China

Impact of the crisis

China is less affected by the financial crisis due to its more closed financial system. But the slowdown of the world economy and sinking demand for goods from many of its trading partners have a major negative effect on Chinese economic growth in general and on the export oriented industries in particular.

Crisis responses in general

The Chinese government believes that increasing government spending is the most active, direct and efficient way to expand domestic demand, and economists believe China's 2 trillion US$ foreign reserves current-account surplus and budget surplus offers the government lots of room to do so. In November 2008 a 4 trillion CNY (585.5 billion US$) stimulus package was announced. Additionally, the premier also proposed a budgeted fiscal deficit of 950 billion CNY (139 billion US$) for 2009, a record high in six decades and nearly three times over the last record of 319.8 billion CNY set in 2003. The deficit accounted for nearly 3 percent of the gross domestic product (GDP).

First results of the fiscal stimulus

On May 20 China's Ministry of Finance announced that the proactive fiscal policy and successful implementation of the economic stimulus package have yielded positive effects. According to the Government, the plans of driving domestic demand helped the economy recover, as can be seen in the automobile, cement and other industries. Compared to the same period in 2008, from January to April 2009 China's fixed assets grew by 3.5% and the growth rate increased by 1.9%. In the first 4 months of 2009, China's import and export enterprises also showed signs of recovery. Meanwhile, the profits of China's state-owned enterprises were down by 32.3% in the first quarter of 2009 compared to the previous year. This trend came to a halt in April 2009, when profits were 0.5% greater than in March 2009. China's first quarter gross domestic product (GDP) grew 6.5 percent, and the economy appears to have bottomed out.

Social security and the crisis

China has established a social security system in the 1980s and gradually worked at its improvement. Although, coverage of the urban population has increased most of the rural and rural migrant workers are still not covered. The overall system is characterized by low benefits, a narrow scope of coverage, an urban-rural divide and the fragmentation of various schemes. At the same time the population is ageing rapidly, urbanization is accelerating, employment is diversified and the distribution of income is uneven. Thus, there are number of challenges to the social security system of China even without the crisis.

Pensions for the rural population

Universal old-age pension for all rural population is to be launched before the end of 2009. According to the government plan, it is to be piloted in 10 percent of rural counties (around 250-300 counties) across the country, with the aim of covering 50% of the rural population by 2012, 80% by 2017 and reaching universal coverage by 2020. The scheme is to be funded by contributions from insured families (participation by family) and taxation. When a rural family participates in the scheme all members of the insured family aged 60 or over will automatically qualify for a life-long old-age pension.

Protection for rural migrant workers

Several governmental decrees have been formulated and issued to protect the social security rights and entitlements of rural migrant workers, such as Ministerial Decrees on Basic Urban Old-Age Insurance for the Rural Migrant Workers, the Transfer and Maintenance of the Right and Entitlements to the Basic Urban Old-Age Insurance, Promoting UI and Minimum Wages.

Anti-poverty programme enlarged

The government plans to extend its anti-poverty programme for rural areas by CNY16.7 billion per year, and aims to reach another 28.4 million rural residents. Also low-income urban dwellers will receive more support, but the focus is on rural areas, as there is a structural poverty problem.

Health care system reform

In early 2009 China's State Council announced an investment plan of CNY850 billion (US$124 billion) for its health care system reform in the three years to 2011. Five programmes to extend the Health Care System Reform are to be carried out: Accelerating the establishment of the basic medical security system; preliminarily setting up the national essential medicines system; improving the grassroots health care service system; gradually equalizing basic public health services; and pushing forward pilot projects for public hospital reform. For the reforms, the central government will contribute CNY331.8 billion over 3 years, of which CNY118.1 billion in 2009. In 2009 basic health care schemes will also be implemented in all urban areas, with the goal of providing coverage to more than 50% of the urban residents in cities that have already implemented and 80% in the pioneering cities. Within two years the problem of retired and laid-off employees of bankrupt state-owned enterprises who do not have coverage should be solved, and these persons should have joined health care schemes. Also, CNY10 billion will be invested in developing 480 county-level hospitals, 1993 town- and village-level health centres and 1154 urban community health centres. By the end of 2009 the rate of reimbursement of hospitalization for employees and other citizens should reach 70 percent and 50 percent, respectively. Equality and fairness of basic public health service should be ensured, including free access to public health care service for all citizens, a digitalized personal health record data base and improved capacity to react to severe public health accidents. The government also continues to develop the New Rural Cooperative Medical System, which is important for solving health care problems for rural residents, and to deepen the public hospital reform, improving aspects such as hospital location and operation and management standards, as well as supervision systems.

Measures for the long-term sustainability of the social security fund

Next to the reforms of the social security systems, the Chinese government has also taken action to ensure that the National Social Security Fund is sustainable in the long-term. On 19 June 2009, the ministry of Finance, the State-Owned Asset Supervision and Administration Commission of the State Council, the China Securities Regulatory Commission and the National Council for Social Security Funds jointly issued a regulation on transferring a part of state-owned enterprises' shares in the domestic stock market to the National Social Security Fund. In the document it was pointed out that 10 percent of any new initial public offerings (IPOs) on China's domestic stock market by fully or partly state-owned companies must be transferred to the National Council for Social Security Funds. The NSSF will hold these shares for a lock-up period of at least three years beyond the regular lock-up period. According to the data released by the four departments, as of March 26 2009 a total of 131 newly listed companies with IPOs will be affected by the regulation, involving 826 state-owned companies and approximately 8,394,000,000 shares with a total value of about CNY63.933 billion (US$9.36 billion) at issuing price. Companies such as the Bank of China, Air China, Industrial and Commercial Bank of China, the Guangzhou-Shenzhen Railway Company, China Life, China CITIC Bank and other large listed companies have to fulfil their obligations to transfer more than 100 million shares. The transfer of some state-owned shares is a strategy that ensures a substantial source through various channels to strengthen social security and actively respond to the future of the aging Chinese population. The allocation of state-owned shares held by social security funds to help expand the asset portfolio, which is the source of substantial assets, will help improve China's social security system, stimulating the growth of household consumption.

Conclusions

International experience shows that economic crises are the time to expand the coverage of social security; China is on the right track. Compared to 2008, the state budget allocated to social security increased by CNY 43.9 billion or more than 17 per cent. Given the urban-rural divide of the Chinese social security system, it should be seen as a step into the right direction that pensions are gradually extended to rural and to migrant workers who have not been sufficiently insured so far. Similarly, the extension of health coverage is positive development.

While numerous exemptions from social security contributions and taxes have been made for employers, it is especially crucial that China, takes measures that aim at the long-term sustainability of its social security fund. Social security system can be an important pillar to stabilise the society, to stimulate domestic demand and to promote economic growth, this may be proved again by the case of China in the current economic crisis.

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