**

Pro-market economic reforms, rapid economic growth and labour/social policies have helped to significantly reduce poverty in China. The World Bank (2008) has estimated that the poverty rate in China fell from 64 percent in 1981 to 7 percent in 2007 - “the largest and fastest poverty reduction in history” (p. 22). However, the exact contribution of social protection systems to reducing poverty is unclear and recent empirical work identifies China’s key social assistance policy, the means-tested Minimum Living Standard Assistance (MLSA/MLSS), as the only progressively distributed social benefit in urban China that targets the poor and reduces income inequality (Gao and Riskin, 2009).

However, while other studies have found that the programme has made a modest contribution to poverty reduction among the beneficiaries, the **impact has been limited by the programme’s partial coverage and delivery**. Furthermore, the evidence suggests that **benefits levels are generally too low to lift the poor out of poverty** (Yuebin, 2008). China does not have a national poverty line; local governments are responsible for setting the benefit levels and tend to make decisions based on their financial affordability or local priorities. As the table below shows, the actual benefits that recipients receive are below the average poverty lines.

<table>
<thead>
<tr>
<th>Years</th>
<th>Average poverty lines</th>
<th>Actual benefits received</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>149</td>
<td>58</td>
</tr>
<tr>
<td>2004</td>
<td>152</td>
<td>65</td>
</tr>
<tr>
<td>2005</td>
<td>156</td>
<td>72.3</td>
</tr>
<tr>
<td>2006</td>
<td>169.2</td>
<td>82.9</td>
</tr>
<tr>
<td>2007</td>
<td>179.2</td>
<td>95</td>
</tr>
</tbody>
</table>

Source: Yuebin (2008, pp.8-9)

A study of the MLSS in Guangdong province also found that the programme has suffered from low coverage, low benefit levels, and insufficient financial resources. King-lun (2010) argues that the
programme’s ability to promote social development is hampered by restricted social expenditure: “the localization of social assistance constitutes a barrier to widening the scope of protection and enhancing the level of benefits for the simple reason that less developed regions with limited financial resources usually have a relatively huge number of poor people to take care of” (p.47).

However, most of these studies have used income to measure poverty. Research by Gao et al. (2009) looked at the effects of MLSA participation on family expenditure. The researchers found that families invested the assistance money on human capital (e.g. tuition and fees for noncompulsory education, medicine and other health-related expenses), rather than to make end meets (e.g. food, clothing, housing and utilities). Overall, more than 80% of the increase in total family expenditures due to MLSA was spent on education and health, suggesting that education and health care are two major unmet needs for poor families. Indeed, tuition and fees for high schools and tertiary education have rapidly increased during recent years. Similarly, whereas the cost of healthcare was previously provided at very low cost, patients now mostly pay out of pockets for medicine and treatments to the private healthcare sector since the economic reforms (Gao et al, 2009).

Utilization of health facilities
An impact evaluation of China’s rural health insurance scheme (NCMS) concluded that despite its relatively short life and limited financing, the NCMS has had substantial impacts on utilization of health facilities. The NCMS has led to an increase of over 20 percent in both outpatient visits and inpatient admissions. In the case of outpatient care, the household data suggest that most of the increase has been at the level of township health centres, while the increase in inpatient episodes is mainly accounted for by county hospitals (Wagstaff et al, 2007).

Research on the strengths and weaknesses of the NCMS (Zhang et al., 2011) also found that the programme has increased use of medical services. During the survey period (2004 to 2007), the percentage of individuals who sought medical care when they became sick rose from 90 to 95 percent. The share of those who used inpatient medical services rose from 7 percent in 2004 to 10 percent in 2007. Not only are people more likely to seek medical care, the study also reported that there was a growing understanding and trust in the scheme. Trust in the NCMS benefited from “the ‘model effect’ of reimbursement and aggressive publicity. At first farmers worried that the government would not reimburse them as promised. In fact, the data show that in 86 per cent of villages, farmers who suffered catastrophic illness were reimbursed by NCMS smoothly in 2004, and in 2007 this figure was 93 per cent” (Zhang et al, 2011, p.10).

Impact on catastrophic ‘out-of-pocket’ spending on health
However, studies of the NCMS and the Medical Financial Assistance (MFA) schemes have found no reduction in out-of-pocket payments on health and some estimates suggest that the incidence may actually have increased. This link is a ‘surprising’ finding, given that the literature has found that subsidized health insurance programmes reduce the risk of catastrophic out-of-pocket spending in other countries, such as Mexico, Vietnam and Colombia. The researchers suggest that “the reason for the difference seems likely to lie on the supply-side—the fact that providers in China are paid by fee-for-service and face a fee schedule that strongly encourages demand shifting to drugs and high-tech care on which the margins are higher” (Wagstaff et al, 2007, p.19). The study also raised concerns that the NCMS had increased stocks of expensive equipment at some township health centres, potentially leading patients to receive sophisticated tests and treatment that are medically unnecessary, or which the health centre is insufficiently skilled to deliver.
Research into the MFA scheme concluded that “MFA could not fully solve the poverty trap caused by major illness, due to the limited funds available. For example, medical expenditure for some major illnesses such as leukaemia and uraemia was huge, but the financial relief provided by MFA was often woefully inadequate” (Ma et al., 2011, p.10). The MFA also requires the poor to pay for hospital treatment before it reimburses them, which can create a problem for the very poor who cannot pay for medical services upfront. Both central and local governments have begun to recognise the failure of the MFA system to reach the poorest of the poor and since 2007 have started to adjust the schemes to increase the utilization of funds by the poorest households. For example, in most localities the reimbursement method has been loosened so that poor households can apply for and receive cash support before they are hospitalized or during the hospitalization period. Most localities also have raised ceilings and reimbursement rates to varying degrees, and eligibility for MFA assistance has also been expanded to include outpatient service. However, these changes are limited only to the destitute, particularly the Five Guarantee (Wubao) recipients, and changes have been limited for other poor households and non-poor eligible households(Xu et al, 2008).

Educational outcomes for poor households
Several studies have found that the high costs of tuition and fees have kept children in poorer areas of rural China out of high school and even lead to many dropping out of junior high. For example, Liu et al (2009) found that not only is financing high school an enormous burden for the families of poor students, there is little financial aid available. According to a survey by the Rural Education Action Project (REAP, 2007), only 2 percent of high school students received financial aid, despite more than 20 percent applying.

Impact on family relationships and psychological well-being
A study of the impact of the New Rural Social Pension Insurance pilot programme in Baoji City found that pensions increase the economic stability of older people and decrease their dependency on adult children and other family members for financial support. The pension enables older people to make greater contributions to household expenses and raises their economic position in the extended family, thereby gaining more respect. The researchers observed that “the pension plays a lubricant role in the older participants’ families, and reduces the possibility of conflict between family members caused by the need to provide financial support to older parents” (Wenjuan and Dan, 2008, p.2). The study also found that receiving a pension helps older people feel more secure, and that being able to contribute to household expenses and be less dependent is important for their psychological well-being.

Differential impact in rural-urban China
Although there is strong evidence that China has a comprehensive system of social protection for its “legal” urban population, there remain inequalities between urban and rural China. In 2008, Baulch et al, attempted to quantify the impact of social protection programmes in terms of expenditure, coverage and the contribution of the programmes for several Asian countries. In China, separate calculations were made for the social protection indicators of urban and rural areas (see table below). Despite the introduction of major rural social security and targeted health insurance programmes in recent years, the study found significantly better social protection provision in urban than in rural areas. However, the researchers noted that: “Programmes are being developed, piloted and extended all the time. This is happening so fast that the authors were very careful to confirm that the reference year for this study was 2005 and not 2006! It also means that all the PRC indicators would have been substantially lower only a few years ago and would probably be significantly better if the reference year had been 2006 or 2007” (Baulch et al, 2008, p.105).
Subnational Indicators of Social Protection Impact in Urban and Rural China

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Rural</th>
<th>Urban</th>
<th>National</th>
</tr>
</thead>
<tbody>
<tr>
<td>SPEXP - overall expenditure on social protection</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Actual SPEXP value</td>
<td>0.01</td>
<td>0.06</td>
<td>0.05</td>
</tr>
<tr>
<td>Scaled SPEXP value</td>
<td>0.08</td>
<td>0.37</td>
<td>0.29</td>
</tr>
<tr>
<td>SPCOV - coverage of the poor</td>
<td>0.32</td>
<td>0.43</td>
<td>0.39</td>
</tr>
<tr>
<td>SPDIST - social protection distribution indicator</td>
<td>0.59</td>
<td>1.00</td>
<td>0.69</td>
</tr>
<tr>
<td>SPIMP – social protection impact indicator</td>
<td>0.32</td>
<td>0.56</td>
<td>0.44</td>
</tr>
<tr>
<td>SPI – social protection index</td>
<td>0.33</td>
<td>0.59</td>
<td>0.45</td>
</tr>
</tbody>
</table>

Source: Baulch et al. (2008, p.104)

Indeed, the evidence suggests that for many decades, the national social benefit system in China was regressive, with the rich heavily favoured while the poor were discriminated against in social benefit transfers. In particular, urban social benefits were more generous and progressive, while rural social benefits were minimal and regressive. However, as Gao (2010) has noted, “China’s social welfare policies are moving in a more equitable direction, as illustrated by many government initiatives since 2002. The outcomes of these initiatives, especially their redistributive effects, require close observation and await evaluation” (p.18).

Minimal contribution on migrant population

Several studies have highlighted the gap in provision of social benefits for the growing migrant population. For example, an edited collection of papers from leading Chinese and international academics raises concern that until recently, little or no attention has been given to the establishment of a social protection regime for the estimated 120-150 million internal migrants from the countryside living in China’s cities (Nielsen and Smyth, 2008).

Although some progress has been made towards the gradual establishment of the institutional and legal bases for the social protection of rural-urban migrants, the evidence suggests that “the majority of rural-urban migrants are still not covered by various insurance programmes; rural-urban migrants’ enthusiasm to join the social insurance programmes is rather low, and many of them have a high tendency to withdraw from the insurance programmes they have joined” (Zhu et al, 2009, p.21). A key factor why migrants’ participation in the social protection system is so low is the non-portable nature of the programmes. As Zhu and Lin (2011) have demonstrated, the mobility pattern of rural-urban migrants is highly complex and migrants are discouraged cannot take insurance benefits with them when they move from one place to another. Furthermore, migrants can only take their own contribution if they withdraw from the insurance programmes, with their employers’ contribution remaining in the funds of the cities where they used to work.

5. Sources


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http://www.equityhealthj.com/content/pdf/1475-9276-10-44.pdf


Websites visited
Rural Education Action Project (REAP), Chinese Academy of Social Sciences (CASS), Centre for Population and Development Research, Social Protection Asia (SPA), University of Maryland School of Public Policy HelpAge International-Asia/Pacific, The China Quarterly, Centre for Social Protection (IDS), World Bank, ADB

Experts consulted
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