

*Research on*

**Coordination and Implementation of  
Social Protection Systems in China**

**Team Leader:** Prof. Mr. Hong MI

**Executive Team Leader:** Ms. Qiyini MA

**Team Members:** Ms. Huilin MIAO Ms. Rong YAN

Ms. Ziqi YU

*Center for Non-traditional Security and Peaceful Development Studies (NTS-PD),  
The Laboratory for Population Big Data & Policy Simulation,  
Zhejiang University*

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## 1 Introduction

China is the world's most populous country featuring a rapidly ageing population as well as a large portion of rural domestic migrant workers. As of November 2019, China's total population reached 1.394 billion. And according to UN data, the population is estimated at 1.439 billion by the mid-year of 2020, being equivalent to 18.47% of the total world population. In 2017, the proportion of Chinese citizens over 60 years old stood at 17.3 percent, with a total number of above 241 million. Although it is not currently among the oldest countries, China is in a process of rapid aging, with continuous decrease of active population proportion. It is expected that China's population aged 65 and above will reach 487 million, or nearly 35 percent in 2050. In 2019, the total number of rural domestic migrant workers in China reached 291 million with an increase of 61 million in the past 10 years. With the urgent aging situation and large quantity of rural domestic migrant workers, it is of great importance to establish an effective social protection system in China to render a better life for all.

The social protection system of the People's Republic of China started with the relief to the disaster victims and unemployed workers and was marked by the establishment of labor insurance in 1951. During 70 years of development, China's social protection has expanded its object scope from urban workers to all urban and rural residents, and changed from fragmented and incoherent to organized and overall planned, from a single project to a comprehensive security system, from slow exploration to rapid coverage growth. At present, China has successfully established a multi-layered social protection system based on social insurance, social preferential treatment, social relief and social welfare, which focuses on basic pension, basic medical care and minimum living security system, and supplemented by charity and commercial insurance. Apart from the three "pillars"— China's state pension system (the first pension pillar), occupational and enterprise annuities (the second pension pillar) and private pensions (the third pension pillar)— China creates the "zero pension pillar" of social protection system, which is the endowment insurance that secures the subsistence of the poorest. In spite of many achievements, many challenges have emerged over the past few years.

Firstly, there are still some vulnerable groups out of the social protection system due to the segmented schemes formed by pilot programs. How to cover more older people and domestic migrant workers in China is not an easy task. Secondly, the third-pillar pension system has not been developed in a sufficiently balanced way, with the state system bearing too much expenditure pressure, which has undermined the sustainability

of the social security system. Thirdly, along with the longstanding problems of incongruity in the schemes, the COVID-19 pandemic has also caused some new challenges. In face of all these challenges, China is still in the process of exploring more effective methods to improve the system.

As the most populated developing country in the world, China, like other developing countries, is faced with many problems in the process of development such as large population, low urbanization rate, unbalanced development between urban and rural areas, huge gap between the rich and the poor, low education level of the people, shortage of medical care and housing resources. Through the study of China's social protection system, we could provide the experience of social protection system construction and reference of policy stipulation for other developing countries with similar situations. The main points are as follows. Firstly, Chinese government adheres to the construction of the rule of law and establishes the social protection system through the promulgation of legal documents to ensure the execution of the social protection system. In the case of law insufficiency, China adopts multiple paralleled laws, that is, promulgates legislation for different projects, and gradually establishes a complete legal system of social protection. Secondly, the social protection adapts to economic development. On the one hand, it has been necessary for China to comply with the trend of market-oriented reform and increase the variety of responsible entities. On the other hand, the level of security is adapted to the level of regional economic development to accurately meet the demand. Thirdly, Chinese government adheres to the combination of multi-point pilot and top-level design. In the initial stage of development, Chinese government chose to test the polity in several pilot cities. It concluded the experience and then promoted it to the whole country. After a period of operation, more attention was paid to the top-level design and overall arrangements were made to promote the coordination of various regions in the country and various social protection projects. Fourthly, China adheres to the people-oriented concept, and pays attention to the grass-roots people's livelihood. Chinese governments take ensuring and improving people's livelihood as the direction and goal of social protection system construction. It strives to eliminate absolute poverty through targeted poverty alleviation. Fifthly, mechanism of normal governance is designed to coordinate with emergency management. Chinese government attaches importance to the strategic reserve fund and deal with risks properly. Sixthly, China has been trying to increase income and reduce expenditure. Basic security is provided through various systems such as minimum living allowance and zero pillar pension. Meanwhile, the government also endeavors to improve the level of protection and pays attention to developmental

protection.

This report is divided into four parts. The key information is the abstract and essence of the whole report, which could help readers quickly capture and grasp the main content of the report. The historical development process of China's social protection and its characteristics are combed in detail in the second part. At the same time, the challenges and coping strategies of China in the construction of social protection are discussed. The third part introduces China's current social protection governance mechanism from the perspective of macro policies, management instruments and concrete practice. The fourth part is the summary of this report, which puts forward the experience for reference of developing countries and looks forward to the future.

## 2 Key messages

### **China's social protection system adapts to the reform of economic system and has transformed from state-unit protection to socialized protection.**

- Before the Reform and Opening-up, in the period of planned economy system, the responsibility subject of the social protection system was the government, the institution or the collective. In the city, protection measures including labor insurance, medical treatment and housing subsidy are provided for workers and their families; in rural areas, limited welfare security relying on agricultural cooperatives, people's communes and production teams is provided for farmers.
- After the Reform and Opening-up, China has gradually established a market economy system, and the social protection system has also been adjusted accordingly. Enterprises and individuals have begun to assume the responsibilities of social protection, and commercial social protection projects such as commercial insurance have emerged as supplements.

### **China's social protection has transformed from urban-rural division to urban-rural integration, which is the key method to improve the coverage of social protection.**

- China's old-age insurance, medical insurance and other social protection projects started and developed under the background of the dual structure of urban and rural areas. The construction of rural social protection started later, and the social protection system of urban and rural dual structure has been gradually broken in recent 10 years.
- In 2003, the rural medical system began to be pilot; in 2016, the unified basic medical insurance system for urban and rural residents began to be implemented nationwide. In 2016, the total number of the insured of the basic medical insurance was 743.916 million, and it rapidly increased to 1344.586 million in 2018.
- In 2009, the Xin-nong-bao (early version of rural pension system) began to be pilot, which laid the foundation for the establishment of a unified basic old-age insurance for urban and rural residents. The coverage rate of China's old-age insurance grew slowly before 2009. In 2009, the coverage rate of China's basic old-age insurance was 21.59%. From 2009 to 2012, it increased rapidly to 70.43%.

### **China's social protection has gone through an upgrade from part to whole, from simple to complex, adopting the strategy of gradual reform and multi-point pilot.**

- Initially, there are merely simply protection projects including the urban labor insurance, rural cooperative medical system. Gradually, a multi-dimensional and multi-level system framework based on social insurance, social preferential

treatment, social relief and social welfare has come into being. The types of social insurance have been constantly enriched and the coverage has been constantly expanding.

➤ In this process, the pilot is first carried out in some areas, and then it is gradually extended to the whole country after the success of local pilot projects and the summary of experience. For example, Shanghai took the lead in establishing the minimum living standard security system for urban residents in 1993. Based on the experience of Shanghai, it was expanded nationwide in 1997. In 2007, this system began to be implemented in rural areas, and gradually realized integration in both urban and rural areas.

**More work in the construction of social protection system is needed in order to cover more vulnerable groups, especially the rural domestic migrant workers and older people.**

➤ Due to general job uncertainty and limited job choices, in 2014, the average participation rate of rural domestic migrant workers in various social insurances was less than 20%. In 2018, the average age of rural domestic migrant workers in China increased by 0.5 year, and the proportion of domestic migrant workers over 50 years old was 22.4%, an increase of 1.1% over the previous year. However, the participation rate of pension insurance was less than 30%.

➤ With a rapid net increase rate of the older population, it is estimated that by the year of 2050, there will be about 450 million older people, accounting for about 25%-27% of China's total population. As a middle-income country, China is faced with fiscal pressure on supporting the old-age insurance system, especially after 2030 when Chinese government might be overloaded since the rapid development of population aging. Meanwhile, with the society that “gradually gets rich but quickly gets old”, there is an urgent need for social services for the old. In 2020, every 4.96 working-age person aged 15-64 in Zhejiang Province needs to support one older person over 65 years old; while by the year of 2050, an older person over 65 years old will be supported by every 1.44 working-age person.

**A multi-layered social security system involved different entities with well-defined responsibilities is needed to achieve complete and sustainable development.**

➤ Taking the old-age insurance system as an example, it has been widely acknowledged that a sound pension insurance system is composed of three “pillars”—China’s state pension system (the first pension pillar), occupational and enterprise annuities (the second pension pillar) and private pensions (the third



pension pillar). However, there are huge strains on the first pension pillar accounting for nearly two thirds of China's total pension assets, while the second and the third pillar are expected to grow rapidly from a small base. Faced with the coming deficit in the national old-age pension funds, pressure on the state system needs to be eased.

**There is still a long way to achieve integration of different segmented social security systems, especially in terms of the pension insurance system.**

➤ The Chinese social security system, especially the segmented pension insurance system, is faced with a challenge, namely how to make the segmented pension schemes into a unified one. To cover those beyond the urban employment-based social insurance, the Chinese central government has re-organized and introduced the residency-based pension system in rural areas in late 2009 and in urban areas in 2011. And in 2014 the rural and urban residency-based pensions were combined into a unified basic pension scheme. Then the dual pension system was established with two distinctive layers of pension programs— the employment-based pension scheme and the residency-based pension scheme —, which coexist in every locality in China. However, integration has not been achieved with locally inconsistent social pooling system.

**The belief of people-oriented social concern is the highlight of social security system with Chinese cultural characteristics.**

➤ The basic direction of the construction of the social protection system with Chinese characteristics is as follows: to educate the children, to teach the students, to earn income from work, to have medical care for the sick, to support older persons, to help the vulnerable groups, so as to solve the practical problems most concerned by the people and bring the most effective help to the people's happy life.

➤ The higher-level government formulates the plan and makes overall planning; while the lower-level government puts the social security policy into practice, goes deep into the grass-roots level, understands the people's livelihood and make the government's care come true. For example, the "zero pillar" of the endowment insurance policy enables the rural poor older population to enjoy a certain amount of pension allowance, which brings a certain degree of security for their life.

➤ Government care promotes social care. As a part of social security, social assistance provides free material assistance to social groups in crisis of survival to

protect their right to survive. The process of social assistance is completed by both government and social forces. The cooperation of various social forces, such as volunteers and foundations, embodies the social care in China's social security system.

**China's social security governance model of "big government" and "strong government" will help the operation and development of social security system with Chinese characteristics, and provide more solid and powerful security for the people.**

- Under the social security governance mode of "big government" and "strong government", the government implements unified management of social affairs. This top-down centralized system is conducive to social mobilization, and can play a higher role in guiding, distributing, managing and maintaining order, so as to make the implementation of social security more orderly.
- The governance model is mainly reflected in the policy of central overall plan and provincial plan. The central overall plan promote regional equality, unifies the pension policies among different regions, and uses the power of the government to achieve regional balance and reduce the gap. On this basis, it clarifies the responsibilities between the central and provincial governments and promotes coordination. On the basis of establishing a unified endowment insurance system and policy, the provincial plan is to promote the work of unified income and expenditure of endowment insurance funds, and establish a mechanism for sharing the gap of pension insurance funds among local governments at all levels, which is a more practical working mechanism to promote fairness.

**The governments at all levels have vertical management and different functional departments cooperate with each other to complete the social security governance work.**

- Nowadays, China's social security management system relies on vertical management, that is, the lower level is subordinate to the higher level, and the higher level is responsible for the lower level. The Ministry of Human Resources and Social Security is a ministry under the State Council which is responsible for national labor polices, standards, regulations and managing the national social security. It is the central sector of social security affairs. It leads the arrangement and implementation of China's social security work. The local social security departments are mainly the provincial Social Security Bureau and the

administrative organs of the county and district governments. The lower levels need to follow the governance of the higher authorities, complete the work arranged by the higher authorities, and implement the policies in practice. The progressive management system is helpful to the supervision and feedback mechanism, so as to find out the omissions and make up the deficiencies in time, and perfect the policy implementation.

➤ There are many functional departments in the social security system, which are in charge of different affairs. Sometimes, it needs the cooperation and coordination of two or more departments to settle down overlapped affairs. In this process, all parts need not only to perform their own duties, but also to cooperate closely. For example, the old-age endowment insurance for both urban and rural residents is worked together by the pension insurance department and the rural social insurance department. Such a coordination mechanism is conducive to the smooth formulation and implementation of new policies.

**In 2020, the targeted poverty alleviation policy will achieve significant results, that is, to eliminate absolute poverty, which is 10 years ahead of the standard set by the World Bank.**

➤ China has made the best achievements in poverty reduction in history through the "six precisions" of accurate objects supporting, precise project arrangement, accurate use of funds, accurate measures to households, accurate assignment of personnel to villages, and accurate poverty alleviation effect. From 2013 to 2019, 93.48 million population in poverty have been reduced, and the cumulative poverty reduction rate has reached 94.4%. The basic living problems of the people in poor areas have been basically solved. Moreover, the poverty control ability of the economically backward areas has been enhanced, the process of economic development has been accelerated, and the poverty alleviation methods by e-commerce, industry and tourism has been implemented, so that the masses in poor areas can get rid of poverty through labor.

**One of the important principles of Chinese social protection reform is socialization, so is the administrative system.**

➤ Chinese social protection administrative system manifests a "strip-block" relationship which refers to a vertical and parallel management mode. In the vertical sector, there are three administrative levels concerning the central government, local government and grass-root government. Every level is

responsible for the lower level. Local government also serves as a tie between the central government and the grassroots.

**The management method of overall planning at provincial level has achieved great success.**

- Based on the administrative structure of Chinese social protection, the overall level has been improved from county to province.
- The reform started from completing full coverage of universal social protection based on the endowment insurance. At present, more than 13 provinces have realized the monopolized revenue and expenditure at provincial level.
- At present, the improvement of overall level has entered into a new stage, which is to realize the national coordination.

**The digital government transformation on social protection has improved the efficiency, fairness and accuracy.**

- Big data and software are applied to the information storage and integration of social protection. Chinese social protection big data includes basic social protection data and supplementary social protection data.
- The “Internet Plus” social protection service realizes the prompt information sharing and interaction, improving the working efficiency and accuracy through the construction of e-government.
- Based on MIS, information platforms are established to make both information storage and information interaction happen at the same time through the combination of the former two technologies.
- Programs practice has further proved the validity of digital government transformation and has asserted higher demands for it. The Zhejiang’s experience of “No More Than Once” is a successful example of digital government. It has connected the information islands and gradually realized the full coverage of online handling, largely improving the accessibility and maneuverability of social protection service.
- With a large number of information storage and sharing, social protection information system confronts risks and threats endangering the information security, which mainly involve data security and content security. Therefore, data encryption technique and protection technique are required.

**Chinese social protection programs mainly require professionals in three fields.**

- The three fields includes professionals working on labor and social protection, social organizations and non-governmental organizations, professional staff with a major background of social insurance, housing provident fund and other protection expense, and professionals in finance.
- There are mainly two forms of talent training: training on the employed staff and cultivation for backup talents. Enterprises and public institutions organize the professional training on their staff to get relative certificates while universities and colleges set up the major of labor and social security to cultivate more professional talents who will engage in work concerning social protection in all fields.

## 3 Description of initial situation

### 3.1 Historical development of social protection

#### 3.1.1 The development before the Reform and Opening-up

The establishment of the New China's social protection system began in the background of the large-scale social relief actions taken by the Central People's Government for disaster victims and unemployed workers in 1949 and 1950. It was marked by the promulgation and implementation of the Labor Insurance Regulations of the People's Republic of China in 1951. It developed continuously as a set of social protection policies with typical state-unit mode was established, in which social protection is mainly supported by public funding and people enjoy universal benefits regardless of their contributions.

#### **Social protection system in urban areas**

The establishment and development of the urban social protection system is marked by the labor insurance system. In February 1951, the State Council promulgated the Labor Insurance Regulations. After two revisions, a labor insurance system applicable to urban employees in China was comprehensively established, which covered all enterprises and employees instead of only urban agencies and institutions. All the expenses of labor insurance are afforded by the enterprise administration or the capital so that individuals do not need to pay. The benefits include all expenses related to work injuries, childbirth, medical care and pension so that workers' risks of birth, old age, illness, death, injury and disability had been reduced. Labor insurance had been regarded as the main symbol of the establishment of China's modern social protection system due to its wide coverage, comprehensive protection and benefits to the family members of employees, and stable social protection expectation for the vast majority of urban residents.

In 1952-1958, the state set up a social protection system of public officials that consists of publicly funded medical care, retirement systems, and pension for the staff of state agencies and public institutions and military officers, and issued a series of policies on welfare service and living difficulties subsidy. The basic living needs of employees and their families are guaranteed by the enterprises or institutions. The state also provides free education, welfare housing, grain and oil and non-staple food price subsidies for urban residents as well as a welfare system for urban widows, children and the disabled.

In 1968, China entered a tough period of socialism development. The state continued to play the role of establisher and guarantor of the social protection system. Meanwhile, each institution became a self-financing, closed-operating social protection organizer and implementer, interdependent from the state. The society members are separated in various agencies, institutions and enterprises, becoming strongly dependent on and inseparable from their organizations, and at the same time enjoy relevant welfare treatments for free.

### **Social protection system in rural areas**

The establishment and development of rural collective welfare system was mainly marked by Five Guarantees Supporting System and Cooperative Medical System. Although there was no formal rural social endowment insurance system immediately after the People's Republic of China was founded, five guarantees and collective pension system were established in rural areas according to the Constitution of 1954. Rural Five Guarantees Supporting System is a kind of social assistance system for the old, weak, orphaned, widowed and disabled farmers who were incapacitated and had nothing to rely on. The Five Guarantees System provided a minimum living guarantee for the most vulnerable social members in rural areas, which enabled them to enjoy the same basic living security as other social members with dignity, and made the majority of rural residents feel the superiority of the socialist system.

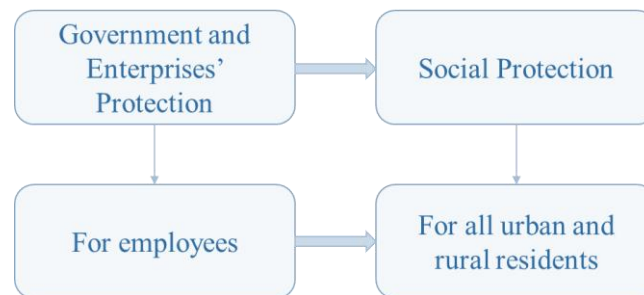
Rural Cooperative Medical System started along with the cooperative movement. In 1956, rural collective organizations undertook the responsibility of medical treatment for rural social members for the first time. In 1960, government in rural areas started to implement the Cooperative Medical System. In 1965, President Mao issued the instruction that the focus of medical and health work should be on rural areas, which vigorously promoted the development of rural medical and health undertakings in China. Although during this period, the government meet rural residents' medical needs simply through training non-professional medical staff and establishing mutual assistance and cooperation rather than extending the urban free medical security system to the rural areas, the active intervene of the government indeed made primary medical insurance available to rural residents. In addition, a free basic education system was also established in rural areas, which together with the Five Guarantees System and the Cooperative Medical System, constituted the primary social protection system in rural areas of China. At the same time, state-responsible disaster relief system played a directive role in protecting the rural areas in the event of natural disasters. Generally speaking, the rural protection system established after the founding of People's

Republic of China was supported by the rural collective ownership economy, organized and implemented by the agricultural cooperatives, people's communes and production teams, providing limited welfare security for rural residents.

### 3.1.2 The development after the Reform and Opening-up

The Chinese government has been actively committed to establishing and improving a social protection system compatible with the level of economic development and attaching great importance to it. Since the Reform and Opening-up, China has carried out a series of reforms to the social protection system during the planned economy period in accordance with the requirements of the reform of state-owned enterprises.<sup>1</sup> The transition of the economic system and the development of socialist market economy system explored a social protection system where the responsibility is shared by the state, enterprises and individuals.<sup>2</sup> After the reform and development for over 40 years, China has established a multi-level social protection system including social welfare, social insurance, social assistance and social special care, and gradually transferred from a long-term experimental reform stage to a mature and finalized development stage. In this multi-level system, social insurance is the core.

**Figure 3.1-1: Changes in the social protection model and the population covered after the Reform and Opening-up**



Source: Authors' own compilation.

### Pension Insurance

In order to better guarantee social equity and break the duality between urban and rural areas, pension system of China is constantly adjusted according to the needs of times and people. China has large population in rural areas, as for rural pension system, China has gone through three stages of the Lao-nong-bao, Xin-nong-bao and Cheng-xiang-ju-

<sup>1</sup> Jin and Faqiang (2019).

<sup>2</sup> Jin (2019).



bao.

In the mid-1980s, the Ministry of Civil Affairs began to request all regions to explore the establishment of rural social protection systems based on their actual conditions. It is stipulated that all male members aged over 65 years and female members aged over 60 years who had participated in collective production for more than 10 years can enjoy pension benefits. In 1992, based on the pilot experience, rural pension system was carried out within each county. The main financing source was individual contributions. Meanwhile, policy support from the government and collective subsidy was provided as supplementary. The next year, rural pension system work expanded throughout the country. In 1997, with the nationwide establishment of rural insurance institutions and standardization of management system and operating procedures, rural pension system was initially established in most rural areas.

Since 2003, more than 300 counties in 21 provinces and cities had independently launched pilot program of Xin-nong-bao subsidized by the local government on the basis of Lao-nong-bao. In 2008, the program began to do pilot experiments nationwide. By the end of 2013, the number of people participating in the Xin-nong-bao had reached 498 million, basically covered older persons in rural areas. With a combination of individual contributions, rural collective subsidies and government subsidies as the financing source<sup>1</sup>, the Cheng-xiang-ju-bao could meet the actual needs of rural residents.

In 2014, Xin-nong-bao and Cheng-zhen-ju-bao were decided to be merged as Cheng-xiang-ju-bao, on the basis that they had achieved full coverage respectively, in order to establish a nationally unified pension system for urban and rural residents. Cheng-zhen-ju-bao refers to non-employed urban residents, and it has small percentage of the population. The Cheng-xiang-ju-bao shall be a combination of individual contributions, collective subsidies and government allowances. The benefits of the insurance shall consist of base pensions and individual account benefits, and be paid for lifetime.<sup>2</sup> The central government determines the minimum standard for basic pensions, and the government also establishes a normal adjustment mechanism so that the national minimum standard can be adjusted timely according to the economic development and price changes. Individuals aged over 60 years participating in Cheng-xiang-ju-bao, who have paid for more than 15 years and not received the pension, may receive benefits monthly. It was also instructed that a fair, unified, and standardized urban and rural

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<sup>1</sup> John and Tianhong (2014).

<sup>2</sup> Hong and Yue (2018).

residents pension system be established comprehensively before 2020, which is compatible with other social security measures such as social relief and social welfare. In 2015, Cheng-xiang-ju-bao increased from RMB 55 yuan to RMB 70 yuan per month, and it jumped to RMB 88 yuan in 2018.

It can be found from the historical development of rural social insurance of the old-age pension that following the principle of "voluntary selection of contribution" and "the more you contribute, the more you get", farmers are accustomed to choose lower-stage rate and shorter period of payment although the Cheng-xiang-ju-bao has effectively promoted the enthusiasm of rural residents to participate in insurance payment. Although most farmers can solve the food and shelter problem, they lack sufficient cash flow so that the interruption and arrears of insurance payment are common. Therefore, the implementation of rural pension system in China can effectively expand the coverage of social security, and solve the pension problems of farmers. So, it is an important policy in alleviating poverty, and improving overall social welfare. In this situation, the central and local governments not only provide financial support for rural residents aged over 60 years, but also instructed that people without an individual account who are over 60 years old can also receive base pensions.<sup>1</sup> From this view, China has in fact established the zero-pillar pension insurance.

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<sup>1</sup> Ce, Jessica, Zhenhe and John (2020).

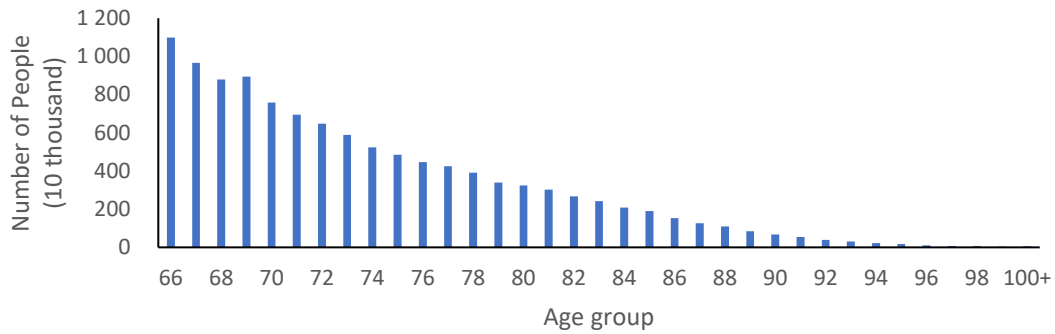
**Table 3.1-1: Development of pension system in rural areas, 1982-now**

System Name	Lao-nong-bao	Xin-nong-bao	Cheng-xiang-ju-bao
<b>Time</b>	1982-2002	2003-2013	2014-now
<b>Coverage</b>	rural population who are not supplied with commodity grain and have urban residence registration	Rural residents aged over 16 years who have not been covered by pension system	Rural or urban residents aged over 16 years who have not been covered by pension system
<b>Financing pattern</b>	Individual contributions, collective subsidies	Individual contributions , collective subsidies, and government subsidies	Individual contributions , collective subsidies, and government subsidies
<b>Level of benefits</b>	very low	pay more get more	pay more get more
<b>Composition of account</b>	individual accounts	individual accounts + social pooling	individual accounts + social pooling

Source: Hong and Yue (2018).

By 2018, there had been 160 million people over 60 who received pension benefits, of which 120 million people did not have individual accounts and only received base pensions from pooling fund. The base pension not only improves China's multi-level and multi-pillar pension system, it is also the zero-pillar pension with the largest coverage in the world so far, and is one of the greatest achievements since the establishment of China's social protection system.

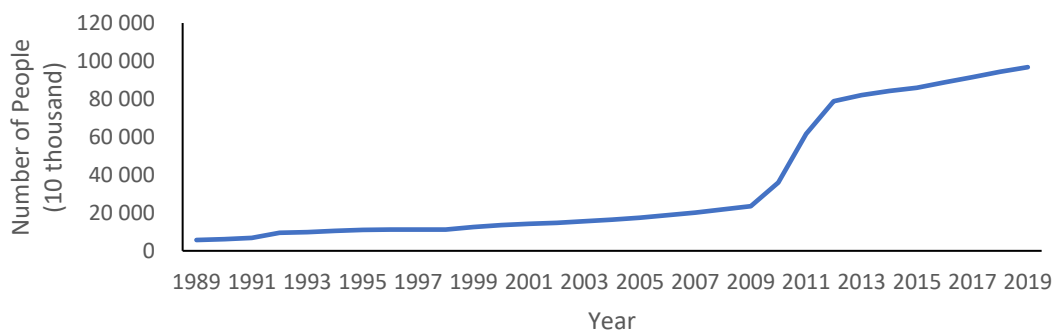
**Figure 3.1-2: Number of people receiving zero-pillar pension benefits by age, 2019**



Source: Jin, Jing and Hong (2019).

In China, the first pension pillar consists of two parts: Cheng-zhen-zhi-bao and Cheng-xiang-ju-bao. The former, Cheng-zhen-zhi-bao, mainly includes those people with urban residents and working as enterprise employees. This part of people was the first group covered by pension system when the social security system was set up. The latter, Cheng-xiang-ju-bao, aims at covering the older people who are rural residents. Moreover, Cheng-xiang-ju-bao is the unification of the Xin-nong-bao and Cheng-zhen-ju-bao. The first pension pillar system of China has not only allowed hundreds of millions of older people to have life security and reduce trouble, but also enhanced the security and cohesion of the society. At the same time, it is also of great significance to the free migration and stimulation of consumption.<sup>1</sup>

**Figure 3.1-3: Number of people covered by the first pension pillar system, 1989-2019**

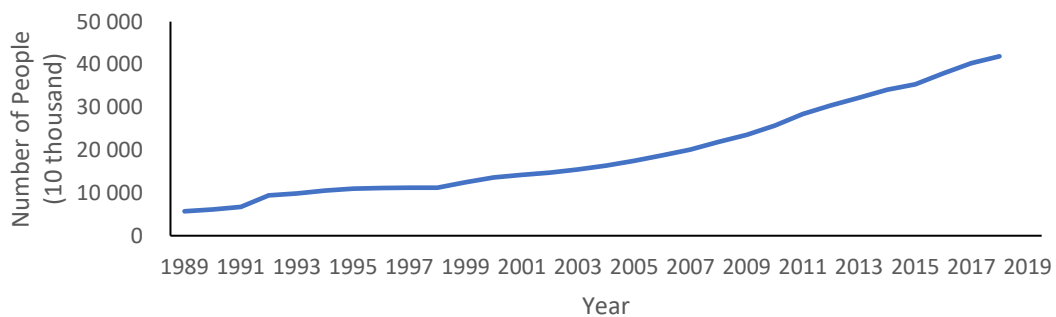


Source: National Bureau of Statistics of China.

<sup>1</sup> Hong, Haiyang and Qiyini (2020).

In 1991, the State Council promulgated *Decision on the Reform of the Old-age Insurance System for Enterprise Employees*, which clearly defined the goal of establishing a multi-level old-age insurance system. The pension should be shared by the government, enterprises and individuals. In 1993, the Central Conference proposed that the pension and medical insurance for urban employees should be shared by the enterprises and individuals, and each should be a combination of social pooling and individual accounts. In 1995, the State Council further clarified that a combination of social pooling and individual accounts is the basic financing model. In the same year, the State Council approved two sets of pension insurance system schemes for local governments to choose and carry out pilot projects. In 1997, the two pilot schemes were unified and a combination of social pooling and individual accounts was clearly defined as the financing model. Later, the application of this system was gradually extended to all wage earners besides those who were officially on the staff of government and public institutions. In 2015, the State Council made it clear that the basic old-age insurance system for employees combining social pooling and individual accounts was applied to all the employees of government agencies, public institutions and enterprises.

**Figure 3.1-4: Persons covered by Cheng-zhen-zhi-bao Pension Insurance, 1989-2018**



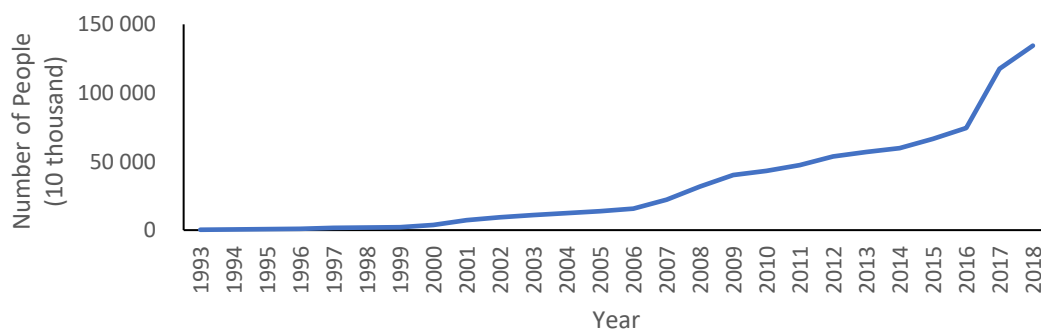
Source: National Bureau of Statistics of China.

### Medical Security

Medical security is one of the most concerned social protection projects. In the 1980s, various regions began to improve labor insurance medical care and public medical care, exploring methods for individuals to appropriately bear a small amount of medical expenses. In the early 1990s, some regions began to explore the social pooling of medical expenses for serious illnesses of enterprise employees, aiming to establish a socialized medical security system that is independent of the business status of the enterprise. In 1995, two cities were chosen to carry out pilot experiments. In December 1998, the State Council clarified the financing model of the employees' basic medical

insurance — social pooling plus individual accounts. It was indicated that all urban employers including state agencies, enterprises, institutions, and social organizations, and their employees must participate in this system. As a result, Labor Medicare Insurance and Public Medical Care were gradually abolished. After the reform of the rural economic system, the original rural cooperative medical system was gradually collapsed due to the weakening of the collective economy. In order to strengthen farmers' medical security, the Central Committee of the Communist Party of China and the State Council decided to establish a new rural cooperative medical system in rural areas in 2002. In 2003, the pilot programs began, which raised funds by fiscal investment and appropriate payment by farmers. It started at a low level and gradually established a basic medical insurance system for farmers, aiming to alleviate poverty in rural areas. Once the system was piloted, it was generally welcomed by peasants. Therefore, it was quickly deployed nationwide. The participation rate reached over 95% rapidly. In 2007, the pilot program of the basic medical insurance for urban residents began to be launched. The coverage was urban household registration personnel other than salaried people. These two systems are social medical insurance systems of exactly the same nature, and the system mechanisms and operating modes are similar. In order to save resources, these two systems have begun to be integrated to be a unified basic medical insurance system for both urban and rural residents in Hangzhou, Tianjin, Guangdong, Chongqing and other regions since 2008. In early 2016, the State Council officially issued a document to generalize this practice nationwide.

**Figure 3.1-5: Persons covered by the Basic Medical Insurance, 1993-2018**



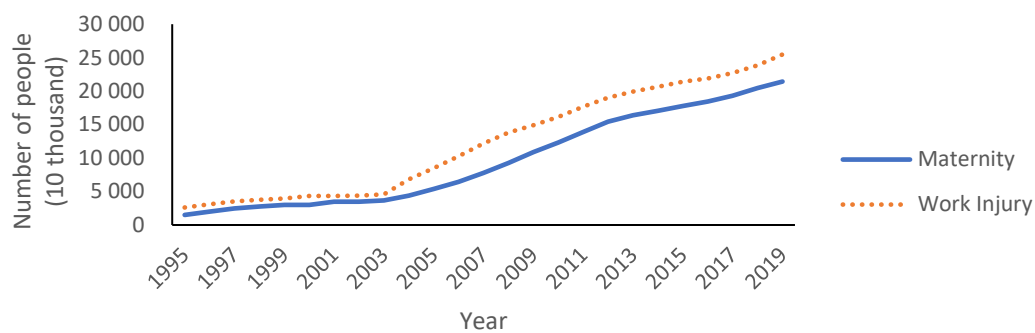
Source: National Bureau of Statistics of China.

### **Work Injury Insurance and Maternity Insurance**

At the same time, work injury insurance and maternity insurance systems also started the reform. In December 1994, the Ministry of Labor promulgated the Trial Measures for the Maternity Insurance for Enterprise Employees, which is supported by socially

pooled funds. Maternity leave wage changed into maternity allowance, the payment period of which was generally consistent with the period of maternity leave. In August 1996, Chinese government explored the ways to establish the Work Injury Insurance for Enterprise Employees. In April 2003, the State Council promulgated the Regulations on Work Injury Insurance, which had been revised several times since then, focusing on polishing policies related to work injury accident definition, handling and guarantee treatment.

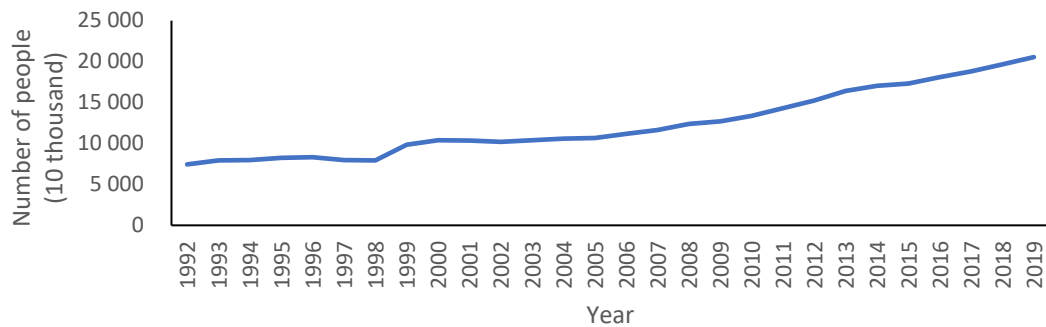
**Figure 3.1-6: Persons covered by the Work Injury Insurance and the Maternity Insurance, 1995-2019**



Source: National Bureau of Statistics of China.

It is worth pointing out that under the labor insurance system, there was not an unemployment insurance system in China. At that time, it was believed that there was no unemployment problem in socialist countries. However, with the deepening of market-oriented reforms, unemployment problems as well as demand for the unemployment insurance system emerged. In July 1986, central government established an unemployment insurance system for enterprise employees. In 1999, the State Council promulgated the *Regulations on Unemployment Insurance*, which covered all types of enterprises. Later, the coverage of unemployment insurance was extended to employees of public institutions and domestic migrant workers.<sup>1</sup>

<sup>1</sup> Wenjiong (2018).

**Figure 3.1-7: Persons covered by the Unemployment Insurance, 1992-2019**

Source: National Bureau of Statistics of China.

So far, China has completed the transformation of the social insurance system for salaried workers. Compared with the labor insurance system, the new system has the following characteristics. First, it is contributory, that is, the social insurance fund consists of the payment from both the insured employees and their employers (individuals do not pay for work injury insurance and maternity insurance). When the fund lacks, government finance supports it. The second is the diversification of fund management modes. Work injury insurance, maternity insurance and unemployment insurance adopt a pay-as-you-go system, while basic pension insurance and basic medical insurance adopt a combination of social pooling and individual accounts. The latter is a hybrid mode combining the pay-as-you-go system and the fund system, belonging to a type of partial accumulation system. Furthermore, the specific methods of "pooling and accounting" between basic medical insurance and basic endowment insurance are different. Third, services are rendered by the society. It is clarified that social insurance should be organized and implemented by the government in accordance with the law, handled by the social insurance agency in detail, and cooperated by the employer. The fourth is to provide multiple levels of protection. The basic risk protection system for employees is composed of social insurance and various supplementary protections such as occupational annuities and commercial insurance, among which the social insurance benefits are positioned as the fundamental guarantee.

### **Social Relief and Housing Security**

In addition to social insurance, social relief and housing security have also undergone major changes. In 1993, Shanghai city took the lead in establishing a minimum living guarantee system for urban residents, and it was implemented nationwide in 1997. In 1999, the State Council promulgated the Regulations on Minimum Living Guarantees for Urban Residents, upgrading this system to legal norms. In 2007, a rural minimum

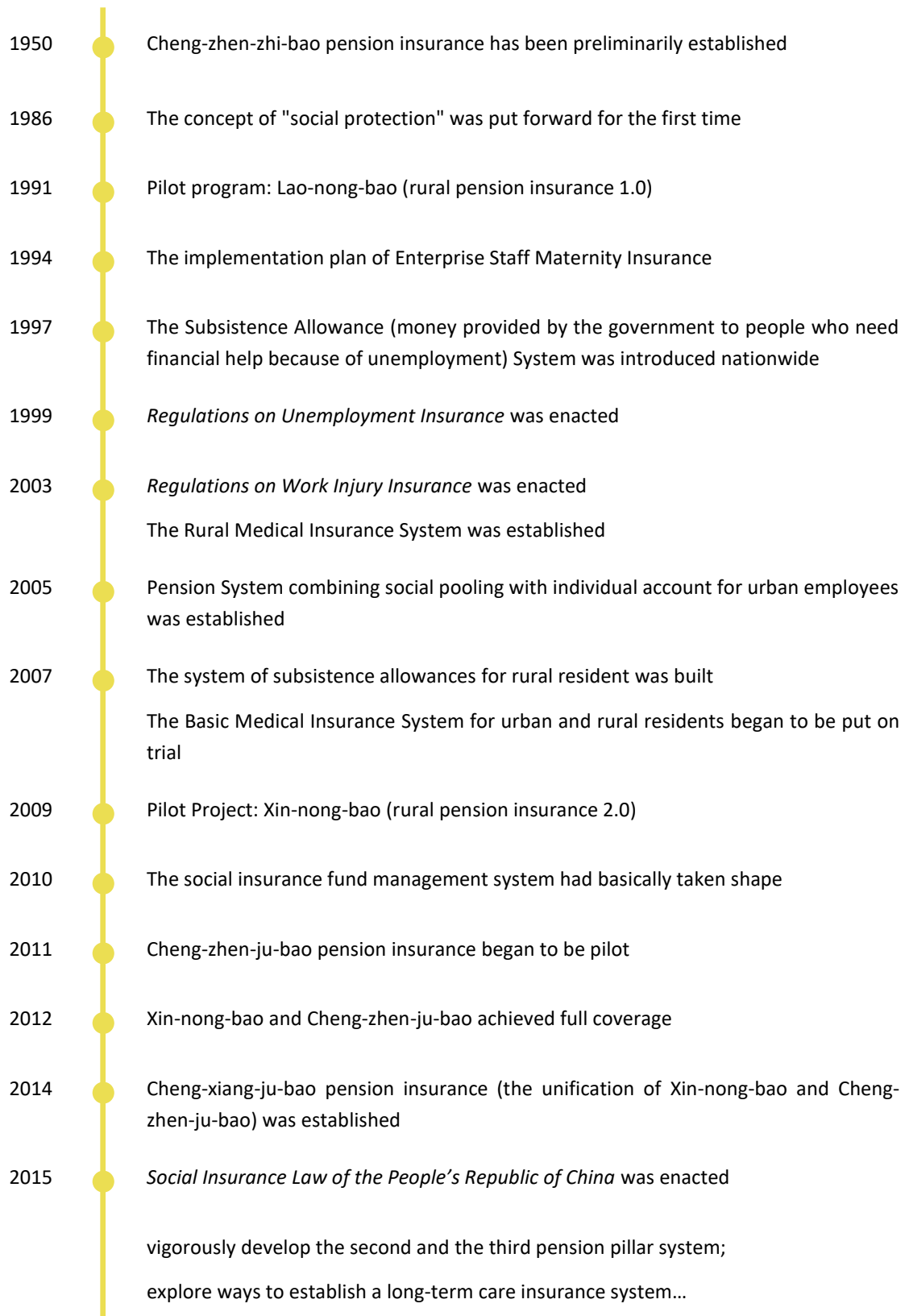


living security system was established. In addition, relief projects for urban vagrants and beggars, medical assistance, education assistance, housing assistance, employment assistance, etc. have been established successively. Together with the long-standing disaster relief and relief for extremely poor people, it constitutes a comprehensive social relief system with the minimum living security system as the main body, and gradually realize the integration of urban and rural areas. The comprehensive social relief system assists tens of millions of people in need each year, so it can prevent low-income families in urban and rural areas from falling into a survival crisis. Thereby, it maintains the bottom line of social justice. In 1994, the State Council proposed to change the distribution of housing benefits in kind to wage and currency distribution for the first time. Thus, a supply system where low- and middle-income people live in economically affordable housing, and high-income people live in commercial housing was established. Meanwhile, the government carried out the Public Accumulated Housing Fund System. In 1998, self-owned housing was fully implemented. It promotes the rapid growth of China's real estate industry by stimulating the endogenous motivation of residents to improve their living conditions, and improves the living environment of most residents in a short time.<sup>1</sup>

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<sup>1</sup> Gongcheng (2019).

**Figure 3.1-8: Historical events of China's Social Protection System**



Source: Authors' own compilation.

### **3.1.3 Achievements of social protection development with Chinese characteristics**

Throughout 70-year history of China's social protection system, we can summarize the following achievements with Chinese characteristics.

#### **Social protection system has developed from of simple levels to of multiple levels**

The covered population changes from urban employee only to all citizens in both urban and rural areas. The main body of responsibility expands from the government only to the government, enterprises and individuals. The types of insurance are continuously enriched and the welfare and relief system is continuously improved. A multi-level system framework is gradually built, where the social insurance, social preferential treatment, social relief and social welfare are the base, basic pension, basic medical and minimum living security systems are the focus, charity and commercial insurance are supplements.

#### **Social protection system has developed from nothing and then been optimizing**

Before China's reform and opening up, the social protection system was mainly relief and support for specific problems such as unemployment, poverty and medical care. A complete social protection system had not been established. In 1986, the concept of "social protection" was clearly put forward in China for the first time. Pilot or reform plans for social protection projects such as pension, childbirth, subsistence allowances for urban residents, unemployment, work injuries, medical care, etc., were successively introduced. China gradually has established a modern social protection system framework. Rural social insurance of the old-age pension and other projects have been established initially. On this basis, the government is committed to optimizing the methods and extent of social protection, expanding the coverage, and breaking the urban-rural dual structure; at the same time, it attaches importance to the connection between various social security systems. This leads to the continuous enrichment of social protection projects and the rapid increase in coverage of the system.<sup>1</sup> Meanwhile, it can improve the level of overall planning; break the congruency and unify disparities; and build a fairer, more effective, and more sustainable social protection system.

#### **The level of benefit continued to rise**

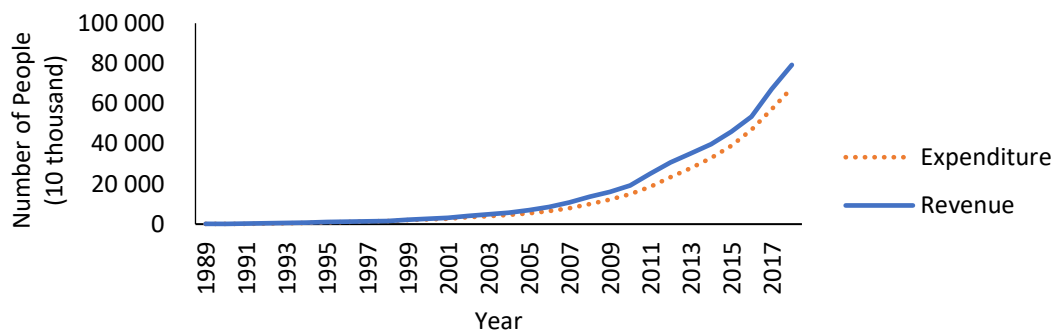
Before the 1980s, China's social protection mainly targeted the people's basic right to

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<sup>1</sup> Gong cheng (2018).

subsistence. After that, with the reform of state-owned enterprises and rapid economic growth, people's material conditions gradually became better. They looked forward to better education, more reliable social security, and higher-level medical and health services. At present, China's social protection system mainly meets people's needs for a better life from three levels. One is that the government-led protection system meets the basic living needs of all citizens. The other is that the various service items provided by market entities meet the higher-level demand of citizens. The third is supplemented by related public services provided by charitable organizations and non-profit organizations.<sup>1</sup> In short, the development of China's social protection is making institutional contributions to meet people's needs for a better life.

**Figure 3.1-9: The revenue and expenditure of national social insurance fund, 1989-2018**



Source: National Bureau of Statistics of China.

### The function of social protection has been optimized and upgraded

In the early days of People's Republic of China, the social protection system made an indelible contribution to healing the wounds of war, reducing social unrest, and restoring economic development. From 1986 to 2008, the international situation was volatile and domestic reforms were struggling. China's social protection system guaranteed the basic living standards of laid-off workers and the steady progress of state-owned enterprise reforms. Since then, China's economy and society has been developing steadily. The construction of the social protection system has accelerated significantly, financial investment has continued to increase, and the objects of social security benefits has continued to expand. The Chinese social protection system is playing an important role in promoting social progress and building a harmonious society.

<sup>1</sup> Bingwen (2018).

In November 2016, the International Social Security Association awarded the "Social Security Outstanding Achievement Award" to Chinese government, mainly for the substantial increase in the number of coverage. It shows that China's achievements in the field of social insurance have been highly recognized by the international community. At present, socialism with Chinese characteristics has entered a new era, which requires that on the basis of achieving universal coverage and accommodating the basic needs of the people, social protection should further promote social equity and build a multi-level social protection system with clear rights and responsibilities to achieve more balanced, fuller and more sustainable development.

## 3.2 Challenges of expansion

### 3.2.1 Limited coverage

Social security system is a policy tool to improve life, reduce poverty and inequality, and alleviate social exclusion of vulnerable groups in response to a rapidly aging population.

In the past few years, China has made noteworthy progress in building and strengthening its social protection system. The old-age insurance has achieved full coverage with more than 260 million retirees enjoying pensions in 2016; universal medical insurance has initially been achieved with a participation rate of over 95%; a comprehensive social assistance system has covered both urban and rural areas centering on the minimum living standard security system; low-income housing security has been developed to significantly improve the living conditions of low-income groups.

However, by far, social protection system in China has not achieved substantially effective coverage—some vulnerable groups have not yet enjoyed protection coverage. China's social protection system is in a transition period from high-speed development to high-quality development. It is necessary to redefine “coverage” of social protection programs: our focus should be shifted from how to expand the coverage of social protection system to how to involve more disadvantaged groups under higher danger in our social protection programs.

#### **Gaps in social protection for rural domestic migrant workers**

Since the Reform and Opening-up, with a large number of rural residents pouring into cities, rural domestic migrant workers have played an increasingly important role in the society.

In 2018, the total number of rural domestic migrant workers in China reached 288 million with an increase of 46.13 million in the past 8 years. However, the employment of rural domestic migrant workers presents the following two characteristics, which have directly affected their participation in our social protection system.<sup>1</sup>

- a) *High job mobility: rural domestic migrant workers frequently move from one job to another*

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<sup>1</sup> National Bureau of Statistics of China (2019).

Since rural domestic migrant workers don't keep stable jobs, few of them tend to participate in local social protection programs. Because of the high job mobility, the participation rate of domestic migrant workers has been low for a long time. According to Ministry of Human Resources and Social Security, in 2014, the average participation rate of rural domestic migrant workers in various social insurances was less than 20%, with a portion of 26.2% in injury insurance, 17.6% in health care insurance, 16.7% in old-age insurance, 10.5% in unemployment insurance and 7.8% in maternity insurance.

*b) Limited job choices: manufacturing, construction and service sectors (especially delivery industry)*

Most rural domestic migrant workers in China are in manufacturing and construction industries, which are often exposed to a higher risk of industrial injuries. For those who work in mines, cement, metallurgy, ceramics, stone processing industries, they are susceptible to occupational diseases such as pneumoconiosis, blood disease and some other chronic diseases (scapulohumeral periarthritis, arthritis, spondylosis, etc.). For those couriers and food delivery workers, they are always threatened by traffic accidents. Thus, a greater emphasis of the coverage of work-related injury insurance and medical care insurance should be put on rural domestic migrant workers. We should also refer that this insurance in China is only for medical part and wage replacement remains at the charge of employer directly.

In terms of pension insurance, in 2018, the average age of rural domestic migrant workers in China increased by 0.5 year, and the proportion of domestic migrant workers aged over 50 years was 22.4%, an increase of 1.1% over the previous year. However, the participation rate of pension insurance was less than 30%.<sup>1</sup> More work is needed in China to involve more rural domestic migrant workers in the pension system.

### **Gaps in social protection for a rapidly ageing population**

Since China entered the “ageing society” in 2000, the proportion of citizens aged 65 and over has increased from 4.9% in 1982 to 7% in 2000, reaching 11.9% in 2018 with a total number of over 1.67 billion.<sup>2</sup> As the share of older persons continues to grow in China, an inclusive old-age insurance system covering both urban and rural population of the right age is established in China, with which all the senior citizens can be paid pensions of varying amounts on a monthly basis. However, in general, China has not yet been well-prepared for the rapidly ageing society.

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<sup>1</sup> Ibid.

<sup>2</sup> Ibid.

It is estimated that the net growth of the older population will continue to exceed 10 million from 2022 to 2050. By then there are about 450 million older people, accounting for about 25%-27% of China's total population. Faced with a rapidly ageing population, there are two prominent problems in China now.

First, due to low income and low social pension insurance contributions, the older people in rural areas cannot be well protected by the old-age insurance system. In order to alleviate poverty from those who do not receive pensions, China has established the basic old-age insurance system for both rural and urban residents, covering 180 million people by far, most of which are rural residents. This kind of insurance is composed of individual account (personal payment) and basic pensions (central fiscal payment). For the non-contributory individuals, the average benefit per month is only about RMB 100 yuan, far from the expected premium level of RMB 1,000 yuan. Among the 180 million insured, 130 million are non-contributory individuals that had been covered before 2012. Thus, the basic old-age insurance system is not playing a substantially effective role in protecting the rural older residents. The problems resulting this dilemma include that older persons contribute at low levels of flat contributions, rural residents with low earnings and short-sightedness lack of full awareness of the benefit of this policy.

Second, with the trend of ageing, multi-state health, longevity and the development pattern of “gradually getting rich and quickly getting old”, a sustainable long-term care insurance system for the old need to be promoted. At present, it is estimated that about 50 million older people fall and 10 million older people become disabled every year in China. While the need in daily care and medical rehabilitation services grows increasingly, there is no disability or invalidity insurance as such. Only a lump sum is paid and it is insufficiently known. And our existing long-term care insurance system still have some deficiencies<sup>1</sup>, which requires long-term actuarial balance; insufficient quantity and quality of nursing staff and urgent need of professional training and basic education support; difficulties in promoting life care in rural areas.

Meeting the needs of a rapidly expanding older population will be critical to achieving the SDGs. As the share of older persons grows, the right balance is needed between expanding coverage while providing adequate benefits and ensuring the long-term sustainability of pension schemes. In terms of social services for the old-age, to establish a more sustainable old-age service system, both social and market resources should be combined through public construction and private operation, purchasing

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<sup>1</sup> Hong, Min and Weiguo (2019).



services, and subsidizing private facilities for care services.

### **3.2.2 Inadequate and unbalanced development within the system**

A universal social protection system must be supported by appropriate coordination of different departments. In China, a country with a population of over 1.4 billion in 2019, not a single department has the capacity to achieve universal coverage and ensure a social protection floor for all. In recent years, though, China has attempted to get the government, enterprises, households and individuals involved in the social protection system, they have not reached appropriate and effective coordination.

#### **Gaps in construction of a multi-layer social security system**

Since the 1990s, a multi-layer social security system has been put forward. The three levels are the government, enterprises and individuals. However, they are not working in a balanced coordination. The Chinese government is taking a predominant share in the social protection schemes, while the second (enterprises) and third (individuals) level are not taking an adequate role in social protection.

With regard to the pension insurance system, creating a third-pillar system—with China's state pension system (the first pension pillar), occupational and enterprise annuities (the second pension pillar) and private pensions (the third pension pillar)—is not an easy task. At present, huge strains are put on the first (accounting for nearly two thirds of the total pension asset), while the second and third pillar still remain short. In 2016, the number of people receiving social pensions across the country reached 260 million, only 1.06 million of which could receive corporate supplementary pensions at the same time. However, as the world's most populous country with a rapidly ageing population, China's second and third pillar are expected to grow rapidly to share burden on the first pension pillar. It is estimated by the Chinese Academy of Social Sciences that the national old age pension fund could turn to deficit by the end of the mid-2030s. To ease the pressure on the state system, prioritizing second and third pillar pensions is of some urgency.

In terms of medical care insurance, nearly 97% of the total population have enjoyed social medical care insurance, while 290 million persons have participated in supplementary medical care insurance, including subsidies for employees' large medical expenses, medical care subsidies for civil servants and some other supplementary medical insurances, only 2.05 million of which are voluntary

participators.<sup>1</sup> Commercial insurances are also in such rare supply that high-income groups with purchasing capacity have no access to better services.

In terms of compensations for disaster losses, with the absence of commercial insurance, the Chinese government has shouldered heavy loads. For example, among RMB 255.1 billion yuan losses of the catastrophic flood in 1998, the commercial insurance companies only took a minor share of 1.3% with RMB 3.35 billion yuan; in early 2008, the direct economic losses caused by the snow disaster in southern China were RMB 151.65 billion yuan, only 1.3% of which were shared by the commercial insurance companies; the “5/12 Wenchuan Earthquake” in the same year led to nearly RMB 852.31 billion yuan direct economic losses and the insurance companies’ compensations accounted for less than 2%.<sup>2</sup> And little change has taken place in recent years.

As for charity cause, according to the "2018 Statistical Bulletin of Social Service Development " issued by the Ministry of Civil Affairs, the Chinese society received RMB 91.97 billion yuan in social donations, just accounting for about 0.1% of its GDP.

To conclude, despite the fact that the nation’s wealth is rapidly accumulating, a comprehensive social security system with a sound basis cannot be established without adequate contributions of both market and society. Otherwise, the government will be overloaded and some vulnerable groups cannot be covered by social protection.

### **Gaps in well-defined power and responsibility of different entities**

A sustainable social protection system must be supported by appropriate coordination under which all the participators take their own responsibilities. However, in China, different social protection entities, namely the government, enterprises, households and individuals, are not taking well defined responsibilities respectively so that the social protection system sometimes suffers from responsibility overlap and conflicts of different sectors.

With regard to the basic pension insurance, in spite of the fact that the employers and employees share the contributions, the former’s payments almost double the latter’s, and all the personal payments are credited to the individual account, which means that there is little so-called mutual aid between participators. In terms of medical care insurance, financing standards vary with different medical care programs. The urban and rural governments subsidy the insured individuals at different levels, which will

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<sup>1</sup> SIEMC, Ministry of Human Resources and Social Security (2017).

<sup>2</sup> Feiqiong (2011).

lead to different contributions. As for social assistance, the subsistence allowance system is mainly supported by the central government, and there is no regulation on what and how much responsibility the local governments should assume.

Therefore, while stimulating the government, market, society and individuals to participate in the social security system together, it is essential to clearly define and divide their responsibilities respectively. Otherwise, with the unbalanced responsibilities and benefits of different sectors, our social security system may be developed in an unsustainable way.

### **3.2.3 Difficulties in operating social protection programs**

#### **Longstanding problems: fragmentation with a dual challenge**

Adapted with the Reform and Opening-up, China's social security construction has also adopted the methodology of "pilot first", in which new schemes are first tested in certain places and then with drawn lessons they are gradually promoted at a larger scale. In this way, the unsuccessful measures are timely abolished or optimized to develop an "optimal model" that can be introduced to the whole country.

Considering the specific circumstances in the past, "pilot first" has made indispensable contribution to the construction of our social security system with opportunity cost reduced and the pace of reform sped up. Thanks to it, considerable progress has been made especially in the reforms of the basic old-age insurance system and the basic medical care insurance system for urban employees. However, a series of longstanding problems have been caused due to the system divisions formed in the previous "pilot first" reforms.

The primary problem of fragmentation of social security system lies in the balance of efficiency and fairness. In the past, to speed up the reform pace, China gave priority to efficiency with due consideration to fairness; while now with the sustained, rapid and sound development of the national economy we pay increasing attention to fairness, which, however, is undermined by the fragmentation of our social security system.

In regards to the pension insurance system, it was a result of a series of pilot programs. Building a unified and centralized pension system needs much effort. In the 1990s and 2000s, measures to broaden the coverage of pension system led to fragmentation of the Chinese pension system. The 1990s has seen the pension reform from SOE-based pension system to locally managed pension system to another mode that adopts market economy by compensating laid-off former SOE workers with pension benefits. In the

2000s, without nationalized regulations, the Chinese pension system was becoming further segmented while the local governments issued a series of divergent regulations to incorporate domestic migrant workers into the local pension system. In 2011, the *Social Insurance Law* was released to centralize the Chinese social insurance system and simplify the fragmented pension schemes by halting the separate pension schemes for domestic migrant workers launched by each local government and integrating the rural and urban residency-based pension schemes. By then, China established a dual pension system: the employment-based pension scheme and the residency-based scheme. However, fragmentation still existed, especially in the residency-based pension system. The Chinese residency-based pension system is geographically restricted due to hukou (a special household registration system in China): it is only accessible to people with local urban hukou, while rural domestic migrant workers and people from other urban areas are only available to pension in their area of hukou registration. Besides, with the fragmented pension pooling system, it is so complex to transfer pension funds across localities that the domestic migrant workers seldom transfer their pension funds to different localities as they relocate to participate the employment-based pension programs.

Regional divisions also exist in the medical care insurance system, social assistance system, natural disaster relief system and social services for the old and the young. From the year of 2015, Chinese government was trying to transform the previous pilot reforms from dual-track to a unified one, the focused measures include: unifying the two separate pension systems for urban and rural residents; unifying the two separate pension systems for employees in governmental organs and public institutions and those in enterprises. Considering the circumstances mentioned above, more work is needed in the future to develop a more unified social protection system in China.

### **Challenges in the new period—the COVID-19 pandemic**

The COVID-19 pandemic, one of the most serious public health crises ever happened in China, challenged people's daily life with the widest infection range. Many new risks have been caused by the disease-related crises, whereby new reflections on policies are in need to relieve the infected patients from high medical costs, reduce unemployment rate and stabilize the livelihood of low-income groups.

Firstly, in the event of the COVID-19 pandemic, employers, especially those in small enterprises or those with flexible jobs, need to be covered with the unemployment insurance. However, in general, a large number of the unemployed have not participated in the unemployment insurance system before. The number of people involved in the

unemployment insurance programs stands at 196 million, accounting for only 45% of the urban workers. Meanwhile, the promoting and preventing functions of the unemployment insurance system have not been fulfilled yet: they are supposed to create conditions for reemployment through professional training and other means. <sup>1</sup>

Secondly, in terms of medical care insurance system, timely reaction to the outbreak of COVID-19 is critical so that the infected patients are prevented from being rejected due to medical expenditure cost problem. Although the “two guarantees” policies were immediately formulated, many constraints occurred simultaneously. Many of the medical security policies issued during the COVID-19 pandemic were interim measures, which made them difficult for some local medical funds to implement in an orderly way.<sup>2</sup>

Thirdly, the COVID-19 pandemic has also brought some difficulties in the management of social assistance system. As a result of regional closures, self-isolation, or quarantine, those vulnerable groups covered with the subsistence allowances, namely “Dibao households” — the group who receives basic living allowance from the government in the country — have some new difficulties due to less access to job and whole consumption decline, which means they find harder to earn a living. Also, the benefits during the COVID-19 pandemic need to be adjusted in accordance with new difficulties caused by self-isolation, quarantine or infection.

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<sup>1</sup> Quan, Zehao, Bin et al. (2020).

<sup>2</sup> Ibid.

## 4 Mechanisms to improve governance

### 4.1 High-level governance

#### 4.1.1 Vision of social protection with Chinese characteristics

##### **Development goals**

The report of the 19th National Congress of the Communist Party of China stressed that "we shall strengthen the construction of social security system and manage to comprehensively build a multi-level social protection system covering the whole population, balancing urban and rural areas, clarifying rights and responsibilities, appropriate security and sustainability. We should improve the basic old-age insurance system for urban employees and the basic old-age insurance system for urban and rural residents, the unified basic medical insurance system and critical illness insurance system, the unemployment and work-related injury insurance system and achieve national overall planning for old-age insurance as soon as possible." It is a clear requirement to set the improvement of the social security system as a national development goal. The goal to be achieved is to truly relieve the worries of urban and rural residents and provide stable security expectations for all people. On the one hand, China's social security system is still under construction, to a certain extent, still lags behind the level of economic development, and there is still a gap with the people's expectations. Therefore, China need to speed up the construction of this system, grasp the bottom line as soon as possible, weave a tight safety net and establish a long-term mechanism. On the other hand, the requirement of building a social security system in an all-round way is to make the social security system mature and stereotyped as soon as possible. <sup>1</sup>

The basic direction of the construction of the social protection system with Chinese characteristics is as follows: to educate the children, to teach the students, to earn income from work, to have medical care for the sick, to support for older persons, to help the vulnerable groups. The basic focus of the social protection system with Chinese characteristics is to solve the five difficulties of people's livelihood encountered by urban and rural residents in employment, education, medical care, housing, pension, etc.

##### **Governance notion of social security**

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<sup>1</sup> Weimin (2018).

The development of social security with Chinese characteristics is different from that of other countries. China adopts the policy of "pilot first", that is, it starts from some counties and cities in some areas where reform and opening-up are the first. With the deepening of reform and opening-up, successful experience is obtained, and then it is gradually promoted, and then it is upgraded to institutional measures and laws and regulations. In China, a big developing country with a large population and unbalanced regional economic development, it is the only way for the development of social security to adhere to pilot projects first and promote reform in accordance with local conditions, which is in line with the overall development strategy of China's Reform and Opening-up.

Secondly, for the improvement of the social security system, China has enhanced its level of development and its capacity of service. First, learn from the social security system models of different countries, and creatively put forward the social security system mode with Chinese characteristics. It has achieved the combination of social overall planning and personal accounts focusing on pension and medical insurance, that is, the system mode of combining unified accounts. This system not only embodies the basic principles of social co-ordination and "the law of large numbers", but also establishes the concept of "pay more and get more", an incentive mechanism of linking individual contributions amount with treatment standard. The second is to pay attention to the smooth transition of old social security system to a new one.

Thirdly, introducing the market mechanism to establish and improve a multi-level social security system. For one thing, the mechanism speeded up the pace of social security system construction; for another thing, it met the multi-level social security needs of different social groups.

#### **4.1.2 A common definition of social protection at the national level**

Chinese scholars believe that social protection refers to the compulsory provisions of national legislation of the state and social organizations, providing material assistance to citizens in old age, disease, disability, unemployment, childbirth, death, disaster and facing difficulties. Its purpose is to protect the basic living needs of citizens and their families, meet the survival needs of social members, realize social equity and justice, and promote social progress.<sup>1</sup>

The social protection system of China is composed of social insurance, social welfare, social assistance, and social preferential treatment. Social insurance is the most

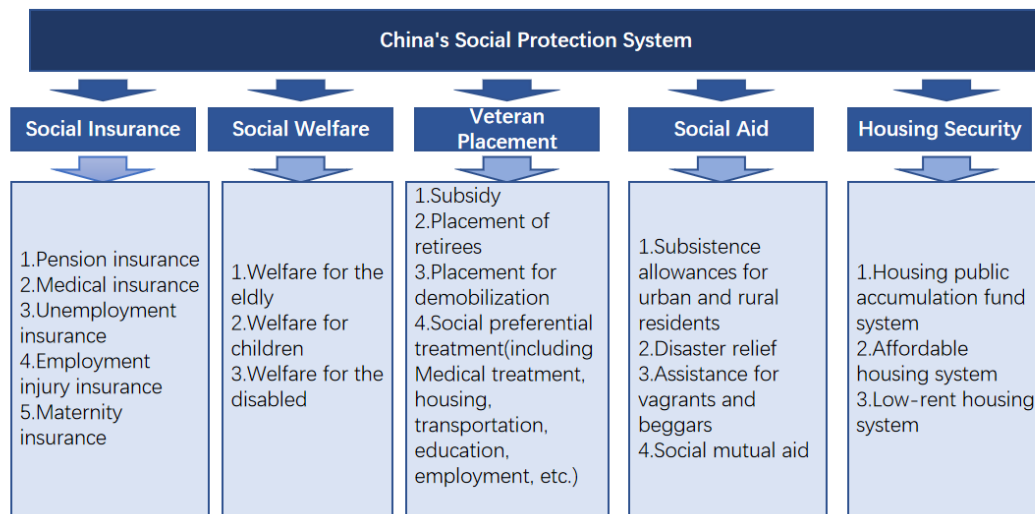
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<sup>1</sup> Keyong (2011).

important component of social protection, it takes laborers as the protection object, and special events such as ageing, illness, disability, unemployment and death are the protection contents. Social insurance adopts the way that the beneficiary and the employer jointly undertake the social insurance fund to protect the needs of the beneficiaries and make up for the losses of the beneficiaries, thereby eliminating employees' worries and maintaining social stability. Social welfare is the fundamental goal to achieve for social protection, and it is also the highest program and the highest level of security. The state and social groups are the main sources of social welfare funds, and these funds will be used to improve the quality and level of people's material and cultural life. Social assistance provides subsistence allowances for the people to meet their basic living needs. Social preferential treatment is a special type of social security, which is the implementation of preferential treatment and placement by the government to special groups through laws and regulations.



**Figure 4.1-1: The social protection system in China**



Source: Authors' own compilation.

### 4.1.3 Institutional structures and policy designs

#### Institutional structures

The National People's Congress and its Standing Committee are the legislative bodies of China, and the basic law of social security is formulated and promulgated by them; the relevant ministries and commissions of the State Council are usually fully responsible for the institutional decisions of social security reform and development. There are two levels in the overall administration of social security: Central and local. The central level refers to the Ministry of human resources and social security.

In order to make the social protection system develop steadily, promote the decision-making and implementation of social protection reform, facilitate the integration of social security resources, realize fairness, efficiency and sustainable development, social protection system of China currently implements a relatively centralized management system. In 1998, the Ministry of labor and social security was established in the institutional reform of the State Council. According to the institutional reform plan of the State Council adopted by the National People's Congress in March 2008, the Ministry of Labor and Social Security and the Ministry of Personnel were merged into the Ministry of Human Resources and Social Security.

At present, the Ministry of Human Resources and Social Security is the main responsible department of social security in China. It is responsible for promoting employment, formulating overall urban and rural employment development plans and

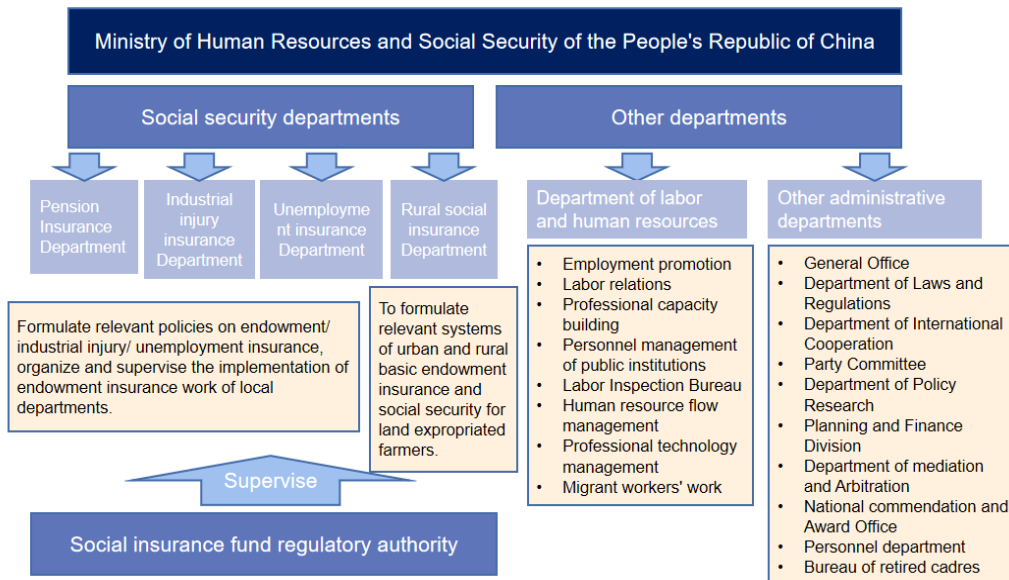
policies, improving public employment and entrepreneurship service system, coordinating the establishment of vocational skills training system for urban and rural workers, formulating employment assistance system, and taking the lead in formulating employment policies targeted at college graduates.

China would promote the establishment of a multi-level social security system covering both urban and rural areas. It makes endeavors to formulate policies and standards for social insurance such as endowment insurance, unemployment insurance, industrial injury insurance and their supplementary insurance. It aims to work out a national plan for endowment insurance and a nationwide unified method for reforms on the old-age insurance, unemployment insurance and work injury insurance. Also, it should organize the formulation of management and supervision systems for social insurance funds such as pension, unemployment, work-related injuries and their supplementary insurance funds, to prepare draft budgets and final accounts of relevant social insurance funds, and to participate in the formulation of investment policies for relevant social security funds. Relevant departments need to work together to implement the national insurance program and establish a unified national social insurance public service platform.

To be responsible for the prediction, early warning and information guidance of employment, unemployment and related social insurance funds, formulate response plans, implement prevention, regulation and control of the labor market, and maintain the stability of employment situation and the overall balance of income and expenditure of relevant social insurance funds.

The Ministry of Human Resources and Social Security has 22 sectors now. Among them, the Supervision Bureau of Social Insurance Fund is mainly responsible for drafting the supervision system of basic endowment insurance, unemployment insurance, industrial injury and other social insurance, enterprise (occupational) annuity, personal savings endowment insurance fund supervision system and endowment insurance fund operation policies supervise the income and expenditure, manage and invest operation of the fund in accordance with the law, organize the investigation and handling of major cases, and participate in the formulation of relevant social security fund investment policies. Domestic migrant workers' Work Department, endowment insurance department, unemployment insurance department, industrial injury insurance department and rural social insurance department are relevant departments set up for different groups of people who need social insurance, which are used to formulate insurance policies, plans, standards and organize the implementation.

**Figure 4.1-2: Institutional structures of China's social protection system**



Source: Authors' own compilation.

The local level organization refers to a unified social security administrative authority established by local governments at all levels. It is the specific implementation department of the national social security policy. The specific responsibilities are embodied in the following aspects: first, implement the decisions and instructions of higher authorities and implement the national laws and regulations; second, be responsible for the specific social security affairs in the region, such as formulating relevant plans and enforcing laws, etc. In this way, the whole social security administrative organization is divided into four levels: state, province, prefecture (city) and county (city). The responsible body in state level is the Ministry of social security, and the provincial level is the Social Security Bureau. Lower level administrative organs are under the dual leadership of governments at the same level and administrative organs at higher levels.

### Policy design

At present, China's social protection system mainly includes: first, projects fully supported by the state finance, such as assistance to vulnerable groups of the society, preferential treatment and resettlement for servicemen and their families, social welfare and related community services for older persons, the disabled and the general public; second, projects paid by units and employees and given appropriate subsidies by the state, such as endowment insurance, medical insurance and unemployment insurance, industrial injury insurance and maternity insurance.

In China, the social insurance benefits that employers give to workers are collectively

called "five social insurances and one housing fund", including pension insurance, medical insurance, unemployment insurance, work injury insurance and maternity insurance, and housing provident fund.

The endowment insurance system adopts the method of combining social pooling with individual account. The State Council issued the decision on the establishment of a unified basic endowment insurance system for enterprise employees (1997), which stipulates the proportion of basic endowment insurance premiums paid by enterprises and individuals, so that the old-age insurance for enterprise employees implements the principles of combining social mutual assistance with self-protection, combining fairness with efficiency, and separating administrative management from fund management. China's old-age insurance system is a social insurance system established to ensure the basic life of laborers after they reach the limit of working age stipulated by the state to remove their labor obligations or after they quit their jobs. In order to realize the sustainable development of the basic endowment insurance system, the State Council decided to implement the central adjustment system of endowment insurance fund from July 1, 2018. The main content of the system is to establish a central adjustment fund on the basis of the current provincial overall planning of the basic endowment insurance for enterprise employees, and moderately adjust the endowment insurance fund of each province to ensure that the basic pension is paid in full and on time. In the process of implementation, Chinese government follow these principles.<sup>1</sup>

➤ “Emphasizing Fairness”

Through the implementation of centralized adjustment and use of some endowment insurance funds, the burden of regional funds should be reasonably balanced, and the overall anti risk ability of endowment insurance funds should be improved.

➤ “Clear Responsibilities”

The central government will provide subsidies through transfer payment and the central pooling fund for endowment insurance (hereinafter referred to as the central adjustment fund), and establish a management system with clear responsibilities and hierarchical responsibilities between the central and provincial governments.

➤ “Unified Policy”

The State formulates a unified basic endowment insurance policy for employees, gradually unifies the payment proportion, payment base verification method,

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<sup>1</sup> Jin, Jing and Hong (2019).

payment calculation and adjustment method, and finally realizes the national unification of various endowment insurance policies.

➤ “Steady progress”

Chinese governments reasonably determine the proportion of fund raising for central adjustment fund. They follow the steps to start it steadily, gradually increase it, further unify the handling procedures, establish a centralized provincial information system, and constantly improve the level of management and informationization.

The medical insurance system is a system that combines the social overall medical fund and personal account, and needs to gradually cover all urban workers. According to the document, all employers in urban areas should participate in the basic medical insurance, and the basic medical insurance expenses shall be jointly paid by the employer and the employees in proportion.

The unemployment insurance system is stipulated by the regulations on unemployment insurance (1999) of the State Council, regulating that urban enterprises and institutions and employees of urban enterprises and institutions should participate in unemployment insurance to expand the scope of unemployment insurance.

The industrial injury insurance system is stipulated by the regulations on work injury insurance (2003) of the State Council, providing that all enterprises and employees should all participate in the industrial injury insurance system, and the employer should pay the industrial injury insurance premium. The industrial injury insurance should be implemented as a social overall planning, and the industrial injury insurance fund should be set up to provide economic compensation and socialized management services for the injured workers.

Social security fund is an important part of the social security system. Social security fund serves as a financing structure of sustainable development and promotes the development of social security governance system through the procedures of collection, operation and supervision.

In terms of insurance funds, the state raises social insurance funds through multiple channels, supports social insurance undertakings through preferential tax policies, and needs to implement strict supervision on social insurance funds. The State Council and the provincial governments directly under the central government shall establish and improve the supervision and management system of social insurance funds to ensure

the safe and effective operation of social insurance funds. Governments at or above the county level shall provide necessary financial support to social insurance undertakings and take measures to encourage and support all sectors of society to participate in the supervision of social insurance funds.

In China, the major method to raise social security funds is the payment system. Since 2019, the tax authorities have collected all kinds of social insurance premiums, including basic pension, basic medical care, unemployment insurance, etc., in order to improve the collection and management efficiency of such funds. Medical insurance, maternity insurance and other three kinds of social security insurance in the future are all collected and paid by the tax authorities. From the data level and the jurisdiction level, it is possible for the government to use big data for supervision.

In the process of operation, the National Council of Social Security Funds is responsible for the investment and operation of national social security funds in domestic and foreign markets according to the proportion approved by the State Council. The process will strictly abide by the principles of safety, profitability and long-term, and reasonably allocate assets within the fixed income, stock, unlisted equity and other asset types and their proportion range approved by the State Council.

With regard to the supervision measures for social security funds, the financial department of the State Council and the social insurance administrative department of the State Council shall, in accordance with their respective responsibilities, supervise the revenue and expenditure, management, investment and operation of the national social security funds. If any problems are found, they shall be dealt with according to law; if they are not within the scope of their duties, they shall be transferred to the foreign exchange administration department of the State Council, the securities regulatory agency of the State Council and the banking regulatory authority under the State Council. The National Audit Commission shall audit the national social security fund at least once a year. The audit results shall be published to the public.

President Jinping Xi pointed out in the report in the 19th National Congress of CPC that we need to build a multi-level social security system. To build a multi-level social security system in an all-round way is to adhere to the principle of taking social insurance as the main body and social assistance as the bottom layer in terms of security projects, and actively improve the systems of social welfare, charity, preferential treatment and resettlement. In terms of organizational mode, we should adhere to take the government as the main body, actively play the role of the market, and promote the convergence of social insurance, supplementary insurance and commercial insurance.

China actively built an old-age insurance system that connects basic endowment insurance and occupational (enterprises) annuity with personal savings endowment insurance and commercial insurance, and promoted the development of basic medical insurance, serious illness insurance, supplementary medical insurance and commercial health insurance, so as to meet the diversified and multi-level security needs of the people on the basis of basic insurance.<sup>1</sup>

#### **4.1.4 Mechanisms for national coordination in social protection**

According to *the Social Insurance Law of the People's Republic of China*, the state has established social insurance systems such as basic endowment insurance, medical insurance, work injury insurance, unemployment insurance and maternity insurance, so as to protect citizens' right to material assistance from the state and society according to the law under the circumstances of old age, disease, work injury, unemployment and childbirth.

Social security management system of China is vertical management. When the national social security department, the Ministry of human resources and social security, formulates relevant norms and issues policy documents, it is necessary for relevant provincial departments to coordinate according to the principle of the documents and convey them to the units at the municipal, county and district levels, so as to implement the social security policies and benefit the grassroots. For example, the responsibility of the pension insurance department is to formulate policies and standards on basic endowment insurance, enterprise (occupational) annuity and personal savings endowment insurance for government organs, enterprises and institutions, formulate national overall planning and fund management measures for endowment insurance, improve the fund forecast and early warning system, and review the provincial basic endowment insurance rate. To perform these functions, the whole social security administrative organization is divided into four levels: state, province, prefecture (city) and county (city). The state is the Ministry of Social Security, and the provincial level is the Social Security Bureau. Lower level administrative organs are under the dual leadership of governments at the same level and administrative organs at higher levels.

As for the multi department coordination management mechanism, there are many functional organizations in the Ministry of Human Resources and Social Security, which perform different responsibilities, coordinate and cooperate with each other to promote the improvement and implementation of the social security system. For

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<sup>1</sup> General Office of the CPC Central Committee (2018).

example, in the process of formulating the old-age insurance system for rural population, it is jointly planned and implemented by the pension insurance department and the rural social insurance department. Due to the influence of social and economic factors, the concept of "zero pillar" is put forward, that is, the government finance provides the citizens with universal fixed national pension or social pension without the premise of residents' payment, so as to provide the lowest level of security. The implementation of this concept in China is to establish a unified basic old-age insurance system for urban and rural residents. The pension benefits of urban and rural residents consist of basic pension and personal account pension, which is in line with the concept of zero pillar. In this process, the pension insurance department formulates the basic endowment insurance development plan for urban employees and other workers, and formulates the basic endowment insurance policies for government organs, enterprises and institutions as a whole; and the rural social insurance department formulates the basic endowment insurance system for urban and rural residents. Through the coordination and cooperation of the two departments, the change and connection of endowment insurance policy will be smoother, so as to promote the establishment of a social security system integrating urban and rural areas.

## **4.2 Mid-level governance**

In social protection service, mid-level policies attach great importance to the connecting link between the top-level design and grass-root implementation. To establish the connecting link, full-order administrative structure and efficient operable programs are indispensable. Recent years have witnessed the rapid development of socialized administrative system in Chinese social protection. Anecdotal evidence suggests that by 2011, 8,109 social insurance agencies at all levels nationwide had been set up, and more than 30,000 sub-district labor security offices had been founded, which has eased the social affair burdens of enterprises and public institutions. In the meantime, as digitization and intelligence technology roll forward with an irresistible force, the construction of social protection management information system has also achieved initial success. Based on the existing administrative system, the interconnection of information among different departments at all levels has vastly improved the working efficiency and accuracy.

### **4.2.1 Chinese social protection administrative system**

Social protection administration means that the social protection institutions set up by the country organize professionals to plan, organize, coordinate, control, and inspect all

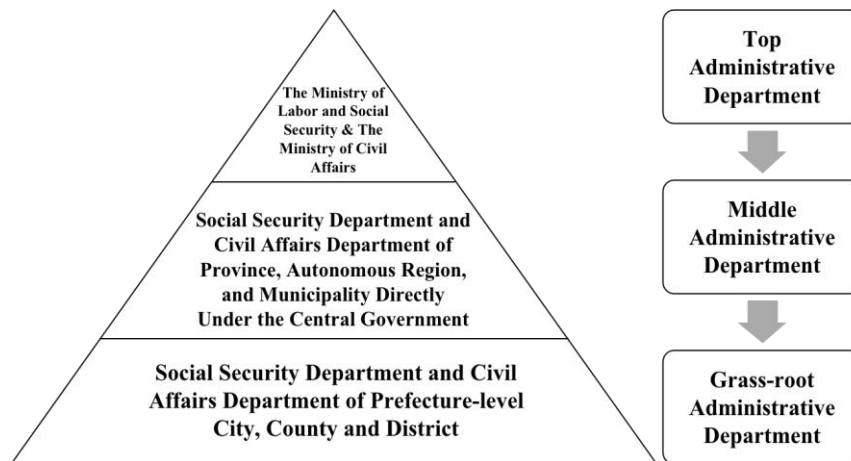


kinds of social protection issues. In general, the social protection administrative system includes three elements- management subject, management objective, and management mode. The management subjects refer to relative departments and institutions in charge of the enforcement of social protection laws and policies and maintaining the normal operation of social protection system. They are usually appointed by the government itself or the organizations accredited by the government. The management objectives include policy making, business management, fund management and inspection. The management mode can be different according to the division of power and rights or the degree of government intervention.

One of the important principles of Chinese social protection reform is socialization, so is the administrative system. The reform adopted a progressive way, starting from socialized programs. From 1984 to 1986, the endowment insurance was launched and the social pooling of the state-owned enterprises staff retirement pension was implemented in some cities and towns, which promoted the establishment of the endowment insurance fund. From 1987 to 1995, the social pooling of retirement pension was extended nationwide while the expansion of the pension fund made the reform of the endowment insurance gradually deepened. After 1996, the reform scheme of the endowment insurance was formulated and promulgated according to the principle of “the combination of social pooling and personal account”. In 1998, the Ministry of Labor and Social Security was established, setting up a social protection institution model with top-down management, vertical system of leadership and highly democratic authority.

From the perspective of management subject, China has set up relatively completed social protection administrative system with social protection administrative institutions and agencies at all levels.

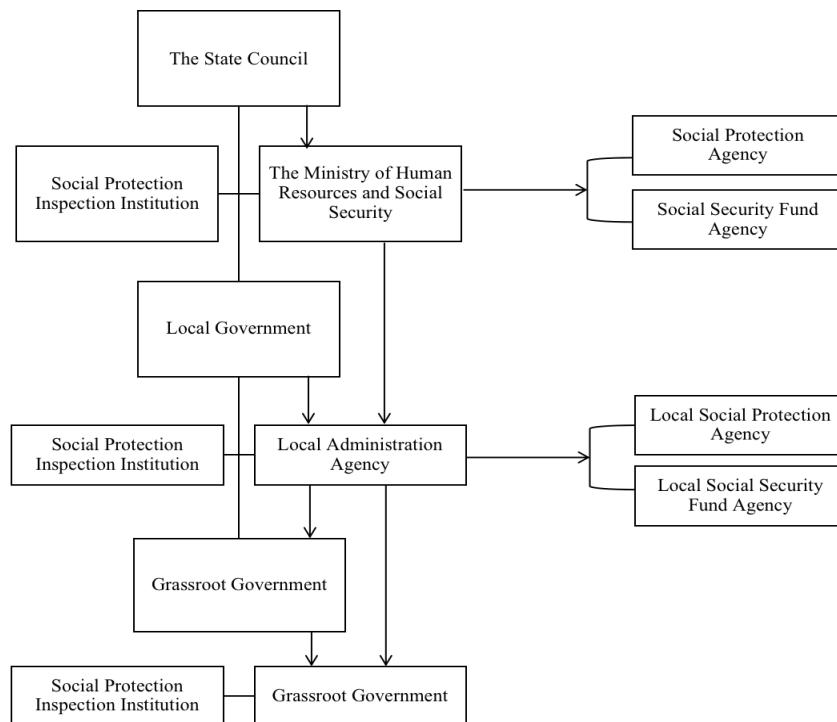
**Figure 4.2-1: Basic structure of social protection administration system in China**



*Source: Authors' own compilation.*

From the perspective of management mode, China adopts the method of vertical and parallel management which is called the “strip-block relationship”. It refers to the relationship between administrative departments at all levels and relationship between administrative departments and governments at the same level. The government directly involves in all links of social protection administration, and takes the last responsibility for social protection businesses. In a word, it is a model in which the power of the central government takes priority and the local government decentralizes a certain amount of power. This model takes huge advantages of giving full play to both centralization and decentralization.

**Figure 4.2-2: The “Strip-block” relationship in China’s public administration**



Source: Authors’ own compilation.

It’s observed that the middle administrative department of social protection serves as a tie between the central government and the grassroots. It makes relative policies and regulations according to local conditions under the guidance of high-level policy and then pass on specific plans to the front-line departments. It also takes charge of funds-adjustment within the region. This indicates that decisions made by middle administrative department have the direct bearing on the implementation of social protection policy. Therefore, to make sure that it can wield good influence to the maximum extent, the State Council, provinces, regions and municipalities have done many efforts on the administration reform and optimization.

### 4.2.2 Management instrument of social protection

To make sure that the social protection system operates smoothly, the management method covers economic instrument, administrative instrument, legal instrument, technical instrument and educational instrument. This research mainly focuses on the technical instrument under the background of digitization and intellectualization.

#### The combination of administrative instrument and economic instrument

Social protection is a distributive issue and government action. It cannot be realized by

single market mechanism but requires government to take part in allocation and management. In recent years, with the increment progress of Chinese social protection system, the practice of economic instrument for social protection management has made a breakthrough. Different levels of national budget participate in the construction of social protection. The fiscal management of social protection fund has been improved. The social insurance fund has been brought into the management of special financial accounts as the extra-budgetary funds. The source of institutional funds of social insurance agency has been changed from extraction to fiscal budget arrangement, which has guaranteed the funding supply to support the development of social protection. At present, in the context of Chinese socialist market economy, the treatment plan and economic plan still have limitations such as lack of flexibility, time-lag effect and uncertainty. When these problems emerge, the administrative instrument will be taken to turn the scale quickly and restore the normal economic order.

For example, due to the large population and great expense, the regional disparity of China is much wider than other countries. This has also affected on the management of social protection, causing many problems regarding imbalance such as fund mal-distribution and incomplete coverage of social protection service. According to the principle of majority, the higher the overall level is, the lower is the risk. So, based on the administrative structure of Chinese social protection, the overall level has been improved from county to province. The reform started from completing full coverage of universal social protection based on the endowment insurance. At present, more than 13 provinces have realized the implementation of provincial monopolized revenue and expenditure, which means that all the contributory-related issues are under the control of provincial government and all the pension of the insured people is granted by provincial government.

#### *Universal Insurance Scheme (2014)*

The Universal Insurance Scheme was launched on the 12th session of the Standing Committee of the 12th National People's Congress, which aims to realize the full coverage of basic old-age insurance for urban and rural residents so as to coordinate the development of urban-rural social protection systems.

Before the promotion of the scheme, the basic old-age insurance and basic medical insurance were late starters, so the standard of treatment was still minimal. And the fiscal capacity and fund balance all over the country had regional mal-distribution. In result, the mutual assistance function of social protection hadn't been provoked thoroughly, which led to the treatment gaps among regions. Besides, retirement and

old-age system of government and public institution operated with old-age insurance system of enterprise in a “dual-track” way, which had caused the sheer conflicts in the society regarding the great difference of treatment. Considering that Chinese social insurance system adopted the pattern of “city first and country second”, it took time before the rural social insurance system was put into effect. Therefore, around 100 million people had not joined the basic old-age insurance, which mainly include some staff working for non-public economic organizations, flexible employment personnel, rural domestic migrant workers, and rural residents. So the scheme was put forward with core idea of having a reform.

The basic pattern is “One Unity and Five Synchronizations”. “One Unity” means to establish the same basic old-age insurance system in government and public institution and enterprise and to practice employing unit payment and personal payment, aiming to resolve contradictions caused by “dual-track approach” on systematical and institutional level. “Five Synchronizations” refers to the simultaneous reform of government and public institution, simultaneous establishment of occupational annuity and basic old-age insurance system, simultaneous advance of old-age insurance system and wage system, simultaneous reform of treatment adjustment mechanism, and the simultaneous reform carried out throughout the country.

Now the improvement of overall level has entered into a new stage that is to realize the national coordination. Focusing on the endowment insurance, it will establish the national overall system with unified premium rate and fund management through the central dispensing system. The management method of overall planning promotes the social insurance system but is not confined to it. In the long run, it will help set up a unified market of production factors nationwide, facilitating high-quality economic growth.

### **Technical Instrument: Management of Social Protection Programs Based on Management Information Systems (MIS)**

In the context of “Internet of Everything”, the rapid development of digital technology and artificial intelligence has spurred the trend of digital government transformation around the world. In China, after the “Internet Power” strategy became the national strategy, the State Council launched the main campaigns of government reform: smart society construction, digital governance and “Digital China” in 2015. The forth Plenary Session of the 19<sup>th</sup> CPC Central Committee delivered specific requirements for digital government transformation, which is to establish and improve the administrative regulations with the help of the Internet, big data, artificial intelligence and other

technologies. Since then, the digital transformation of local government had driven into the “fast lane” of practice and innovation. One of the most important bases of digital governance is management information system.

Social protection management information system consists of four subsystems including business management application system, public service application system, fund inspection application system and macro decision-making application system. The business management application system covers the informationization of all businesses concerning endowment insurance, medical insurance, unemployment insurance, work injury insurance and maternity insurance. The public service application system offers consulting service for policies and regulations of social protection, information release and inquiry, online application for insurance, complaints and feedback, community management of retirees and so forth. The fund inspection application system delivers omni-bearing supervision on social protection funds through the network. And the macro decision-making application system establishes the national information collection system for labor and security and sets up the macro decision-making database. In addition, it transfer information with bank, post-offices, medical institutions, police, financing, civil administration, and employers to realize the full sharing of information. In a word, the system takes charge of information collection, handling and interaction.

#### *Big data: social protection information collection*

Big data is regarded as another new resource emerging after labor, capital, land and entrepreneurial ability. According to McKinsey Global Institute (MGI), big data is a data set of large scale that surpasses the function scope of traditional database software in the field of capture, storage, management and analysis. It has four main features including massive data size, prompt dataflow, multiple data type and less value-density.

On account of the longstanding institutional construction, large target groups, and complicated business operation procedure, Chinese social protection big data has come into being with various formats, large scale and intricate hierarchical structure. At present, it has also become the key element influencing social protection information construction and social protection administrative affairs. China’s social protection big data consists of two parts.<sup>1</sup>

#### *a) Basic Social Protection Data*

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<sup>1</sup> Shiyang and Weijun (2019).

According to the type of basic social protection data, it can be specifically divided into six categories including social insurance data, social assistance data, social welfare data, social special care data, supplementary security data and social protection agency data.

Social insurance data covers the basic information of the right holders and stakeholders, payment time, premium-paid base, payment amount, obtaining status, and information of medical reimbursement, unemployment, occupational injury, and fertility, which are related to five insurances respectively called endowment insurance, medical insurance, unemployment insurance, industrial injury insurance, and maternity insurance.

Social assistance data covers unabridged data mentioned in “The Interim Measures for Social Assistance” including subsistence allowances, the relief and support system for people living in dire poverty, aid for natural disaster victims, medical assistance, educational assistance, housing assistance, job assistance, and temporary assistance.

Social welfare data covers all the information and capital data linked with government welfare actions and special groups including the aged, women and children, physically or mentally disabled people. Social special care data covers personal information and compensation data about active-duty, veterans, ex-servicemen, military servicemen with distinctive contribution and their family dependents. Supplementary security data covers information about social assets or fund of housing security, accumulation fund, enterprise annuity, employee benefits and that of organizations entrusted by the government, such as The Red Cross, and the Philanthropic Foundations. Social protection agency data covers information of service institution departments and data directly managed by people working on social protection business concerning human resource, civil administration, sanitation, housing and so forth. It also includes laws and regulations, policy documents and rules set in the context of social protection system.

#### *b) Supplementary Social Protection Data*

Social protection affair requires tight cooperation between departments. During the process of implementation, coordination and support of these institutions and agencies are essential. As a result, the citizen information and business information stored in these departments have become part of necessary supplement of basic social protection data. These supplementary social protection data mainly contains information of household registration, family members, vehicle management, and delinquency. Some of this information are the criterion of social protection qualification, others are used to verify the household income and determine whether relevant people are qualified to receive the social protection benefits.

The real estate information held by housing administration provides the housing status of citizens and their families, which is of great reference value to the implementation of social protection and assistance. And the citizen information stored in departments of industry and commerce, tax administration, bank, and provident fund center are indispensable for verifying diversified income and asset status. People's economic position can be told effectively through information about personal tax, accumulation fund contribution, bank deposit, withdrawal and consumption, so that limited social protection fund will go to the people who need them most. In financial department, the information about allocation of personal allowance makes it possible to know about the income of citizens and relative social protection situation and to make sure that social protection benefits target their pitches through query log recorded in the financial information system, such as the allowance obtaining status of citizens in different subsidy programs including the Sunshine Project, the Spark Project, and "Country Home Appliance".

In addition, the big data of social protection also contains some external data. For example, it covers the data of social protection information system companies, suppliers of social protection services purchased by the government, local geographic information and climate conditions of which the government delivers social protection services.

*The Internet Plus social protection service: social protection information interaction*

After the Golden Social Security Project, we have achieved great progress in information storage, information sharing and information service. For instance, according to the statistics given by the Ministry of Human Resource and Social Security, the population having social security cards has reached more than 1.2 billion by 2019 with an 88.9% penetration nationwide. A large amount of social protection data stored in social security cards are commonly used in multiple business fields such as endowment insurance and employment service. In order to expand the channels for people to obtain social protection information and make relative data more transparent, the "Internet Plus" technology is adopted as a tool to further improve the social protection information services.

Chinese professionals of social protection have established integrated platforms of social protection information systems by means of web tools. All the staff have accesses to effectively deal with a variety of social protection information data on the platform. Firstly, they screen the most popular and the most accurate information through identification and arrangement, and upload this information on the platform based on



specific standards and procedures. Secondly, they deliver necessary explanations about this information and provide user guide about different operations to make sure that people can obtain the targeting information smoothly. Thirdly, an interaction program is set in case that people encounter intricate problems or have some advice to offer in terms of some policies. It not only delivers a convenient channel for people to express ideas but also establishes a quick feedback mechanism.

In the context of Chinese e-government development, “Internet Plus” social protection information service responds to the require of combining the Internet with government affairs service.<sup>1</sup> Compared with the traditional model, it has reduced the time cost of information transmission and display, and has improved the efficiency of government information services. For the public, they are able to obtain the updated and all-round social protection information through online inquiry, getting rid of some troubles such as going back and forth from home to the office. They also get opportunities to keep communication with major decision makers. Different from the past, people hold better understandings about social protection policies and their social protection status as they can check the information whenever and wherever possible. For the government sector of social protection institutions, it has reduced amount of paper usage, saved office expenses, improved the service efficiency of funds and decreased operating cost. Besides, through these platforms, government can find the real demands of the public, study on the key point and trend of social protection policy to further ameliorate various decisions. In addition, the social protection information query service can verify the real identity and living condition of the applicant, which to a certain extent prevents the fraud on social protection and guarantee the fairness.

### **Social Protection Service System Based on MIS**

Social protection management information system consists of five subsystems including endowment insurance system, medical insurance system, unemployment insurance system, work injury insurance system and maternity insurance system. It has collected specific information about most right holders and stakeholders. For example, 70% of people’s information are stored in the central database among the people who join the endowment insurance, including individual contributions, payout status, income status and so on. In addition, the national economic information net is fused into the system, realizing the interconnection of statistics, bank, tax administration, public security, education, insurance and other management systems of relevant departments, which also leads to the information resource sharing of labor resources,

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<sup>1</sup> Ibid.

income, employment and social insurance.

*a) Golden Insurance Project*

As an important part of national informationization strategy, the project takes full advantage of information technology, forming an e-government network nationwide based on state-province-municipality relationship to support labor and social protection business, public service, fund supervision and macroscopic decision-making. The project was launched in 2003 and 102 model cities were selected nationwide to accelerate the construction of labor security informationization in 2005. It has established a unified labor security data center, realizing the centralized management of the staff, equipment, and data together with the coordination of different businesses through the application of unified soft wares. Now the tertiary network structure “state-province-municipality” has been founded and the labor security system network has covered all provincial departments. The social protection management information system developed by the Ministry of Labor and Social Security has covered most pooling regions. And the labor market management information system (Labor 99) has covered more than 200 cities.

*b) The National Social Insurance Public Service Platform (2019)*

The platform offers cross-regional services nationwide including annual social insurance information, benefit qualification verification, old-age pension calculation, social insurance transfer, remote medical service query, overseas free insurance application, social security card query and so on.

People use their ID card number, social security card or bank account linked with their social insurance to make a registration on this platform. Following the prompts, people can get the information they are looking for as quickly as possible.

The social insurance query service provides information about annual personal interests such as social insurance payment and treatment on the basis of “information integration”. In other word, if one person has joined different insurances in different regions, he can receive corresponding information by choosing region and time on the platform. The benefit qualification verification service provides face scan technology to complete the verification. People can also help their families to fulfill the verification process through “verification for others” service. The old-age pension calculation evaluates future pension status according to people’s endowment insurance payment status. The remote medical service query provides trans-provincial medical costs and archival information, making it possible for people to be informed thoroughly of

relative medical service information. When choosing the module “overseas free insurance application”, employers who sign the bilateral agreement on social protection with China can apply for the overseas free insurance certification on the internet and follow up the business process in real time. People can also obtain information about surrounding service outlets and channels through the social security card query.

At present, the MIS construction at state-province level has achieved great success. The networking has a unified information standard, network line and key technology equipment. Most provinces and municipalities have established the provincial data center, realizing the networking with the Ministry of Labor and Social Security. Under the strategic deployment of the central government, 30 provinces and municipalities have set up the province-municipality-county integrated online government service platform; 29 provinces and municipalities have opened mobile terminal for government service while 25 provinces and municipalities have opened the government service on WeChat. Besides, the development of software applications is on a plain sailing. It has developed the second edition of core platform of labor security, and has purchased the middleware of three-tier structural business application server. The national networking of endowment insurance has been put into effect and the construction of MIS on labor market and medical insurance has been advanced in most provinces and municipalities.

### **Educational instrument: brain-ware training mechanism**

Chinese social protection programs mainly require professionals in three fields. First, professionals working on labor and social protection are in high demand in the government departments, social organizations and non-governmental organizations. Second, enterprises and public institutions, as important social insurance payers, need staff who can take in charge of social insurance, housing provident fund and other protection expense. Third, while the social insurance and relative fund are handed over to financial institutions to make capital investment operates, they not only requires professionals in finance, but also needs people having professional background of labor and social security.

#### *Training of employees*

Enterprises and public institutions organize the professional training on their staff. The content includes relative policies and regulations of Chinese labor and social security, differences in types of social insurance, insurance business rules, and different social protection systems in cities and rural areas. In addition, staff can obtain registered qualification certificate of relative operating post by receiving higher education and

passing the examination of labor and social security major.

### *Talents cultivation in universities and colleges*

China has set up the major of labor and social security in universities since 1998. According to the mode of talent training, the subject setting includes three categories of research orientation, teaching and research orientation, and teaching and application orientation. In research-oriented mode, the teaching content focuses on economics and social insurance. In teaching and application-oriented mode, it attaches more importance on basic theories and skills, developing the major into multidimensional fields including agriculture, medicine, politics and laws, and so forth in order to cultivate more professional talents concerning social protection in all fields.

### **Data security and management**

The development of information technology has advanced rapid progress of information sharing. The emergence of cloud technology such as Baidu Cloud, AliCloud and Google Cloud offers information storage platforms in which mass data of social information are preserved, providing information support for e-government, medical service, housing provident fund management, financial bank operation and so on. In consideration of the large number of information concerning individual and national privacy, corresponding security technology has been attached great importance.

The security threats to social protection information mainly involve two dimensions, literally data security and content security. The Internet consists of three key parts of business system, transmission system and terminal system. Data security refers to the protection of data stored in the network to be transmitted and exchanged, preventing them from malicious tampering, sabotage or divulgence. According to the statistics in the report of social protection information security, the probability for the terminal system getting computer infection has reached 71.2% by November 2016. During the process of transmission, it's likely that information is captured by hackers using eavesdropping tools and turned into counterfeit signatures. At present, the main data security attacks include three categories: (1) using the loopholes of the application software integration to make attacks, such as XSS attack, SQL database injection attack; (2) Using entrusted relationship to conduct the attack, such as phishing sites; (3) "Break the bank" attack aims to make DDOS attack on the network application system. The content security refers to that the social protection information duplicated, transmitted and shared on the Internet should abide by the law and morality. The main risks confronted by content security includes three parts: (1) the unstoppable spread of

unhealthy and illegal information, such as Internet rumors; (2) infringement of copyright and intellectual property; (3) deliberate disclosure of classified information.

In terms of this issue, the most commonly used information security technology in China covers two dimensions: (1) data encryption technique can guarantee the availability, integrity, and confidentiality of information, such as DES technology, RIAD (Redundant Array Inexpensive Disks), data backup technology, and remote disaster recovery system; (2) data protection technique can help avoid the attack from hacker, virus and Trojan, such as firewall, IDS (Intrusion Detect System), state detection, ACLs (Access Control Lists), and antivirus program. The content security technology aims to deliver protection to the content of mass information on the Internet so as to monitor and manage social protection information through comprehensive analysis of data according to their content, surrounding environment and variation.

The technology includes digital watermarking and information filtering. Digital watermarking adds identification information into texts, images or videos. Although it's not easily detectable or revisable, it can be recognized by relevant stakeholders. And information filtering can help relative departments to eliminate false and illegal information before they deliver them to the users. It includes URL filtering, classification marking, keywords filtering and content filtering. URL filtering collects both healthy and unhealthy URL or IP lists to analyze whether the URL of Internet information contents are healthy and decide whether to give a green light. Classification marking can filter illegal or unmoral words, including SVM (Support Vector Machine), GA (Genetic Algorithm), and BP( Back Propagation).

## 4.3 Street-level governance

### 4.3.1 Management of stakeholder interests

With regard to the collection and payment mechanism of social insurance expenses in China, the implementation steps and specific measures are stipulated by the State Council, and the governments and departments at all levels interpret the policy standards and carry out planning and implementation. In order to strengthen and standardize the collection and payment of social insurance premiums and ensure the distribution of social insurance benefits, the State Council revised and formulated the Provisional Regulations on the collection and payment of social insurance premiums in January 1999.

The scope of collection and payment of different social insurance is different. The scope of basic endowment insurance covers state-owned enterprises, urban collective enterprises, foreign-funded enterprises, urban private enterprises and other urban enterprises and their employees, and institutions and their employees who implement enterprise management. The scope of collection and payment of basic medical insurance premium covers state owned enterprises, urban collective enterprises, foreign-invested enterprises, urban private enterprises and other urban enterprises and their employees, state organs and their staff, public institutions and their employees, private non-enterprise units and their employees, social organizations and their full-time personnel. The scope of collection and payment of unemployment insurance premium covers state owned enterprises, urban collective enterprises, foreign-invested enterprises, urban private enterprises and other urban enterprises and their employees, institutions and their employees.<sup>1</sup>

Whether urban individual industrial and commercial households are included in the scope of basic endowment insurance and basic medical insurance, unemployment insurance shall be determined by the people's governments of all provinces, autonomous regions and municipalities directly under the central government according to the actual local conditions.

The three social insurance premiums shall be collected in a centralized and unified manner. The institutions for collecting social insurance premiums shall be prescribed by the people's governments of provinces, autonomous regions and municipalities directly under the central government, and may be collected by tax authorities or by

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<sup>1</sup> Jin (2010).

social insurance agencies (hereinafter referred to as social insurance agencies) established by the administrative department of labor and social security in accordance with the provisions of the State Council.<sup>1</sup>

As for the payment method of social insurance premium, the social insurance premium that the employee should pay shall be withheld and paid by the employer. The employer shall, with the payment notice issued by the social insurance agency, fulfill the payment within the prescribed time limit by (1) paying at its bank or other financial institutions; or (2) paying in other ways as agreed with the social insurance agency.

The payment amount of social insurance premium is calculated by multiplying the payment base by the payment proportion. The social insurance payment proportion is generally as follows: endowment insurance: unit 20%, individual 8%; medical insurance: unit 8%, individual 2%; unemployment insurance: unit 2%, individual 1%. Among them, the old-age insurance and unemployment insurance are calculated according to the city's on-the-job basis; the medical insurance, maternity insurance and work injury insurance are calculated according to the city's social level.

### **4.3.2 High-efficiency, traceability, and flexibility of management**

To construct a service-oriented government requires an operational mechanism to offer all-round services and long-term services, allocating resources into fields that will improve people's living quality. This involves compulsory education, public health, social welfare, social protection, employment, environment protection, public infrastructure, social security and so forth. However, the complicated administrative service system has increased the administrative costs, which leads to the inadequate expanse on public services and inefficient administration thus losing people's trust and receiving negative satisfaction rate. The digital government reform has altered the situation. It has simplified the procedure of social protection service, making it more efficient, accurate and impartial.

#### **Zhejiang experience: “No More Than Once” public administration practice**

Based on the idea of “Digitization Construction in Zhejiang” put forward by President Jinping Xi in 2003, Zhejiang was one of the first to enter into digitization reforms. In 2017, the “No More Than Once” reform was launched. It aims to accomplish the goal that people only need to come to service centers dealing with businesses for once at most with the prospect of enhancing people's satisfaction and retrieving their

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<sup>1</sup> Gang (2011).

confidence in social protection services.<sup>1</sup> On the one hand, the governments and departments tend to eliminate the “information islands” by establishing social protection personal information base, social protection database, and promoting data sharing across provinces. On the other hand, it aims to set up “once for all” administrative mechanism, and expand the application of the “Internet Plus” so that the handy service for the public can be accomplished online, avoiding the trouble of going back and forth offline. In 2018, the digitization of government has developed into a higher stage. As the gradual integration of data infrastructure has manifested, the government service networks have become the most influential public data platform nationwide. At the same time, the service system of “one window, one website, one certificate, and one success” covers the whole province. The applications of business handling were popularized and all the businesses easier handled on the Internet can be found, which has advanced the working efficiency to a great extent.

a) *“Eight Unifications” regulation standard*

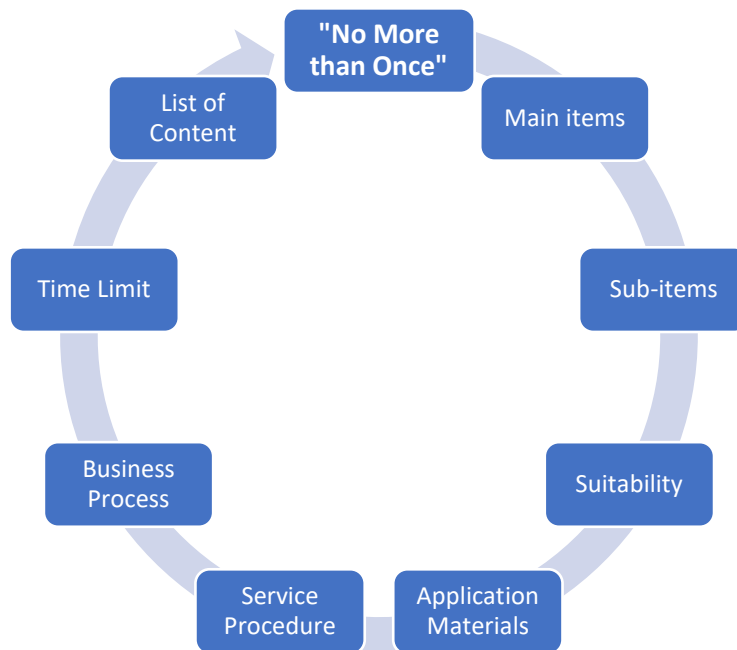
The core idea of “No More Than Once” is the standardization of services. Relative departments of social protection in Zhejiang have found that the contents of forms change with regions, departments, and handling personnel when people are served in different businesses. Without a unified standard, it posed impediment on the interconnection among departments, which also caused the hidden trouble for people to go back and forth between different departments and get different responses in various regions. So, the “Eight Unifications” regulation was formulated to make up this shortcoming. At present, people no longer have to hand in different materials in different departments over and over again. In Zhejiang, the materials needed are the same when dealing with the same business in social protection windows of different places.

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<sup>1</sup> Jianxing (2019).



**Figure 4.3-1: Regulation standard in the public administration practice of “No More Than Once”**



Source: Author's own Compilation.

*b) Connecting the “information islands”*

Before the reform of “No More Than Once”, 424 systems of social protection in Zhejiang were like 424 isolated islands without interconnections. For example, in Zhoushan city, people living in small islands had to travel far away to the main island if they wanted to deal with some businesses. At present, after the establishment of “integrated handling platform”, it has connected all of the data systems and has realized the cross-regional businesses handling. People can choose the nearby service center to deal with their businesses.

The rapid progress of informationization has also promoted the simplification of material submission. Before going to the offline office, people can check all the materials needed on the website of Zhejiang Government Affairs Service. It has also cut down the number of required materials. For example, 7 copies of materials were required while people were joining the employment injury insurance. Now it has been reduced into 3 copies of materials with another 4 copies of materials being completed by staff through information sharing system on the Internet.

*c) Promoting the extension of social protection service to the grassroots through pilot scheme*

Keqiao, a district of Shaoxing City in Zhejiang Province, functions as the pilot demonstration city in the “No More Than Once” reform. According to Jianmin QIAN, the director of Keqiao Bureau of Human Resource and Social Security, Keqiao includes 37 main items and 137 sub-items in the “No More Than Once” service. It has realized the full coverage of these items, which means it has already achieved the goal that people here only have to come once for all businesses. The success of Keqiao practice has encouraged the reform nationwide.

*d) Development of online applications*

At present, users of service application in Zhejiang have reached more than 32 million while the accessibility rate of online service has reached 100%. The available rate of service handled through smart phone has reached 80.5% and the “zero time offline”<sup>1</sup> has reached 97.4%. In the meantime, another application used mainly by governments and departments has established a coordinated system. All the data and information are integrated in the application, formulating the module of “one set of materials, one notification, one registration, one acceptance, and one success”, which has improved the communication and interaction efficiency among departments, realizing “No More Than Once” in cooperation of different sectors and offices.

*e) Complaints and feedback*

To make sure that the “No More Than Once” policy is implemented strictly, Zhejiang has also set up the system of complaints and feedback. Based on complaints hotline and network feedback, the government encourages supervision by the masses other than vertical supervision.

According to the statistics reported at the end of 2019, the realization rate of “No More Than Once” in Zhejiang has reached 92.9% while the satisfaction rate has reached 97.1%.

### **4.3.3 Social accountability for rights holders**

Social accountability includes open channels for providing citizen feedback and participation, and appropriate structures and mechanisms for facilitating grievance claims and complaints on social protection schemes and service delivery. According to the labor law, if the local department of labor and social security refuses to make investigation or deal with the complaints claimed by people, it will be punished because

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<sup>1</sup> Feng (2020).

of negligence and malfeasance.

### **Mechanism of grievance claims and complaints**

The grievance claims and complaints on social protection refer to the situation in which people seek for assistance from different administrative departments such as department of social insurance, tax affairs and labor to protect their rights in various ways including telephone calls, e-mails, visits and letters. The specific grievance content includes the falsify of personal information of right holders, failure to handle with pension and retirement, verification of working years, medical reimbursement, transferring and acceptance, or missing social insurance which should have been paid by the employer.

On the macroscopic level, China adopts the combination of “delegate power, strengthen regulation and service” policy and social protection complaints system. “Delegate power” tends to simplify the dealing procedure of social protection complaints. Governments of all levels have canceled many unnecessary verification certificates through the reform of approval system. When relative departments receive complaints, they are able to give a quick reaction without rounds of circulation, which has broken the impediment of work efficiency and promptness of information transmission. However, it doesn’t mean that there are no more restricted rules. Although the approval procedure has been simplified, the working rigor hasn’t been reduced. For example, when the employer refuses to pay the social insurance for the employee, the tax department should take the precautionary measures instead of allowing negotiated settlement. It aims to protect the vested interests of every citizen and prevent the phenomenon of social insurance fraud.

“Strengthen regulation and service” aims to improve the modernization of governance capacity. With the all-round popularization of selective examination and supervision system, credit information publicity system, and information sharing platform based on modern technology such as big data and cloud technology, the working mechanism and administration method have become more transparent and impartial. In addition, governments and departments staff social protection service with professionals and people can communicate with these professionals directly on the Internet platform. The integration of information and regulation has also made the follow-up service more convenient so as to make sure that the problems raised up by people can be solved thoroughly and properly.

On the microscopic level, as the social protection complaints systems around the

country haven't been unified, most regions adopt the way of separation of duties. For example, according to different types of complaints, problems raised up by the individuals regarding social treatments such as the verification of working years, medical reimbursement are in the charge of social insurance department; other problems such as the change of personal information, employer avoiding the responsibility of insurance payment for employees are in the charge of tax affair departments.

### Open channels for proving citizen feedback and participation

According to People's Insurance Company of China (PICC), right holders and stakeholders can deliver complaints through the telephone hot-lines that offer one-to-one 24 hours full-time service concerning all aspects of social protection.

In addition, nowadays people can also deliver complaints through online lifestyle applications. For example, they can find city service in Alipay. Under the column of social insurance, medical insurance and education, the section of "more services" offer the channel of government affair service complaint. After filling out relative information such as problem categorization, place and major gist of the problem, people can leave the message and submit it. The feedback is also given by phone call.

**Figure 4.3-2: The procedure of hotline complaints on social security problems**



Source: Author's own Compilation.

### 4.3.4 Appropriate mechanism for reducing exclusion errors and fraud

No matter in the policy-making stage or the specific implementation stage, the social security mechanism needs to be explored and adjusted according to different groups

and needs, so as to achieve the real purpose of social security, and reduce or eliminate the occurrence of errors, non-standard and non-compliance as far as possible. In the social security system with Chinese characteristics, targeted social security system and poverty alleviation measures have been formulated and adopted to provide various forms of security for the poor groups, thus achieving significant anti-poverty effect.

The basic requirements of targeted poverty alleviation make it necessary to achieve "six precisions", that is, accurate support objects, precise project arrangements, accurate use of funds, accurate households measures, accurate assignment of personnel to villages, and accurate results of poverty alleviation. In order to improve the efficiency of poverty alleviation and achieve the "six precisions", the implementation approaches are also carefully differentiated, that is, the types of poverty alleviation work are divided to achieve the goal accurately. The implementation approaches are divided into: poverty alleviation through production development, poverty alleviation by relocation, poverty alleviation by ecological compensation, poverty alleviation through education and social security. Finally, through the requirements and implementation ways, the targeted poverty alleviation work achieves the key link of solving the "four problems", that is, to solve the "four problems" of whom to support, who to help, how to support, and how to retreat.

The implementation of the targeted poverty alleviation strategy has achieved significant strategic achievements in China and achieved remarkable poverty reduction results, thus demonstrating the truth of the basic strategy of targeted poverty alleviation. First, it has created the best achievements in poverty reduction in history, and the problem of absolute poverty of the Chinese nation for thousands of years is expected to be solved historically.

According to the current rural poverty standard, from 2013 to 2019, the number of poor people will be reduced from 98.99 million to 5.51 million, and the cumulative poverty reduction rate will reach 94.4% in seven years. The incidence of rural poverty will also drop from 10.2% at the end of 2012 to 0.6% at the end of 2019. So far, there are still 52 poverty-stricken counties that have not been removed, and the overall regional poverty has been basically solved. From 2013 to 2019, the per capita disposable income of farmers in 832 poverty-stricken counties increased from RMB 6,079 yuan to RMB 11,567 yuan, with an average annual growth of 9.7%, 2.2 percentage points higher than that of the same period in the whole country. Nowadays, compulsory education, basic medical care and housing safety have been guaranteed, in poverty-stricken areas where long existed the difficulties for the masses to travel, use electricity, go to school, see a

doctor, and communicate with others.

Secondly, it has accelerated the process of economic and social development in poverty-stricken areas and improved the ability of poverty governance. All localities insist on taking the overall situation of economic and social development in poverty-stricken areas as a whole, and poverty-stricken areas are showing a new development situation. With the continuous growth of characteristic industries, the poverty alleviation methods based on industries, e-commerce, photovoltaic and tourism has developed rapidly, and the economic vitality and development potential of poverty-stricken areas have been significantly enhanced.

Thirdly, China has built a poverty alleviation system with Chinese characteristics and innovated and improved the working mechanism of targeted poverty alleviation. The system includes responsibility system, policy system, social mobilization system, supervision system and assessment system. The formation and continuous improvement of the poverty alleviation system provides a solid institutional support and guarantee for winning the fight against poverty. The practice shows that, in the process of poverty control, targeted poverty alleviation measures should be taken to effectively connect the supply of poverty alleviation resources and the needs of poverty alleviation objects. To solve the problem of poverty fundamentally, Chinese governments need to pay attention to the combination of comprehensiveness and accuracy of poverty alleviation, formulate comprehensive poverty alleviation ideas, implement targeted poverty alleviation and achieve precise poverty alleviation.

Under the guidance of the idea of targeted poverty alleviation and poverty alleviation, China has gradually formed and improved a precise identification mechanism combining top-down and bottom-up methods, which is of positive significance to the improvement of international poverty reduction methods. In addition, the basic strategy of targeted poverty alleviation and targeted poverty reduction not only emphasizes the political advantages of the leadership of the Communist Party of China and the institutional advantages of the socialist system to concentrate on major events, but also emphasizes the need to give full play to the initiative of the poverty alleviation subject, with the assistance of "intelligence" and "ambition", so as to stimulate the endogenous driving force for poverty alleviation. The theory and practice of endogenous poverty alleviation, joint poverty alleviation and institutional poverty alleviation provide reference for the theoretical innovation of international poverty governance, and play an important role in promoting the process of poverty alleviation in developing countries.

**Box 1-1-1: The coordination between the central and local government in rural pension system of China**

Previously, at the implementation stage of Lao-nong-bao, rural residents depended on their individual contributions. As a result, it led to a low participation in rural pension system. In 2009, China announced the launch of the pilot project of Xin-nong-bao. It is a system that combines individual contributions, collective subsidies and government subsidies. At that time, the rural pension system in China was subsidized for the first time. From then on, the financing pattern has been changed. In general, it is the duty of the central government to guarantee the minimum pension every one gets, but it does not hand out subsidy to pension contribution; local governments provide corresponding subsidy to pension contributions, as well as the additional part of the payment if local economy permits. In a word, the central government works in the "outlet", while the local government mainly works in the "inlet".

**Local governments work in the inlet: pension contributions scheme**

The minimum contribution for a rural resident is RMB 100 yuan per month. It is a standard set by the central government. The local government is entitled to create a hierarchical framework which allows people to choose the contribution level by requirement. Poor areas can even lower the standard level to make people affordable. Local governments are obliged to subsidize rural contributors and the subsidy shall be no less than 30 yuan per person per year.

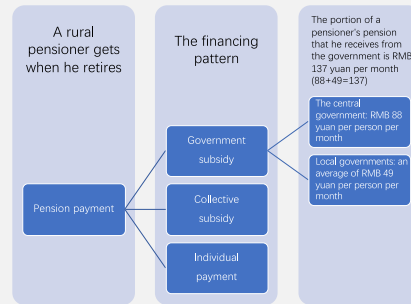
**The coordination in the outlet: pension payments plan**

The central government determines the minimum standard for the pension, and establishes the adjustment mechanism according to the economic development and price changes. For those people living in central and western China, the central government give the full subsidy to them (RMB 55 yuan per person per month initially, the standard has been increased to RMB 88 yuan per person per month since 2018).

On the basis of the minimum standard set by the central government, local governments can appropriately raise the subsidy where the economic condition permits, because the extra part is paid by local authorities. Specific measures shall be formulated by local governments and shall be filed with the Ministry of Human Resources and Social Security. The average extra subsidy is RMB 49 yuan per person per month now, which means each province allocates RMB 49 yuan monthly to those individuals who contribute to the pension system. On the whole, a person can get an average subsidy of RMB 137 yuan a month from the government (RMB 88 yuan from the central government + RMB 49 yuan from the local government).

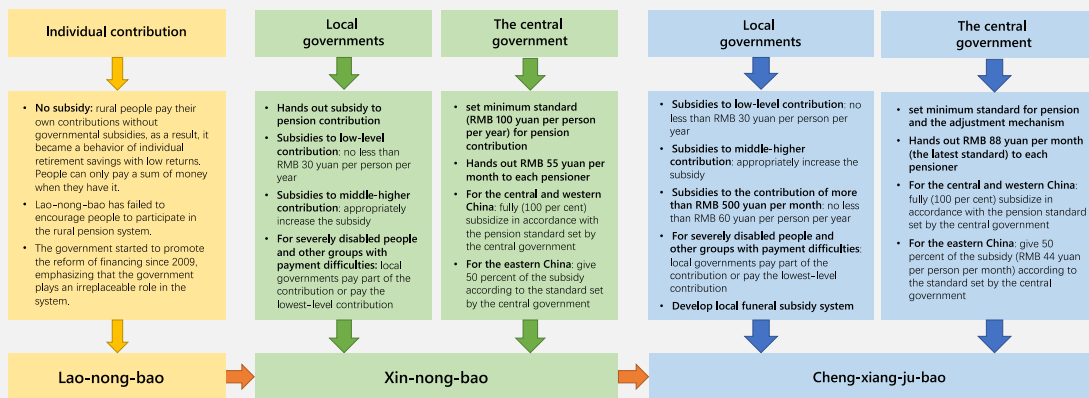
Besides, the central government encourages local governments to develop funeral subsidy systems to not only transfer the balance of personal account to designated bank account, but also hand out a one-off allowance for funeral.

**Figure: The financing pattern of Xin-nong-bao and Cheng-xiang-ju-bao system in China**



Source: Author's own Compilation.

**Figure: The coordination between the central and local governments of the rural pension system in China**



Source: Author's own Compilation.

## 5 Conclusion

Since the founding of the People's Republic of China 70 years ago, the social protection system has experienced a process from slow development to rapid development and then to high-quality development. Through the analysis of the initial conditions and the current system and mechanism of China's social protection, experience can be summed up as follows.

In the aspect of **protection objects**, China strives to guarantee the distribution of what should be distributed and the protection of who should be protected. First, Chinese government pays attention to farmers' needs of social protection and has established a unified social protection system for urban and rural residents gradually, by which China can improve the coverage of social protection substantially and eliminate the disadvantages brought about by urban-rural dual differentiation. Second, China pays much attention to special groups, and endeavors to eliminate absolute poverty through the project of targeted poverty alleviation. The problem of poverty in older persons is alleviated by establishing zero pillar old-age insurance and granting old-age allowance.

In terms of **protection system**, China has been gradually establishing a multi-level social protection system according to the social development. In the early stage of development, effective social protection measures were implemented in view of the most urgent problems in society. In the middle stage of development, when there was no comprehensive and overall planning, the strategy of gradual reform was adopted to constantly enrich social protection projects. China has realized the transformation from scratch step by step and established a multi-level social protection system framework covering social insurance, social assistance, social welfare and social preferential treatment. In the middle and later stages of development, on the one hand, according to the actual needs, Chinese government has constantly improved the specific implementation plan of various social protection systems. On the other hand, the government has been paying more attention to the top-level design of social protection system, comprehensively coordinating various social protection systems, and optimizing the system connection mode.

In terms of **protection level**, China adheres to the adaptation of security level with economic development level. During the period with low level of economic development and a large number of poor people, Chinese government first of all protected the people's most basic right to subsistence, and provided welfare assistance in terms of clothing, food, housing and medical care for the poor or the population in



backward areas. With the economic growth and the improvement of the national financial system, the level of social protection treatment has been appropriately improved, and the developmental protection projects have been set up timely. That is to say, the level of social protection is neither lower than the minimum living standard nor higher than the financial affordability of the state.

In the aspect of **protection mechanism**, China insists on the rule of “legislation first”. In China, whatever the specific project is, social protection legislation always precedes the construction of the social protection system, the construction of the implementation mechanism, and construction of judicial justice. In the early stage, the implementation measures were promulgated according to the requirements of social protection construction, and the new program was promulgated and implemented as it developed. In the relatively stable stage of social protection construction, China has been introducing higher-level laws, such as *Social Insurance Law of the People's Republic of China*, no matter whether the law or the legal documents of lower level can effectively ensure the execution and credibility of social protection projects.

In spite of all the achievements, there are still **some challenges** in the construction of Chinese social protection system. First of all, there are still gaps between the supply and demand of social protection for some vulnerable groups, especially for older people and domestic migrant workers. Secondly, a pay-as-you-go pension plan will definitely aggravate mounting debt as population is ageing fast. China's social security system need to be upgraded. Thirdly, new challenges have emerged in the event of the COVID-19 pandemic.

In the face of the challenges, China's social security system adheres to the principle of reform and innovation, and fully considers how to make the transition between the new and the old systems smooth. Through the design of multiple programs, repeated calculation and comparison, optimization of parameters and refinement of policies, the new policy has been widely recognized by the people. Secondly, China implements the governance model of “big government” and “strong government”. Chinese government manages all social affairs in a unified way, strengthens the government's responsibility, the central government plays an important role, makes the design and implementation of social security system closely linked, and the central control of local institutions, they also restrict each other, forming a feedback mechanism to reduce the “policy overlap” caused by fragmentation. Finally, in order to solve the problem of policy discordance, the Chinese government strives to carry out institutional integration for the sake of fairness, mobility and sustainability. For instance, based on four principles-

decent living, equity, self-financing and social solidarity, Chinese government fostered a smooth implementation from provincial pooling to national pooling.

Under the background of population aging in rural areas, China has gradually established a pension system which is known as basic old-age insurance system. Its aim is to mobilize the participation enthusiasm of rural residents effectively and cut the number of uninsured. In the face of the poor population, China put forward the inclusive zero-pillar pension. Chinese government finance provides the citizens with the inclusive fixed national pension or social pension which is not based on the residents' payment, so as to provide the minimum level of protection and reduce poverty. Secondly, the aging of population also brings about the increase in the number of disabled older people. To solve this problem, China is stepping up the promotion of "exploring the establishment of a long-term care insurance system and carrying out pilot projects all over the country". It has gained a lot of successful experience in Shanghai, Qingdao and other cities, making contributions to the aging of the population and the health of the older population. Due to the increasingly severe aging of the population, the labor force is gradually shrinking, and the endowment insurance cannot maintain the long-term pay-as-you-go problem. China adopts two major strategies: to improve the human capital and productivity of the labor force; to improve the asset structure and purchasing power of the older population, improve the wealth and pension assets accumulation of the people, and reduce the risks brought by the aging population.

In the perspective of fund and capital, China has made a good effort to tackle relative problems and defects, which can be summed up as coming under three categories: opening up the fund source and regulating the flow (mainly includes the reallocation of state-owned capital, investment running of carryover and surplus funds); managing risk (such as the establishment of Chinese Endowment Insurance Strategic Reserve Fund in the year of 2000); and perfecting legislation.

According to the report of China International Capital Corporation (CICC), the state-owned capital had reached RMB 80 trillion yuan by 2017 and RMB 8.7 trillion yuan capitals could be transferred in accordance with the 10% allocation proportion enacted by the State Council. This has shown the great potential of state-owned capital to replenish the social protection fund. Based on far-reaching designs, the allocation aims at the gap of old-age pension. While determining objects of reallocation, it connects closely to the reform of state-owned businesses and makes systematic plans on the allocation of central and local state-owned capital. In addition, the reallocation proportion can be more flexible with dynamic regulation as the circumstances may

require. With capital recipient takes full advantage of transferred stock rights, relatively ideal returns can be expected.

Recent years have witnessed the improvement of investment running of carryover and surplus funds in Chinese social protection. In light of the large amount of surplus funds in urgent need of utilization, China has scaled up efforts to take full advantage of them. First, the government supervises and instructs the preparation work for entrusted investment of basic old-age insurance fund. Second, according to the revenue and expenditure situation of basic old-age insurance fund for enterprise employees, the government urges provinces with large carryover scale and strong backup to advance the entrusted investment.

This method will be optimized gradually. The social protection fund can set up investment portfolio, increase the proportion of investment tools with higher rate of return, and avoid risks through diversified investment. In the long run, first, China could establish independent operating agencies of social protection funds and organize professional fund management companies to make investment run effectively. Second, carryover and surplus funds of local social protection can be managed as a whole. They can be invested into physical investment to enhance the capital mobility and increase the long-term revenue.<sup>1</sup>

The core of strategic reserve fund policy is to accumulate enough funds during the period when the aging population has not enlarged so as to resolve the pension gap in the future and realize the sustainable development.<sup>2</sup> It can also help protect the social protection fund from major risks in financial field with contributory accumulation and financial capital. By 2000, the reform of partial accumulation of endowment insurance system in China had achieved great success. However, confronted by the serious growth of aging population, it was required to expand the scale of strategic reserve fund. So, the National Social Security Fund was set up, constituting Chinese Endowment Insurance Strategic Reserve Fund with the Basic Old-age Insurance Fund. In 2018, the strategic reserve fund had already accounted for 7.7% of GDP. Now it has become the strongest capital backup for social protection programs.

Based on the existing laws such as *Financial Law*, *Investment Law*, *Fund Act*, the government establishes a sound jurisprudence of issues related to financial market to insure the effective operation. Besides, the government enacts *Basic Law of Social Security* and *Administrative Law of Social Insurance Fund* to manage social protection

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<sup>1</sup> Yu (2018).

<sup>2</sup> Jun (2020).

resource properly. It can be considered to formulate special laws according to the type of social insurance to realize the peer-to-peer management. In addition, a more completed risk pre-warning mechanism can be established through legislation. For example, according to Chinese scholars, actuarial analysis can be introduced to relevant laws to ensure the balance of payment.

Chinese social protection system develops from nothing with a rapid pace. The central government has made resolutions to eliminate the absolute poverty nationwide by the end of this year, which is ten-year ahead of the goal set up by World Bank to eliminate the absolute poverty around the world in 2030. The confidence comes from China's long-term exploration and practice and the solidarity of Chinese people.

In fact, many countries, including low- and middle-income countries, have introduced or expanded their social protection schemes and are gradually building up their systems, recognizing social protection policies as key elements of their national development strategies. Countries such as Argentina, Cabo Verde and China have set up universal or nearly universal pension schemes; while Uruguay and Ukraine have achieved universal maternity coverage. Other countries have adapted their social protection schemes to include previously excluded groups, such as the self-employed workers, marginal part-time workers and on-call workers.<sup>1</sup>

It can be told that the most important function of social protection is promoting social equality and sustaining social stability. On the one hand, social protection pays close attention to the benefits of vulnerable groups, narrowing down the gap between rich and poor through redistribution of citizen income so as to relieve social conflicts. On the other hand, it offers financial compensation and material help to families and other social entities when they encounter with accidents causing severe loss, which helps maintain the normal social productive capacity. Nowadays fairness and equality have become the common pursuit of people around the world. Social protection system is just the irreplaceable arrangement to realize this mission.

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<sup>1</sup> Christina (2018).

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