CHINA'S SOCIAL POLICY REFORM IN "DEEP WATER"

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EAI Background Brief No. 849

Date of Publication: 12 September 2013

Executive Summary

1. Under the Hu Jintao-Wen Jiabao leadership, China's social policy reform had made significant progress. For the first time, China has set up a social security system for the entire population.

2. Towards the end of the Hu-Wen leadership, China's social policy reform moved into "deep water" after extending social security programs nationwide. The more difficult part of ensuring the equity, efficiency and sustainability of the social security system, however, did not go very far.

3. The new leadership of Xi Jinping-Li Keqiang now faces the challenge of regaining the reform momentum. China's social policy reform in the next five years has been defined as "improving equity, increasing portability and ensuring sustainability".

4. With rapid population aging, the key question is whether China is prepared for the unprecedented demographic transition. In the short run, financing the current expenditures for today's pensioners is not a problem. The problem is in the long run.

5. To tackle population aging, China could relax restrictions on investment for social security funds. Other than the National Social Security Fund, social security funds are left in the banks, earning low interest rates. With accumulated pension funds of over RMB2 trillion, China can no longer afford to let the huge sum of social security funds "sleep" in the banks.

6. China could also raise the retirement age of 60 for men and as early as 50 for blue-collar women gradually over the next decade. As there is little room to increase the pension contribution rate or to reduce the pension replacement rate, raising the retirement age is the only viable option.

7. China had a heated debate in 2012 over both options, which ended up with no consensus. The public generally rejected the options as they believed that the reform priority should be on the segregated social security system rather than financial sustainability per se.

8. The Hu-Wen leadership’s attempt to integrate the social security programs for public sector employees and private sector employees was blocked by strong resistance from the more privileged and powerful public sector employees.

9. The stake for delaying the reform is high now. The public would not accept any other options without addressing the equity issue first.

10. Integrating 30 million employees in public institutions/organizations and 10 million civil servants into a unified social security system requires strong political will as well as skillful transition management. This is the biggest challenge for the new leadership in the social policy domain.