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Recent developments in the social security system

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Many of the far-reaching economic and social reforms since 1978 have resulted in structural changes to the economy, particularly in the transition from a centrally-planned to a socialist-market economy.

A significant focus of China's economic reform agenda has been the reform of state-owned enterprises (SOEs). In a bid to improve efficiency, SOEs are now no longer required to provide the same level of services once expected. The change for social security provisions has been direct and significant. SOEs are no longer required to provide cradle-to-grave welfare in pensions, childcare and other social services. Consequently, since the mid to late 1990s, the Chinese government has been exploring alternative sources of social security provision.

Coupled with a rapidly ageing population that is beginning to affect the demand for social security, the government has recognised the need to strengthen the social security system. It considers social security reform to be a key component of the overall reform process. The Chinese government also believes that social security reform underpins economic growth and is necessary to social stability in the process of rapid, market-oriented growth.

Social security in China commonly refers to social insurance and social relief. The purpose of this chapter is to discuss developments in these areas since January 2004. Most attention in social insurance reform is paid to pensions, which is the most active area of social security reform. The major pension reforms include the introduction of the occupational pension scheme, and developments regarding the National Social Security Fund, the sale of state-owned shares and

the Liaoning social security pilot program. Social relief emphasises the urban minimum livelihood guarantee scheme, which is discussed in this chapter. Although not regarded as a core component of the social security system, the issue of social welfare is addressed, specifically the increasingly important role of communities in providing basic social services to the local population.

Before proceeding to outline the major reforms to China's social security system since January 2004, it is necessary to understand exactly the meaning and context of 'social security' (*shehui baozhang*).

Context of social security

Social security in the Chinese context is a broad term and comprises five components

- social insurance (*shehui baoxian*), which includes pension insurance, unemployment insurance, health insurance, work injury insurance and maternity insurance
- social relief (*shehui jizhu*), which includes the social safety net called the urban minimum livelihood guarantee (*zuidi shenghuo baozhang*), and which is known colloquially in China as 'Dibao'.¹
- social welfare (*shehui fuli*), which includes the provision of community services and other social services, such as aged care
- preferential treatment and resettlement (*youfu anzhi*), which involves the provision of services to soldiers both currently serving in and demobilised from the People's Liberation Army
- mutual assistance (*shehui huzhu*), which involves people helping out others for the benefit of society. Generally speaking, this component refers to the encouragement and promotion of volunteerism (Murton 2003a).

The government considers there to be a sixth component—individual savings—in the social security system (Ministry of Civil Affairs 2004). Although this component proposes that people should be more responsible for the provision of their own welfare, it is not yet considered a formal part of the social security system. It is expected that individual savings will play an increasingly important role in social security provision in the future, especially as the shortfall in social security funding becomes more difficult to address.

By engaging in social security reform, the government aims to develop a social security system that is

- independent of work units, in that employers should not be required to bear the main responsibility for the provision of social security

- varied in terms of its sources of funding, in that it does not depend solely on the finances of the central government, and that funding comes from other avenues such as the welfare lottery and the sale of state-owned shares
- standardised across the country, in that policies and regulations are implemented in a similar way throughout China, and
- is socially based in terms of administration and services, in that social organisations, such as banks, the post office and communities, provide services and implement social security policies and regulations (Ministry of Labour and Social Security 2001).

The main principles underpinning reforms of social security are sustainability and affordability. Sustainability refers to the long-term viability of the pension system, in that it is adequately funded and can be maintained over the long term, as well as being flexible enough to respond to future challenges. Affordability refers to the issue of cost. The social security system must be designed in such a way that it is not so costly for employers, employees or the government that they shirk their responsibility to contribute.

Social security reform is currently confined mostly to urban areas and reforms in rural areas remain unaddressed. Although the government is often criticised for focusing social security reforms on urban areas, it is a prudent course of action at present. It is easier to expand social security coverage to employees in urban areas who may have no recourse to alternative sources of income in the case of retirement or unemployment. Rural populations, on the other hand, are able to till their land on a subsistence basis, which affords them a measure of protection.

Latest developments in pension reform

White paper on social security

In September 2004, the central government issued a white paper on labour and social security entitled 'White Paper on China's Social Security Situation and Policies' (Ministry of Labour and Social Security 2004) prior to the General Assembly of the International Social Security Association in Beijing. The purpose of the document was to provide a general overview of the current state of the social security system. It provided much statistical information and defined the broad context of social security in China. Most interestingly, the White Paper was situated largely in the present and discussion of future directions in social security was limited. For example, discussion on pension insurance was limited to stating that the government would continue its work on the separation of funds in the social

pool and individual accounts. Other future developments included the extension of social security coverage to all employees in urban areas, and transferring fund pools based at the municipal government level to the provincial governments (Ministry of Labour and Social Security 2004). Having said that, the White Paper provides a good description of the policy priorities of the government for social security reform, among which, the most important were responding to the impacts of SOE reform and population ageing, as well as the need to increase social security coverage among employees in urban areas.

Major factors driving social security reform

The most significant drivers for social security reform are the reform of SOEs, population ageing and the need to increase pension coverage.

Prior to the late 1990s, most social security-related services, such as pensions, childcare and health-related services and benefits, were provided by work units (*danwei*), many of which were SOEs. This was called the 'iron rice bowl', which denoted the lifelong welfare that such enterprises once provided (Murton 2003a:11). However, in the transition from a centrally planned to a socialist-market economy, the government determined that work units should shed those responsibilities that were not part of their core business in a bid to make them more efficient and competitive in a global environment. It is on this basis that the government is exploring and piloting other means of providing social security services. Based on experiences trialling other means of service provision, social security has now become the responsibility of the government, employers, employees and the general public.

Population ageing is a significant challenge for the government, and has been exacerbated by the one-child policy. Improvements in the health area mean that the elderly are living longer. Some commentators, such as Leckie (Reuters 2004), have mentioned that western populations got rich before they got old, whereas the Chinese population will get old before it gets rich. This comment highlights that China is experiencing rapid population ageing that is occurring in a period of economic transition. Whereas the transition occurred in Italy and Sweden over 79 and 89 years respectively, it will occur in China over only approximately 26 years (Leckie and Pai 2005). It is currently estimated that more than 10 per cent of the population is already aged 60 years or more (Xinhua News Agency 2005). Future projections suggest that by 2030 the number of elderly people, aged 60 years or more, will comprise approximately 16 per cent of the world's elderly, and approximately 24.5 per cent of China's own population (Xinhua News Agency 2005).

The government also recognises the need to increase pension coverage. Pension reform is taking place in urban areas, where approximately 40 per cent of the

population resides. However, pension coverage is still not high enough, with only about 15 per cent of the total population covered by the existing pension scheme (*Beijing Morning News* 2005). As the social security system still operates on a pay-as-you-go basis, where employees pay contributions for current retirees on the implicit promise that future employees will contribute to their retirement, this will create significant funding pressures. It has already created a significant shortfall, largely because such schemes can only be maintained on the basis of extensive coverage.

Current shortfall in pension funding

Keeping the pension scheme sustainable without a high degree of social unrest continues to be a major challenge, especially since the funding shortfall in pension funding is estimated to be approximately 2.5 trillion RMB (A\$400 billion) (*Beijing Morning News* 2005), which includes an amount of approximately 1 trillion RMB (A\$180 billion) of funds raided from individual accounts to pay for current pensions (Information Times 2005). Moreover, commentators such as Leckie (Reuters 2005) believe the government has a 10-year window of opportunity to fund a US\$2 trillion (A\$2.67 trillion) liability before the whole scheme becomes unaffordable due to population ageing. Although the difficulties in funding the shortfall can be resolved, it will take much political will to do so. The government has already recognised the seriousness of the problem and has begun to adopt a holistic approach to the provision of social security in that country.²

The government is exploring a number of options to address the considerable shortfall in funding. Some of the newer ideas being considered are the use of land taxes and charging a levy on mobile phone users. The thinking on both of these options is still in its preliminary stages. A more immediate option at this stage is to sell off state-owned shares in businesses.

Sell-off of state-owned shares

The current drive to sell-off state-owned shares demonstrates that the government is serious about funding its pension liabilities and developing its stockmarkets. On at least two previous occasions, the government attempted to sell its shares on the stockmarket. Investors responded badly to this move, resulting in its value declining sharply. On both occasions, investors feared that the new shares could flood the market and reduce the value of their investments.

The present value of state-owned shares in listed firms is impressive, representing approximately A\$346 billion (Lague 2005) or two thirds of the total capitalisation of domestic stockmarkets (*The Economist Magazine* 2005). As these shares gradually

come onto the market, a shock is likely to occur and the value of the market is expected to fall, as Chinese investors are likely to respond in a similar fashion to the way they did previously (see Chapter 11). The level at which the market bottoms out will probably reflect a more realistic pricing of the companies listed on the stockmarket.

In order to prevent a massive shock to the stockmarkets, the government is proceeding slowly through a pilot program. The details of the pilot program have not yet been finalised, but it is likely to consist of selling or gifting shares in a small number of companies. Minority shareholders are expected to have the power to approve the conversion and buyers of shares would not be able to sell them within one year. In the future, they will be allowed to sell at most five per cent of a company's equity (*The Economist Magazine* 2005). Alternatively, the government is exploring a vehicle similar to Hong Kong's Tracker Fund, which was an Exchange Traded Fund set up by the government during the East Asian financial crisis to stabilise domestic markets. The Hong Kong government bought shares in a range of companies and sold-off parcels to investors with a range of stringent conditions. Another possibility is that state-owned shares be transferred to the National Social Security Fund, which is currently lobbying the government on this matter. Such a move would increase the value of that fund substantially. Regardless of the path chosen, the greatest challenge for the government in selling its state-owned shares will be to balance supply and demand to ensure market stability.

Occupational pension schemes

Since the process of pension reform began in earnest in 1997, the government has consistently tried to encourage enterprises to introduce occupational pension³ schemes. Such schemes have existed in China since at least 1991, when they were known as enterprise supplementary pensions. In 1995, the government issued the 'Opinion on the establishment of the enterprise supplementary pension insurance system' in an attempt to set guidelines on occupational pension schemes. The take up of such schemes was not high and only after 2000 did the government really encourage enterprises to offer such schemes. The most significant development in relation to occupational pension schemes came on 1 May 2004, with the promulgation of Regulations 20 and 23.⁴

Regulations 20 and 23 were an attempt to codify occupational pension schemes. It is clear that they are intended to be enterprise based and define the contribution and accumulation type pension funds. They operate under trust arrangements in a manner similar to Australia's superannuation system and Hong Kong's Mandatory Provident Funds, in that the services provided by trustees, custodians, investment managers and administrators are intended to be separate. Payments from

occupational pension schemes can be made either as lump sums or as pensions. The major difference between Chinese occupational pension schemes and the Australian and Hong Kong models is that they are voluntary and negotiated directly between employers, employees and unions. In this regard, they also contain elements of American 401(k) schemes.

The purpose of occupational pension schemes is to provide retirees with a higher level of retirement income than is available under the basic pension scheme, which comprises funds from the social pool and a person's compulsory individual account. When combined they form the first pillar of the pension system. Whilst occupational pension schemes can be viewed as the third pillar of the retirement incomes system, because of the involuntary nature, they should more properly be considered the second pillar of the pension system. The third pillar comprises individual savings, which if used for retirement, are taxed at a concession.

Regulation 25 was issued in September 2004, subsequent to the government's issuing Regulations 20 and 23. Regulation 32 was issued in December 2004. Regulation 25 stipulated guidelines for the investment of occupational pension schemes in an attempt to guarantee their safety and promote the continued development of such schemes. Regulation 32 strengthened the management of occupational pension schemes through an attempt to lay down rules regarding the administration of such schemes.⁵

The scope of investment of occupational pension schemes is broad but subject to some restrictions. At present, occupational pension schemes must invest no less than 20 per cent of assets in liquid investments such as demand deposits, money-market funds and treasury bills and up to 50 per cent in fixed-income securities. At least 20 per cent must be maintained in government treasury bonds and up to 30 per cent of assets can be invested in equities and insurance products and funds, with stock investments limited to 20 per cent of assets (Leckie and Pai 2005:81). The purpose of allowing such investment is to maximise the potential returns by such schemes while ensuring funds are invested in accordance with the principles of safety, liquidity and diversity. Safety refers to investing funds in a prudent manner, liquidity refers to ensuring that enough cash is available to meet payment needs and diversity refers to investing in such a manner to spread risk over a range of asset classes.

The current scope of investment for occupational pension schemes reflects the state of financial markets and the currently limited availability of products for investment by pension funds. However once assets from occupational pension schemes enter the market, they can be expected to contribute significantly to the

future development of capital markets. Moreover, Regulations 20 and 23 indicate that current limitations may be lifted in the future, as the products available for investment increase and as changes and improvements in the financial services industry occur. These decisions are expected to be made by the Ministry of Labour and Social Security, the body responsible for regulating the scheme at present. The ministry has a high degree of discretion in the decisions it can make.

Occupational pension schemes are expected to play a key role in pension reform, especially in wealthier areas of China because of the financial pressures placed on the basic pension scheme. Although it has never been stated explicitly, it is clear that the government does not want occupational pension schemes to fail. It has underwritten the scheme.⁶ The prospect of negative returns is unlikely. Financial markets may not operate as effectively as they should in allocating capital, but at least the government guarantee provides an assurance for employees that their assets will be protected. In offering a guarantee of protection, the government will ensure the scheme works while staving off any social unrest that may result from the collapse of such schemes.

The introduction of occupational pension schemes can be expected to have benefits for the emerging financial services industry by

- strengthening China's emerging funds management industry. Occupational pension schemes can be expected to promote the development of competition in the industry, particularly when domestic and international fund managers are able to manage funds from next year, as per accession commitments to the World Trade Organization.
- strengthening China's stockmarkets. The occupational pension schemes should increase the number of institutional investors in stockmarkets, which is likely to stabilise. Pension funds by their nature invest assets over the long term and are not as path dependent as individual investors
- encouraging innovation and professionalism in the financial sector, particularly in the continued development of China's capital markets. In a bid to maximise returns for investors, fund companies are expected to develop new investment strategies. Occupational pension schemes also provide opportunities to strengthen the role of actuaries and to establish a specialist pension funds industry
- encouraging flexibility and competition within China's labour market. Companies are likely to establish occupational pension schemes to encourage talented and valuable staff members to remain with the company. In addition, it will provide a means to attract talented staff.

At present, the size of the occupational pension fund market is approximately 50 billion RMB (A\$9.5 billion) (Sun 2004a), and the government expects the value of assets in occupational pension schemes to grow rapidly. It is estimated that the market for schemes could expand by 100 billion RMB a year until 2010, to total assets of about 1 trillion RMB (A\$180 billion) (Di Biasio 2004). These figures correspond with those of the Ministry of Finance, which has suggested that the value of occupational pension funds is expected to increase by 100 billion RMB per year (A\$19 billion) over the next three years (China Labour Network 2002).

The predicted rapid growth in occupational pension schemes is probably over-optimistic for a number of reasons. First, employers that wish to set up occupational pension schemes must have a sound financial base and meet current pension liabilities under the basic pension scheme. They may view the establishment of such schemes as an additional expense for employees. Moreover, employers can be selective about the staff entitled to an enterprise's occupational pension scheme. The number of people covered by such schemes may not grow as rapidly as predicted.

Assets in occupational pension schemes cannot be pooled in multi-employer funds, such as master trusts, because they are established by individual enterprises. As a consequence, occupational pension schemes are expected to remain small in scale. They may not yet be profitable enough for investment managers, as the fee structure is capped between 0.8 and 1.2 per cent of fund assets. However the government is expected to allow the investment of occupational pension scheme assets to be pooled at some time in the future. This development would increase the diversification of assets and spread risk more widely, especially across a range of employers. Funds could still invest with due consideration to the principles of diversity, safety and liquidity while maximising the potential returns. Moreover, the large size of multi-employer funds would lead to specialisation within the emerging funds industry, especially as specialist fund managers could be selected to manage a particular asset class in which they have expertise. The poor returns of one fund manager could also offset the high returns from other fund managers. In addition, the pooling of funds would reduce costs from economies of scale and allow benefits to be transferred when workers change jobs.

The lack of clarity regarding tax concessions to, and licensing of, companies able to provide services for occupational pension schemes is likely to constrain growth in occupational pension schemes. Although enterprises that establish occupational pension schemes receive tax concessions, tax regimes for schemes differ throughout China. For example, the highest rate of tax concession is in Hebei at 12.5 per cent, whereas most provinces maintain rates of around four to

five per cent (Shen 2004). Much is made of the need to standardise tax concessions and the northeast social security pilot program is a trial for this.

Discussion within the government to date suggests that current thinking recognises the need for a nationwide rate of tax concession, and that it should not exceed 8.33 per cent (Shen 2004). Whether this is a sufficient tax concession to encourage employers to introduce occupational pension schemes is not yet clear. It is likely that greater clarity and further tax breaks will be needed to stimulate the market (Di Biasio 2004).

The Ministry of Labour and Social Security has begun accepting applications for the licensing of service providers.⁷ Understandably, the procedure is slow because the selection and eligibility criteria for licensing have not been clearly communicated to potential service providers.

National Social Security Fund

The National Social Security Fund (NSSF) was established in 2001 as a fund of last resort. It is designed as a medium to long-term reserve to meet the pension shortfalls of provincial governments when they cannot meet pension liabilities and when the impact of population ageing is most severe.⁸ Currently, there is no official legislation on the timing and conditions under which the NSSF would make payments. Li Keping of the NSSF has indicated that the fund is not ready to make any major expenditure at this time or in the foreseeable future. He does not expect there to be any disbursements for the first ten years (Asia Asset Management 2005).

The NSSF is one of China's largest institutional investors. It is often used as a test case for expanding the scope of the investment of social security funds and its experiences and developments are watched closely by the funds management industry. It is often used to pilot government initiatives for social security reform and is an indicator of developments in domestic capital markets.

Funding for the NSSF comes from the finances of the central government, share sales, the welfare lottery and investment returns. As at the end of 2004, NSSF assets were estimated to total 170 billion RMB, comprising approximately 115 billion RMB in funding from the finances of the central government, 26 billion RMB from initial public offerings on Chinese companies listed on overseas stockmarkets, 13 billion RMB from the lottery and approximately 4.6 billion RMB in investment returns. Of the value of the NSSF, approximately 67 billion RMB in bank deposits, 74 billion RMB in bonds, 11 billion RMB in equities, and 18 billion RMB in stocks (Xinhuanet 2005).

By 2015, it is estimated that the NSSF will make payments of 100 billion RMB per year to top up underfunded pension plans, and will need approximately RMB

2.5 trillion to make any headway in alleviating the pension shortfall, assuming a three per cent real rate of return (Clifford 2005). This will be challenging but not impossible to achieve. Last year, the rate of return was 3.3 per cent, while inflation was 3.9 per cent (China Securities Network 2005), meaning the fund realised a real rate of return of -0.6 per cent. Although the fund appears to be underperforming, the accumulated returns are 11.5 per cent, while inflation has totalled five per cent, meaning a real rate of return over the previous three years of 6.4 per cent or 2.13 per cent per year (China Securities Network 2005).

Since 2003, most NSSF funding has come from share sales rather than government funding. The State Council under the then Premier, Zhu Rongji, made a number of sizeable allocations setting up the NSSF. However, the State Council under the current Premier, Wen Jiabao, has not been so keen to make allocations. In 2003, the NSSF received no money from central government finances (Leckie and Pai 2005), while in 2004 it is believed that the NSSF only received 7.6 billion RMB (A\$1.44 billion) in government funding.

The NSSF is presently exploring ways to secure a stable source of funding because it cannot rely on handouts from the government. Options being explored include a mechanism to secure appropriations through the State Budget by using a formulaic approach (Asia Asset Management 2005). However, it is not clear how this might be achieved. The NSSF is also keen to invest more of its assets in domestic capital markets in order to maximise returns. Other options being explored include transferring all of the state-owned shares to the NSSF as tradeable shares, and amending the legislation that governs the fund so as to broaden its scope of investment.

In the most significant development to date, the NSSF was granted permission in 2004 to invest in overseas stockmarkets. Preparations are underway, particularly with respect to reviewing its asset allocation and investment strategy, determining its liabilities, managing risk associated with offshore investing and selecting global fund managers and custodians. It is not yet clear when the fund will begin to invest in overseas markets, but it is expected that the NSSF will invest between US\$500 million (A\$658 million) and US\$1 billion (A\$1.3 billion) in the Hong Kong stockmarket in late 2005 (Chung 2005). Many domestic Chinese fund management companies are watching the NSSF's preparations and experiences with interest. They view the NSSF as the vanguard of the Qualified Domestic Institutional Investor scheme, which would allow Chinese funds management companies to invest in overseas capital markets. Should the NSSF's foray into the Hong Kong stockmarket be successful, it can be expected to invest more widely in other markets as well, such as those in America, Europe and Australia.

Liaoning pilot program on perfecting the urban social security system

The Liaoning pilot program with an urban social security system was introduced in 2001 to experiment with measures designed to strengthen the pension system and to ensure its sustainability and affordability. Liaoning was selected because a high proportion of the population live in urban areas and it contained many SOEs.

The main task of the Liaoning pilot program was to rectify the shortfall in pension funding and learn lessons concerning the management of social security funds, particularly the separation of funds in the social pool and those in individual accounts. Although the pilot program was doomed to failure because it was underfunded, the government did learn many crucial lessons from it. Lessons were learned regarding the need to ring fence monies being held in individual accounts from those in the social pool and the need to expand the scope of investment of pension funds. Because of the lessons learned, the pilot project was able to accumulate funds in individual accounts, to the value of 11 billion RMB (A\$2.09 billion) throughout the three years of the project (*People's Daily* 2004). Moreover, it led to changes in the system, whereby employees are now required to pay eight per cent of salaries to the basic pension scheme. It is expected that the lessons learned from the Liaoning pilot program will be applied progressively throughout China.

In 2004, the second iteration of the Liaoning pilot program, called the Northeast Social Security Pilot Program, was launched, with the remaining two north-eastern provinces, Jilin and Heilongjiang, being included. The expanded pilot program will focus on similar issues to the Liaoning pilot program and build upon the lessons learned. Additionally, the northeast social security pilot program is expected to focus more on stimulating the development of the occupational pension scheme by trialling a tax concession of four per cent of an enterprise's payroll.

The Urban Minimum Livelihood Guarantee scheme⁹

State-owned enterprise reform and population ageing have led to an increase in urban and rural poverty. To alleviate poverty, in 1999, the government implemented the urban minimum livelihood guarantee scheme to ensure urban residents whose total average family income was below the standard for the local area could obtain assistance with their living costs.

The urban minimum livelihood guarantee scheme is a new social relief system, replacing the 'five guarantees'¹⁰ scheme in urban areas. Approximately 20 million people receive payments, which are calculated on the basis of the average family

income for a given area and average living costs, and are indexed to inflation. To provide further assistance, supplements for education, housing and health¹¹ are available to recipients of payments under the urban minimum livelihood guarantee scheme.

Under the scheme, three groups of people are targeted including

- urban residents categorised as belonging to the 'three withouts',¹² namely without the means to live, without labour ability and without dependants
- urban residents that either receive unemployment benefits or who have done so and not yet found job, and whose family income is below the urban minimum livelihood guarantee standard for that locality. People in this category are required to undertake some compulsory form of work. For instance, unemployed plumbers in receipt of urban minimum livelihood guarantee payments may undertake unpaid plumbing jobs in their communities
- urban residents who are either in work, 'laid-off' or retired, and whose average family income is less than the urban minimum livelihood guarantee standard after receiving their wages, basic living allowance or pension (Ministry of Civil Affairs 2004).

Targeting ensures that access is available to all people in urban areas, provided family circumstances allow it.

All funds required for the urban minimum livelihood guarantee scheme come from the budgets of the central, provincial and municipal governments, while policy responsibility for it lies with the Ministry of Civil Affairs. Administrative responsibility for the scheme rests with communities at the street office and community residents' committee levels.¹³ Representatives at these levels receive applications for payment under the scheme and carry out an investigation into the family's income and actual standard of living, based on information provided by the family and by questioning neighbours and other relevant people. The district level Civil Affairs Bureau will approve applications.

The urban minimum livelihood guarantee scheme is an integral part of the current social security system and is likely to play an increasingly important role in the future, especially as the pension shortfall becomes more severe. The government is expected to become more reliant on the urban minimum livelihood guarantee scheme to provide people with a basic standard of living. However, there are a number of challenges that must first be addressed, particularly the measurement of poverty and integrating the supplementary payments into the main payment. The most significant of these is the standardisation of the poverty line.

Although more than 20 million people receive urban minimum livelihood guarantee payments, the government recognises that there are many more people in poverty.

However, due to funding constraints, it cannot provide assistance to all who need it. In a recent speech, Bo Xilai, China's Minister for Commerce, mentioned that at least 90 million people in China live on less than US\$1 per day¹⁴ (AFP 2005). In the case of the Urban Minimum Livelihood Guarantee scheme, the poverty line has been raised higher than necessary to take into account the fact that the government does not have enough funds to offer assistance to all the urban poor.¹⁵ In some cases, arbitrary measures of poverty determination are used, particularly the consideration of assets. For example, if applicants from Shanghai keep a dog, they are not eligible to receive the Urban Minimum Livelihood Guarantee payment because dogs are considered to be something that the rich have. As a further example, if an applicant from the central or western regions applies for payment, they may be rejected if they own an air conditioner.¹⁶

Social welfare and the role of communities

Communities play an important role supporting the social security system in China.

Prior to 1985, work units were responsible for providing the bulk of the social services to which a person might require access. Leung writes

Each work unit of the state sector functioned as a self-sufficient 'welfare society' within which an individual received employment and income protection, and enjoyed heavily subsidised benefits and services, such as housing, food, education, recreation, childcare, and social security benefits for sickness, maternity, work injury, invalidity and death, and old age (2000:425).

Nowadays, communities play a much more important role in the provision of social services as a result of SOE reform and the need to 'socialise' such services, particularly for vulnerable populations such as the elderly, the disabled and the urban poor. Communities are responsible for, *inter alia*, improving the living standards of the people and maintaining social stability (National Development and Reform Commission 2001).

Many of the services that communities now provide occur at either the Street Office or the Community Residents' Committee¹⁷ level, particularly those services that communities are required to provide because of policies formulated by the central government. Street Offices are responsible for marriage registration, household registration, crime patrols, family planning, childcare centres and playgroups, labour and social security services, aged care, and health, as well as recreational and cultural activities. Community Residents' Committees are also responsible for providing these services but do so in a much more limited fashion. In order to provide services, communities may receive a specific but often insufficient allocation of funds. Leung writes, 'The municipal government allocation

for community services only accounts for less than thirty per cent of the total expenses' (2000:426). However, communities have considerable discretion to decide the way services are delivered.

To provide services to residents, communities also rely on their own efforts. Provided there is a demand and residents are prepared to pay on a user-pays basis, they can provide a wide range of additional services. Examples of such services include matchmaking and helping families with chores such as cleaning, ironing, shopping and paying bills. The services that one community may provide, when compared to others across the country, can vary markedly.

Importantly, communities do not just provide social services to people; they also play an important role in ensuring the smooth progress of economic and social reforms. In particular, they are responsible for absorbing some of the unemployment in that country by offering paid employment in the community. Communities are expected to provide referrals to employment services and, at the Street Office level, may provide training for employment purposes, as well as job-matching services. Although communities play an important role in addressing unemployment, they are limited in what they can do.

Conclusion

Each of these reforms demonstrates the government is responding actively and realistically in the social security field and that it has already made great strides in this area. The introduction of occupational pension schemes and the Northeast Social Security Pilot Project are two key examples. These reforms have taught the government a number of critical lessons that provide guidelines to be followed throughout the country. However, significant challenges such as the funding shortfall and the sale of state-owned shares remain and continue to put pressure on the sustainability of the social security system.

Social security reform will remain one of the top domestic concerns for the Chinese government. It has recognised the importance of a holistic approach to such reform and has already begun to adopt such an approach. The social security system is likely to develop as a comprehensive system with each component interacting as one cog in a larger machine. In particular, the Urban Minimum Livelihood Guarantee scheme and social welfare are likely to play increasingly important role in the social security system, especially as means of staving off social unrest and ensuring a basic standard of living for populations residing in urban areas. Of most significance, each of the reforms has a key role to play in deepening economic reform in China.

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The views expressed in this paper are those of the author and not necessarily those of the Minister for Family and Community Services or the Department of Family and Community Services.

Notes

- ¹ My own translation, it is also commonly referred to as the Minimum Living Guarantee. There is no standard translation for this scheme. People familiar with the scheme and the Chinese language will also refer to it as 'Dibao' for want of a standardised term.
- ² Information obtained from interviews with officials from the Ministries of Civil Affairs and Labour and Social Security, July 2004. The officials stated openly that the pension system in China is in danger of collapse if nothing is done.
- ³ In China, occupational pension schemes are known as *Qiye Nianjin*, which is more properly translated as Enterprise Annuities. Enterprise Annuities is a common term, but I have chosen to use the preferred translation of the Ministry of Labour and Social Security in this paper.
- ⁴ A copy of the unofficial English translation of Regulations 20 and 23 can be found in Appendixes C and D in Leckie and Pai (2005).
- ⁵ Regulations 25 and 32 are available in Chinese only. They are available at the following web addresses: Regulation 25 <http://www.molss.gov.cn/news/2004/1110.htm>. Regulation 32: <http://www.molss.gov.cn/news/2005/0204a0.htm>
- ⁶ Information obtained from interview with an official from the China Insurance Regulatory Commission.
- ⁷ The China Merchants Bank has applied for a Trustee licence (Sun 2005b), and Boshi Funds Management has applied for an Investment Manager and Trustee licence (Chan 2005).
- ⁸ For more information about the structure of the National Social Security Fund, see Murton 2003b.
- ⁹ The author's own translation.
- ¹⁰ The 'five guarantees' were food, housing, medical, clothing, and funeral expenses.
- ¹¹ Under the urban minimum livelihood guarantee scheme, the health supplement is provided to access government-subsidised medical services and the education supplement is provided for cheaper school fees for the children of recipients of urban minimum livelihood guarantee payments.
- ¹² The author's own translation. More commonly these people are referred to as the 'three nos'. However, I believe that the 'three withouts' is a more accurate translation.
- ¹³ For information on the roles of the various levels of government in the social security context in China, see Murton (2003a).
- ¹⁴ This is the standard poverty measure of the World Bank and the United Nations.
- ¹⁵ Information obtained from interview of officials from the Ministry of Civil Affairs, 9 March 2005.
- ¹⁶ Information obtained from interview of officials from the Ministry of Finance, 9 March 2005.
- ¹⁷ Community Residents' Committees were previously known as Neighbourhood Committees.

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