COVID-19 HIGHLIGHTS NEED TO STRENGTHEN CHINA'S SOCIAL SAFETY NET (I): THE UNEMPLOYMENT INSURANCE SCHEME

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Executive Summary

1. China's gross domestic product (GDP) grew by a respective 3.2% and 4.9% in the second and third quarters of 2020, led by a strong recovery in investment and exports. Consumption is lagging behind as the growth of retail sales remains low.

2. The slow growth in consumption is a result of the unbalanced nature of China's fiscal stimulus programme which provided generous support to businesses and investment but no direct payments to individuals or enhancements in social welfare provisions.

3. Employment was a top concern in the policymakers' agenda. In April 2020, the Politburo introduced the "six ensures" (六保) as a policy priority, with ensuring employment topping the list.

4. The fiscal stimulus programme adopted in May 2020 stayed with the traditional strategy of supporting economic growth and enterprises, rather than income support and job maintenance.

5. Instead, the government called on existing social welfare institutions to help citizens through this historic crisis and protracted recovery. However, the social welfare system is fragmented, with incomplete and inadequate coverage that limits its capacity to provide financial protection and boost consumption.

6. The unemployment insurance (UI) scheme proved ineffective through the COVID pandemic given its combination of narrow coverage, low benefit levels and stringent conditions for access to benefits. During the first quarter of 2020, when tens of millions were out of work or furloughed, the number receiving unemployment benefits increased by only 20,000.

7. The new dual circulation strategy depends on strengthening domestic consumption. A well-functioning UI scheme is a critical part of a robust social protection system to boost consumer confidence and reduce the need for savings.

8. More generous unemployment benefits could also be offered to improve labour efficiency by providing unemployed workers with the incentive and the means to acquire new skills and conduct more extensive job searches. The government would do well to reform the UI scheme by expanding coverage, improving fairness, unifying benefit standards and improving portability.

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Christine WONG & QIAN Jiwei*

The Role of Social Insurance in the Pandemic

1.1 Having successfully contained the COVID-19 virus, China's economy has returned to growth since the second quarter of 2020, with gross domestic product (GDP) growing by 3.2% and 4.9% in the second and third quarters, respectively. This marks China as the first and only major economy to return to growth for the year – an impressive feat worth celebrating.

1.2 To date, this growth has been led by a strong recovery in manufacturing, exports and fixed asset investment. Consumption has lagged behind, with retail sales declining for seven consecutive months before turning upwards, growing 0.5% in August and 3.3% in September – far below the 8% posted during the previous year. Aside from strong auto sales aided by government subsidies, the slow rebound in consumption suggests that households are still holding back on discretionary purchases. This is in marked contrast to other economies emerging from their COVID lockdown, which have often seen a rebound in pent-up consumption demand.

1.3 China's lopsided recovery can be attributed to the RMB7 trillion fiscal stimulus programme that provided generous support to businesses and investment but not to direct payments to individuals or enhancing social welfare provisions. The unbalanced nature of this growth has raised anew questions about the government's commitment to rebalance the economy to raise the share of consumption in GDP.

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1.4 As the COVID pandemic swept across the globe and devastated economies in its wake, many countries responded decisively with huge stimulus programmes, most of which have included cash handouts and support for employment maintenance. Many rich countries with well-established social welfare systems have provided additional top-ups to smooth consumption and avoid deeper economic damage.

1.5 Political leaders in China likewise grappled with concerns for job losses and the economic hardship inflicted on citizens during the COVID crisis. In April 2020, with data revealing an unprecedented 6.8% decline in the first quarter GDP and with the prospect of a synchronised slump in the world economy dampening prospects of China's recovery, the Politburo introduced the "six ensures" (六保) as a policy priority,[1] with ensuring employment topping the list.

1.6 Despite the leadership's concern for protecting jobs and people's livelihood, the strategy adopted in the fiscal stimulus programme stuck to the traditional production-side bias by betting that job creation and job security will follow from economic growth and healthy enterprises. In choosing this strategy, China stood alone among economies with the wherewithal to finance a large stimulus programme, in leaving it to existing social welfare institutions to help citizens through this historical crisis and what is expected to be a protracted recovery.

1.7 The question is whether the social protection system has been up to the task. On paper, China has a comprehensive system of social welfare that provides citizens with social pension, health care, unemployment, disability and maternity insurance. The system is still in its infancy, though, and its components are marred by fragmentation, with incomplete and inadequate coverage that limits their capacity to provide a buffer against income loss and boost consumption.

1.8 A close examination of available evidence shows that the unemployment insurance (UI) scheme has been completely ineffectual through the COVID pandemic. With a combination of narrow coverage, low benefit levels and stringent conditions for

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1 The term "ensure" is the translation used by *Xinhua* and other official sources. The six ensures are to "ensure" employment 保居民就业, basic livelihood 保基本民生, market entities 保市场主体, food and energy security 保粮食能源安全, stability of the supply chain 保产业链供应链稳定 and the functioning of grassroots governments 保基层运转.

access, very few beneficiaries were added even as unemployment raged. As such, the scheme is highly dysfunctional in its current form, able to neither fulfil its primary role of protecting workers in the event of job loss nor act as an automatic stabiliser to boost income and consumption in an economic downturn.

The Stimulus Programme and Production-biased Support for Employment

2.1 In April 2020, when data revealed an unprecedented 6.8% decline in the first quarter GDP and the prospect of a synchronised slump in the world economy, dampening hopes for a quick return to the long-term growth path in China, the government began to speak of extending assistance to people suffering from economic hardship in the wake of the COVID outbreak.

2.2 The concept of the "six ensures" [2] (六保) was introduced as a policy priority for the first time at a politburo meeting in late April, alongside the "six stables" (六稳) introduced in 2018.[3] At an executive meeting of the State Council on 21 April 2020, Premier Li Keqiang called on relevant departments to determine the scope of job losses and expand access to UI and minimum income support (*dibao*) programmes to provide assistance.

2.3 When the National People's Congress (NPC) met in late May to approve the government's work programme for the year 2020, support for employment was given a prominent place. By one count, "employment" was mentioned 39 times in the Government Work Report (GWR), second only to the mention of "epidemic" (疫情).[4]

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[2] The term "ensure" used by *Xinhua* and others. They are to safeguard employment 保居民就业, basic livelihood 保基本民生, market entities 保市场主体, food and energy security 保粮食能源安全; stability of the supply chain 保产业链供应链稳定 and the functioning of grassroots governments 保基层运转.

[3] *Xinhua,* http://www.xinhuanet.com/fortune/2020-04/20/c_1125882444.htm, accessed 20 April 2020. The "six stables" were employment, finance, trade, foreign investment, domestic investment and expectations.

[4] Frequencies are 0.0793 and 0.0784 for epidemic and employment, respectively. Thanks to Dr Sarah Tong and Dr Zhou Na for sharing the data.

2.4 Breaking from tradition, the GWR this year did not specify a numerical target for GDP growth.[5] Instead, it set a target unemployment rate of 6% and the creation of nine million new jobs for 2020.

2.5 At a press conference held at the end of the NPC meetings, Premier Li Keqiang again emphasised employment. Noting that one-third of the comments posted by netizens to the government website were about jobs, he explained "... [the stimulus programme] we have adopted this time uses about 70% of the funds to relatively direct (比较直接地) support to residents' income because doing so can promote consumption and drive the market".[6]

2.6 This emphasis on jobs and income was not reflected in the government's budget containing some RMB7 trillion in additional spending to prop up the economy, however.[7] The fiscal stimulus measures, while wide-ranging, are almost entirely devoted to supporting businesses, rather than individuals.[8] There is neither a cash handout component nor an injection of funds to boost spending through social welfare programmes (Table 1).

2.7 Instead, this reflects the government's longstanding strategy of supporting production rather than consumption. As explained by Premier Li, "employment is the topmost concern… (and) the measures taken are to stabilize the enterprises to keep the jobs secure".[9]

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5 See Tong et al, Employment and Livelihood Top Chinese Government's Policy Agenda in 2020, *EAI Background Brief*, No. 1543, 3 July 2020.

6 http://www.xinhuanet.com/politics/2020lh/2020-05/28/c_1210637126.htm, accessed 30 May 2020.

7 See Wong, C (2020). "Uncovering China's Fiscal Stimulus Policies in the Budget Report", EAI Commentary, No. 16, and Tong, S et al. Employment and People's Livelihood Top Chinese Government's Policy Agenda in 2020, *EAI Background Brief*, No. 1543.

8 The fiscal stimulus also included special treasury bond and local government bonds to finance infrastructural investments, in addition to the fiscal measures in Table 1.

9 Ibid.

TABLE 1 THE MAIN FISCAL STIMULUS POLICIES AND THEIR ESTIMATED COSTS

	Total for 2020
Fiscal spending to control and treat the coronavirus	150
Exemption and deferral of corporate social insurance contributions (pension, unemployment and disability)	1600
Reduction of corporate medical insurance contribution	300
Waiver of tax and fees for businesses in hard-hit sectors such as transportation, catering and tourism	200
Waiver and reduction of VAT for micro, small and household businesses	500
Waiver and reduction of rents for affected businesses	100
Reduction of electricity rates	134
Waiver of road and expressway tolls	280
Total (RMB billion)	**3264**

Source: http://www.xinhuanet.com/english/2020-05/06/c_139035958.htm, accessed 6 May 2020 and Ministry of Human Resources and Social Security Second Quarter 2020 Press Conference, http://www.china.com.cn/zhibo/content_76291788.htm#fullText, accessed 11 August 2020.

2.8 This approach differs sharply from that adopted by other countries around the world in response to COVID-19. While many countries provide liquidity support and selective bailouts to strategic sectors and enterprises, substantial efforts also go towards supporting consumption. The International Monetary Fund (IMF) estimates that globally, 30% of initiatives undertaken by countries across the whole income spectrum are cash transfers, considered vital for providing immediate relief to families and propping up consumption to preserve businesses.[10] Some of these funds are routed through enterprises to pay furloughed workers, such as in the widely imitated German Kurzarbeit scheme. At the peak of the epidemic in May 2020, furlough schemes were paying a part of the wages for more than 35 million workers in Europe's five largest economies, including more than one-fifth of the German workforce and one-quarter of that in France.[11]

2.9 While China also has a scheme for incentivising enterprises to retain staff, the scheme provides only minimal support. Under the job stabilisation subsidy scheme (稳岗补贴) introduced in 2014, only firms that have shed fewer staff than the local average will receive government subsidies. From 2018 the subsidies had come in the form of a refund of half of their payment of UI premiums over the past year; the

[10] https://blogs.imf.org/2020/06/22/youve-got-money-mobile-payments-help-people-during-the-pandemic/?utm_medium=email&utm_source=govdelivery, accessed 22 June 2020.

[11] https://www.ft.com/content/84bde9f6-8563-4355-b010-c18de2644367, accessed 11 December 2020.

amount was raised to 100% early this year.[12] Since the UI premium is only 1-2% of payroll, the incentive is small. In the first half of 2020, the payment amounted to only RMB750 per employee on average,[13] with some local governments providing additional subsidies.

2.10 In addition to the RMB63.6 billion refund of insurance premiums, the only other item of support in the draft budget for 2020 was employment subsidies of RMB53.9 billion – just 0.22% of total budget expenditures, or 0.05% of GDP. More notably, this is no different from the spending in the 2019 budget.[14]

2.11 By relying solely on the existing social protection system to support citizens who have lost jobs and businesses through the epidemic, the strategy risks prolonging the slump in consumption and exacerbating the country's heavy reliance on investment-driven growth. Even with the return to growth for the year, total employment remains at below pre-COVID levels.[15] Since job losses are mostly in the low-wage sectors and client-facing services, this strategy will also exacerbate China's already highly unequal distribution of income and leave millions of citizens to suffer the COVID-inflicted economic hardships alone and with little assistance, likely pushing many back into the poverty from which they had only recently escaped.[16]

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12 http://www.gov.cn/zhengce/content/2018-12/05/content_5345808.htm, accessed 11 December 2020 and Tong, S et al. Employment and People's Livelihood top Chinese Government's Policy Agenda in 2020, *EAI Background Brief*, No. 1543.

13 Calculated from 84 million jobs secured on expenditure of RMB63.6 billion in insurance premiums refunded. http://www.xinhuanet.com/english/2020-05/06/c_139035958.htm, accessed 6 May 2020 and http://www.ecns.cn/news/2020-07-22/detail-ifzyhpqw4007250.shtml, accessed 23 July 2020.

14 Budget Report.

15 Monthly data from the National Bureau of Statistics show 71.9 million employed in industrial enterprises in September, almost 10%, or 7.4 million, below the level of a year ago (CEIC).

16 The World Bank projected that without policy intervention, 8-20 million fewer people will escape poverty in 2020. World Bank, China Economic Update, July 2020.

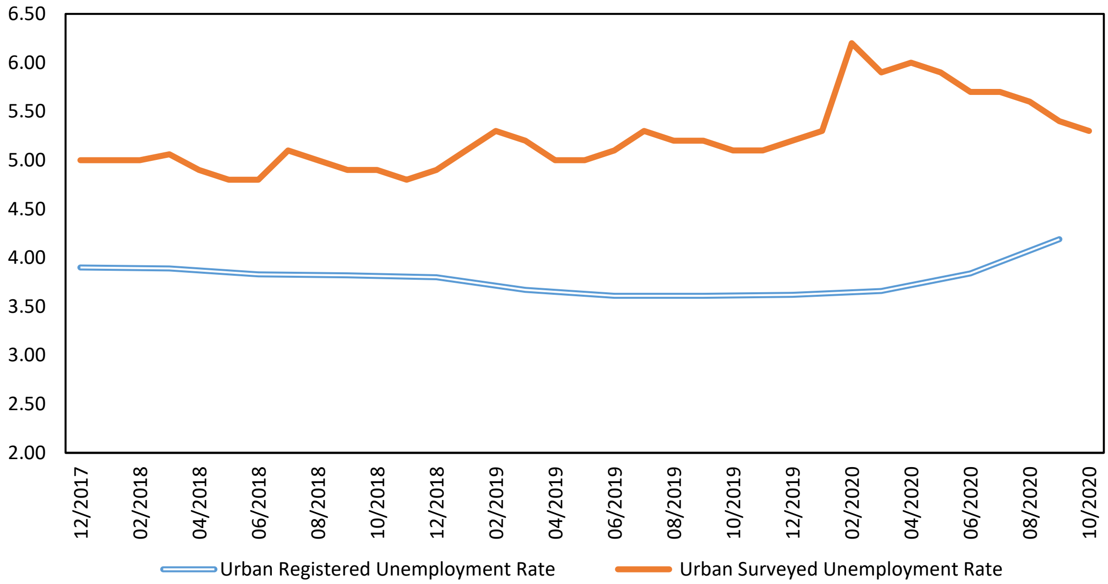
Unemployment Insurance

<u>Measuring unemployment</u>

3.1 At present China does not have a measure that tracks unemployment accurately. The two official measures are the registered unemployment rate by the Ministry of Human Resources and Social Security (MHRSS) and the surveyed unemployment rate of the National Bureau of Statistics (NBS). The registered unemployment rate, reported on a quarterly basis, is the proportion of officially registered urban job-seekers to the total urban workforce of employed and unemployed workers. The measure excludes those without an urban household registration (*hukou*).

3.2 The surveyed unemployment rate is based on monthly surveys of workers in urban areas. Unlike the registered unemployment rate, the surveyed rate includes workers without urban *hukou* status as well as those not registered as unemployed. The urban surveyed unemployment rate has been consistently higher than the registered unemployment rate since its inception in 2018 (Figure 1). There is no official measure for rural unemployment.

FIGURE 1 THE TWO MEASURES OF URBAN UNEMPLOYMENT IN CHINA (%)



Source: CEIC.

3.3 As can be seen in Figure 1, neither measure was able to capture the magnitude of the impact of the COVID crisis on unemployment. When the draconian lockdown from late January through early March put a sharp brake on economic activity and caused a nearly 7% drop in GDP through the quarter, the registered unemployment rate barely budged, from 3.62% in the fourth quarter of 2019 to 3.66% in the first quarter of 2020. Even with the economy still struggling, it rose to only 3.84% through the second quarter. The surveyed unemployment rate was only slightly more responsive, rising from 5.3% in January to 6.2% in February before falling to 5.9% in March and trending down to 5.4% in September. These modest changes evidently captured only a fraction of the job losses.

3.4 At the peak of the epidemic and lockdown in February-March, job losses were estimated to have been as high as 130 million, or up to 30% of the urban workforce who were unemployed, displaced or furloughed.[17] The muted response in the unemployment rate may be explained partly by measures introduced by authorities in January to protect jobs and ensure the continuation of some essential services during the epidemic.[18] In addition, the survey missed the rural migrant workers who make up one-third of the urban labour force, many of whom had gone back to their home villages for the Chinese New Year in January and were not there to be counted during the lockdown.

3.5 The surveyed unemployment (UE) measure has some deficiencies that hinder its accuracy as a gauge of economic health even as China returned to growth since the second quarter of 2020. First, it does not distinguish between full and part-time employment. More importantly, like unemployment measures everywhere, it does not track the "missing" or "discouraged" workers. Given that rural migrant workers often cannot stay in the cities if they are unemployed, the amount of undercounting will remain large through the rest of 2020 and beyond until China returns to full employment. As is shown in Figure 2, even as the surveyed UE rate has almost returned to the pre-COVID level, the number of migrants working outside of their

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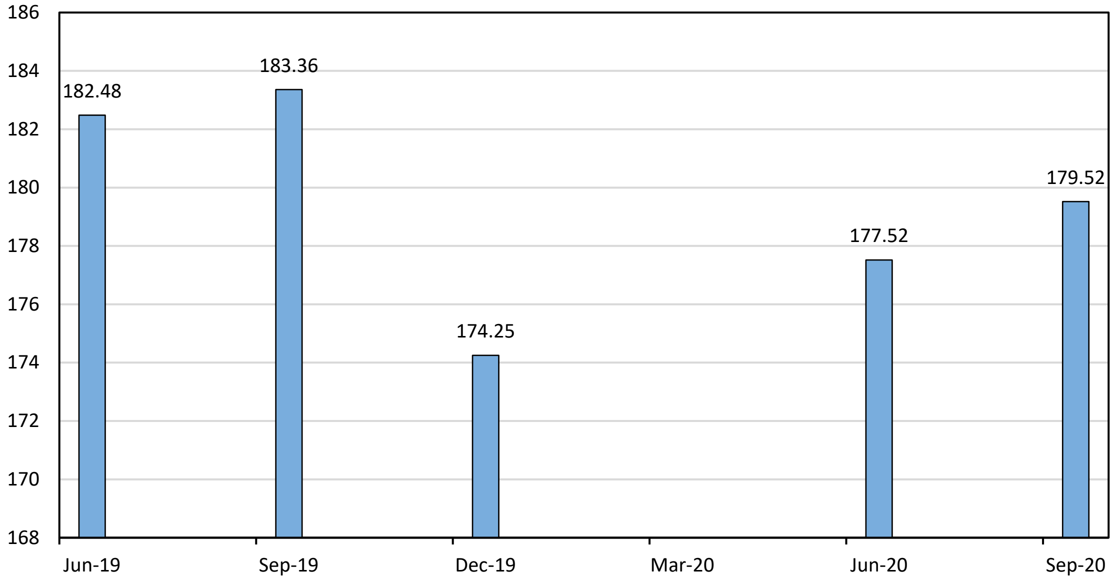
[17] https://www.wsj.com/articles/chinas-jobs-rebound-doesnt-appear-as-robust-as-the-government-claims-11591551390?st=75ztzd0qd2i6rjb, accessed 26 July 2020.

[18] The MHRSS notice on 24 January 2020 protected workers' pay and preserved contractual terms through the epidemic. See Tong, S and Li, Y, The COVID-19 Outbreak And Its Implications For China's Economy, *EAI Background Brief*, No. 1522, 31 March 2020.

hometown in September 2020 was nearly four million below the number in September 2019.

FIGURE 2 NUMBER OF MIGRANT WORKERS OUTSIDE* (million)



* These are migrants "working outside of their home area" (外出农民工).
Source: CEIC.

3.6 To better gauge the state of the labour market, China also needs a measure for rural unemployment. Data from 2018 show that of the 332.8 million labour force in the rural sector, 130 million, or 40%, were engaged in non-agricultural jobs.[19] The government can no longer assume that unemployment is of no concern in the rural sector. Introducing a rural unemployment measure or broadening the surveyed unemployment measure to include rural workers could go a long way towards providing a more accurate gauge of the country's economic health.

China's Unemployment Insurance Scheme

4.1 UI is an important component of the social safety net in all countries, along with pension and health insurance. The current UI scheme in China is a social insurance programme created in the 1990s to address massive layoffs as a result of state-owned enterprise (SOE) reforms: employment in state and collective enterprises was slashed from a peak of 145 million or 80% of total urban employment in 1995 to about 75 million or 30% of total urban employment in 2005.

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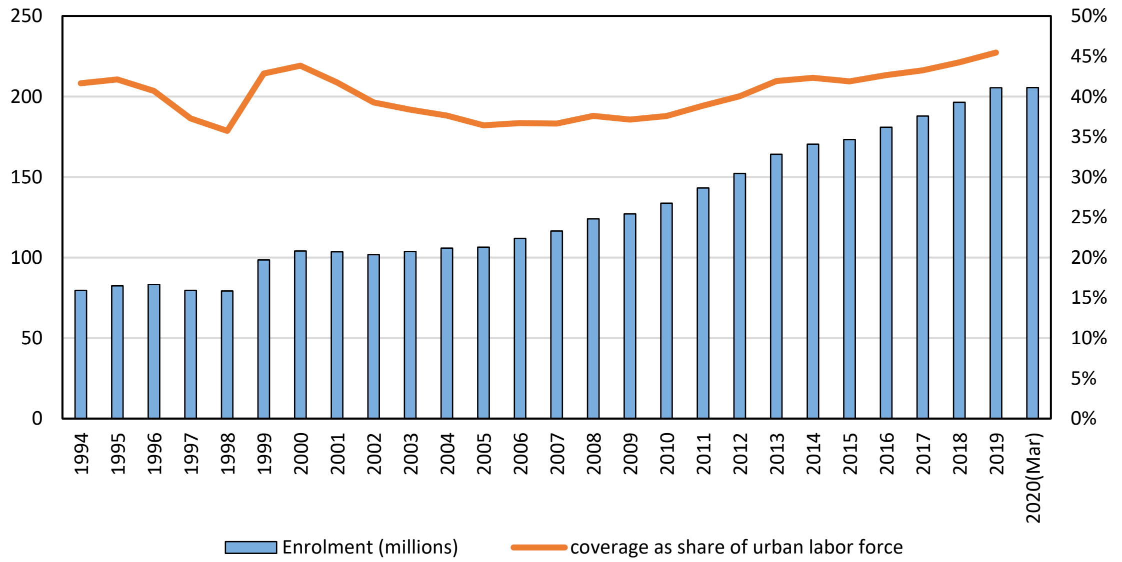
19 CEIC.

4.2 The UI scheme is for urban workers. It has grown with China's economic growth and urbanisation, with enrolment more than doubling from 100 million at the turn of the century. In December 2019 there were 205 million enrollees, covering 45% of the urban workforce (Figure 3). The low coverage is partly explained by the large informal sector of self-employed and employees in micro enterprises classified as sole proprietorships (个体户) who account for approximately one quarter of the urban workforce. This still leaves nearly 30% who are not enrolled in the UI scheme, a share that corresponds closely to the one-third share of employment in "private enterprises" under the Chinese classification.[20]

FIGURE 3 ENROLMENT AND COVERAGE IN UNEMPLOYMENT INSURANCE (million, %)



Source: MHRSS website.

4.3 The scheme is funded by payroll contributions. At the programme's inception, contributions were set at 2% from employers and 1% from employees. Since 2015 the rates have been reduced incrementally, to a combined 2% in 2015, 1-1.5% in 2016, and 1% in 2017.[21] The programme is overseen by the MHRSS but managed at the local levels of cities and counties.

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20 NBS.

21 MHRSS, Explanation on the revision of the unemployment insurance regulations, 11 November 2017. http://www.gov.cn/xinwen/2017-11/11/content_5238845.htm, accessed 8 May 2020.

4.4 Under the UI scheme, benefits can be claimed for up to 24 months of involuntary unemployment, depending on the length of contribution to the scheme. The minimum vetting period is 12 months (Table 2).

TABLE 2 LENGTH OF COVERAGE OF UNEMPLOYMENT BENEFITS

Cumulative years of contribution	1 - 5 years	5 - 10 years	More than 10 years
Maximum duration of benefits	12 months	18 months	24 months

Source: MHRSS website.[22]

4.5 While the Social Insurance Law calls for mandatory enrolment of all employees, enforcement is lax for the UI scheme. One major reason is the poor incentives for enrolment given the low benefit levels and difficulty of accessing benefits, especially for small and micro enterprises and rural migrant workers.

Low Benefit Levels

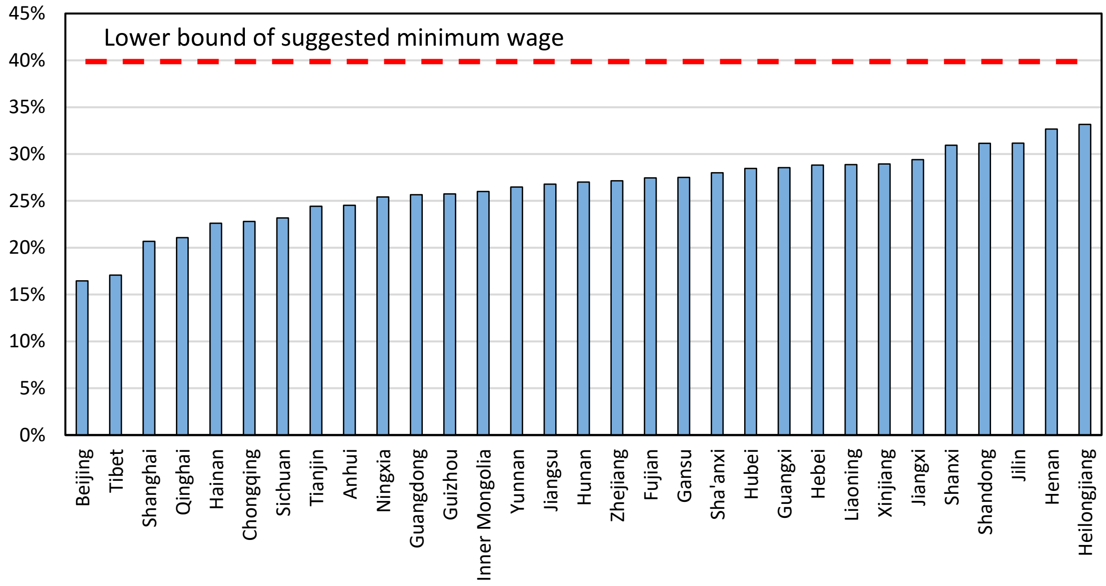
5.1 MHRSS guidelines stipulate that UI benefits should be set at a level no higher than the local minimum wage, with a suggested target of 90%.[23] Minimum wages are themselves set at low levels relative to the local average wage. Even though the Minimum Wage Regulations implemented in 2004 stipulate that each region should set its minimum wage at between 40% and 60% of the local average wage, very few cities have ever reached that target.[24] Figure 4 shows the ratios of minimum to average wages in 2018, ranging from a low of 16.5% in Beijing, 21% in Shanghai to a high of 33.2% in Heilongjiang, with an unweighted average of 26.3% across provinces. These low minimum wages indicate that the benefit level of unemployment insurance is low.

22 http://www.mohrss.gov.cn/SYrlzyhshbzb/zcfg/flfg/xzfg/201604/t20160412_237907.html, accessed 11 December 2020.

23 http://www.mohrss.gov.cn/sybxs/SYBXSgongzuodongtai/SYBXSguojia/201710/t20171013_279156.html, accessed 11 December 2020.

24 http://www.gov.cn/gongbao/content/2004/content_62936.htm, accessed 21 August 2020.

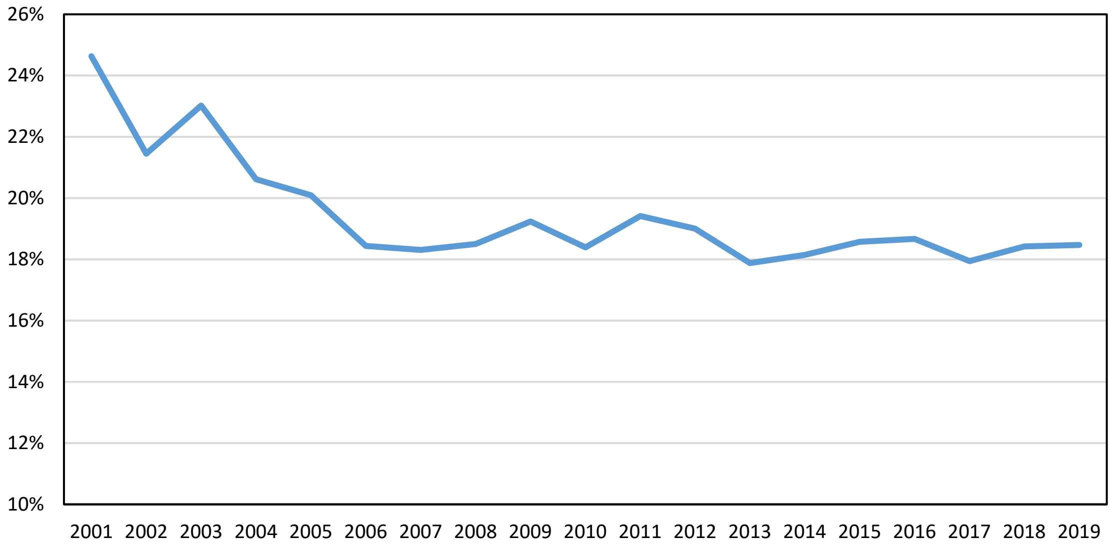
FIGURE 4 RATIO OF MINIMUM TO AVERAGE WAGE BY PROVINCE IN 2018



Source: MHRSS.

5.2 In fact, available data shows that UI benefits have fallen relative to the local average wages, from about 25% in 2001 to just 18% in recent years (Figure 5).

FIGURE 5 RATIO OF UNEMPLOYMENT INSURANCE BENEFITS TO AVERAGE WAGE



Source: *China Human Resources and Social Security Yearbook* and *China Statistical Yearbook* and *Statistical Communiqué of the People's Republic of China on the Development of Human Resource and Social Security*, various years

5.3 To provide a buffer against consumption shocks, UI schemes typically replace a proportion of wages lost – up to 70% in OECD countries – often with a stipulated maximum. In contrast, in the Chinese scheme unemployment benefits are provided at a flat rate set by local governments and are not earnings-related. At an average of just 18% of the local average wage, they are far from replacing lost wages except perhaps for those at the low end of the wage scale where migrant workers are concentrated.

5.4 However, the UI scheme treats migrant workers differently. Until recently, UI benefits for workers with rural *hukou* were paid as a one-off lumpsum payment rather than the monthly benefits for up to 24 months enjoyed by unemployed workers with urban *hukou*. The benefit amount varies across localities, but is typically equal to one month of UI benefit per year of contribution to the UI fund, up to a maximum of 12 months.[25] In other words, for unemployed workers with five years of contribution history, those with urban *hukou* are entitled to receive up to 18 months of benefits, while those with rural *hukou* receive a lumpsum payment equal to five months of benefits.

5.5 Recent changes in some localities, including Beijing, Shanghai and cities in the Pearl River Delta, have made it possible for eligible enrollees with rural *hukou* to opt for receiving monthly UI benefits in lieu of a lumpsum payment.[26] Under the current decentralised management of social insurance pools, however, they must collect the benefits from their home jurisdictions.[27]

5.6 For example, in Shanghai, eligible laid-off migrant workers can claim their monthly unemployment benefits from the localities where their *hukou* is registered, with their benefits paid from the unemployment insurance pool in Shanghai.[28] In practice, the transfer of financial obligations for UI benefits across jurisdictions is likely to be administratively cumbersome as it requires lengthy processes of application and verification; rural jurisdictions that do not have an UI agency are unable to receive

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25 http://www.xinhuanet.com/fortune/2017-11/10/c_129738071.htm, accessed 5 August 2020 and http://www.cfbond.com/zclb/detail/20200520/1000200000018451589969361169803058_1.html, accessed 15 August 2020.

26 MHRSS reported that one-third of the provinces have eliminated the special policy for rural migrant workers by 2017. http://www.xinhuanet.com/fortune/2017-11/10/c_129738071.htm, accessed 8 May 2020.

27 https://www.cpic.com.cn/baike/537.html, accessed 5 May 2020.

28 https://www.shui5.cn/article/0a/138565.html , accessed 11 December 2020.

the funds or administer the unemployment benefits. Topping this off is the payment of benefits based on local standard, which is likely to be much lower than that in Shanghai. For example, the monthly minimum wage, to which the UI benefits are pegged, was RMB2,480 in Shanghai in March 2020. In neighbouring Anhui province it was just RMB1,380.[29]

5.7 Finally, while the social insurance law stipulates that contributions are cumulative and transferable across jurisdictions, this has rarely been realised. Many commentators lament that migrant workers with seasonal contracts cannot meet the minimum vetting period of 12 months of contribution to qualify for unemployment benefits.[30]

5.8 Given these inequities and constraints, enrolment rates are low for migrant workers. Nationwide in 2017, only 17% of migrant workers were enrolled in UI.[31] In Hainan province the share was only 10.6% in the same year.[32] In 2019, only 11.4% of migrant workers employed outside of their home area in Shaanxi province had UI.[33]

Difficulty of Accessing Benefits

6.1 Gaining access to benefits is difficult not just for migrant workers, but for everyone – adding further to the poor incentives for joining the UI scheme.

6.2 To qualify for UI benefits, an unemployed person must first obtain a certificate of termination from her employer within 15 days, showing involuntary termination,

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29 CEIC.

30 For example, see https://www.financialnews.com.cn/bx/ch/202007/t20200701_194480.html, accessed 15 October 2020.

31 Zhou Xin and Sidney Leng, "Coronavirus: is China prepared to handle an unemployment crisis?" *South China Morning Post*, 12 May 2020. https://www.scmp.com/economy/china-economy/article/3083823/coronavirus-china-prepared-handle-unemployment-crisis?utm_medium=email&utm_source=mailchimp&utm_campaign=enlz-china_coronavirus&utm_content=20200512&MCUID=8c52e0c072&MCCampaignID=1e1da08770&MCAccountID=3775521f5f542047246d9c827&tc=2, accessed 11 July 2020.

32 http://www.hainan.gov.cn/hainan/5377/201803/49c1c5e6797a4c3fa321b771a9673fda.shtml, accessed 11 December 2020.

33 http://www.sxi.cn/jjxj/dcbg/RfeEfy.htm, accessed 11 December 2020

and register in person at the designated agencies. Once approved, the beneficiary must visit the agency monthly to ensure continuation of benefits.[34]

6.3 The requirement of the termination certificate is a significant hurdle. Termination is a stigma that many would not want in their lifelong personal dossier (档案).[35] More problematically, they report that employers are sometimes reluctant to issue the certificates, preferring instead to cut wages, hours, transfers and other ways to encourage voluntary departure of employees to retain their eligibility for subsidies under the government's job stabilisation schemes.[36]

6.4 The difficulty of accessing benefits and the low benefit levels combine to explain the low uptake of unemployment benefits. At year-end 2019, out of 9.45 million registered unemployed, only 2.28 million were drawing benefits.[37] Data from the past two decades show the persistence of the low ratio of beneficiaries to the registered unemployed as well as to total enrolment in UI.

6.5 After peaking at nearly 60% in 2002 during the height of layoffs from SOE reform, the share of the registered unemployed drawing benefits has fallen sharply to hover around just 20-22% for most of the past decade (Figure 6). It seems to confirm reports that the vast majority of the unemployed find it – in the words of one observer – "not cost effective" to apply for benefits.[38] The difficulty of travel during the COVID period undoubtedly compounded the problems of registering and applying, thereby suppressing the take-up rate.

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34 http://www.xinhuanet.com/fortune/2017-11/10/c_129738071.htm, accessed 8 May 2020.

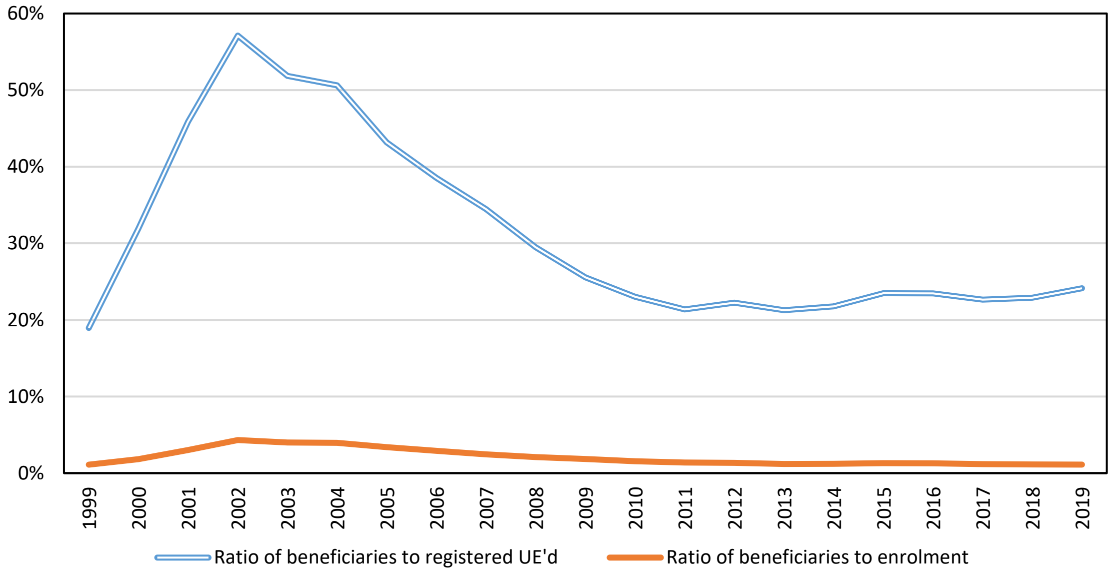
35 https://www.scmp.com/economy/china-economy/article/3078251/coronavirus-chinas-unemployment-crisis-mounts-nobody-knows, accessed 31 July 2020.

36 http://www.cfbond.com/zclb/detail/20200520/1000200000018451589969361169803058_1.html, accessed 15 August 2020.

37 CEIC.

38 https://www.yicai.com/news/100663284.html, accessed 5 August 2020.

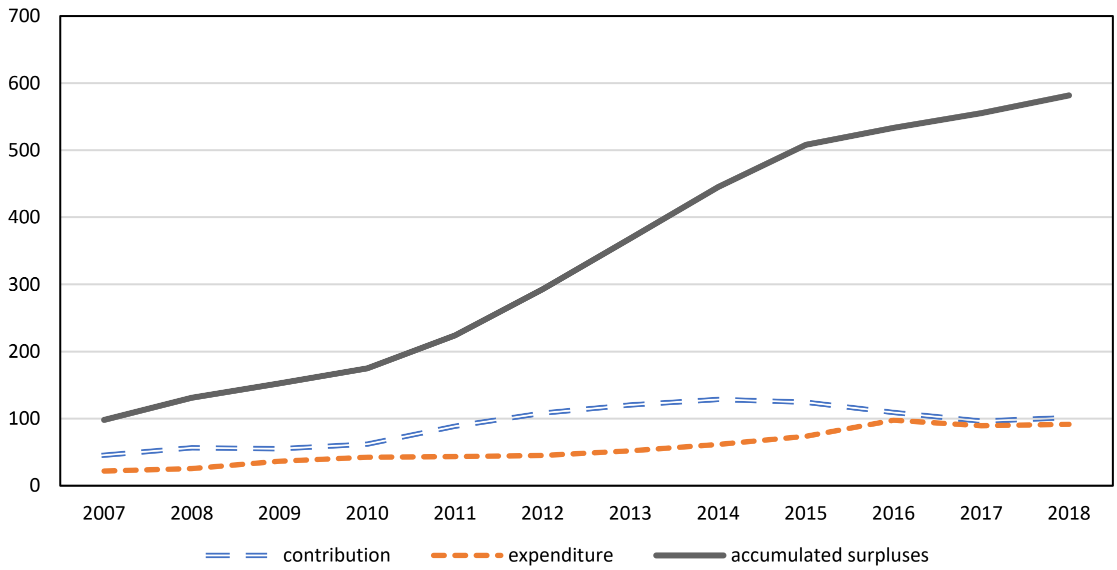
FIGURE 6 NUMBER OF BENEFICIARIES AS A SHARE OF THE REGISTERED UNEMPLOYED AND OF ENROLMENT IN UI (%)



Source: CEIC.

6.6 Given the low benefit levels and the low uptake of benefits, it is not surprising that the UI scheme runs surpluses (Figure 7).

FIGURE 7 CONTRIBUTIONS, EXPENDITURES AND SURPLUSES OF THE UNEMPLOYMENT INSURANCE FUND (RMB billion)



Source: CEIC.

6.7 While the accumulation of large surpluses finally led to the reduction of contribution rates after 2015 as noted earlier, it has not led to raising the UE benefit levels. In Table 3, data from the Ministry of Finance accounts show that unemployment benefits accounted for only 39% of expenditures in 2018. In 2019 the share fell to 28%. When health insurance contributions, funeral subsidies and job training subsidies were included, payments for the unemployed in fact dived from 57.5% in 2018 to 37% in 2019. Instead, unexplained "other" expenditures grew from a respective 42% to 63% of the total in 2018 and 2019, a part of which may have gone to funding job-retention rebates to employers.

TABLE 3 COMPOSITION OF UNEMPLOYMENT INSURANCE FUND EXPENDITURES

unit: RMB billion	2018	Share of expenditure	2019	Share of expenditure
Unemployment Insurance Fund Revenues	117.12		127.26	
Unemployment Insurance Fund Expenditure	91.53		128.43	
Unemployment benefit payments	35.76	39.1%	36.04	28.1%
Medical insurance payments	9.26	10.1%	8.77	6.8%
Funeral subsidy expenditure	0.07	0.1%	0.06	0.0%
Subsidies for vocational training and job introductions	7.61	8.3%	0.51	0.4%
Skills improvement subsidy expenditure	0.03	0.0%	2.09	1.6%
Others	38.81	42.4%	80.97	63.0%

Source: MOF final accounts for 2018 and 2019 budgets.

Assessing the Unemployment Insurance Scheme

7.1 This combination of narrow coverage, low benefits and pay-outs, and huge surpluses suggest that the current UI scheme is fundamentally broken. It is unattractive to participants since the scheme is unable to perform its most basic function of insuring them against economic hardship caused by job loss. As a result, many have skirted the rules for compulsory enrolment.

7.2 The rigidities of the scheme and its many deficiencies have been glaringly exposed in the COVID-19 pandemic. During the first quarter of 2020, when tens of millions were out of work or furloughed, the number receiving unemployment benefits increased by only 20,000, while 67,000 rural migrant workers received a one-off subsidy in lieu of monthly benefits.[39]

[39] Those on UI benefits rose from 2.28 million in the fourth quarter of 2019 to 2.38 million in the first quarter of 2020. Zhou Xin and Sidney Leng, *South China Morning Post*, 12 May 2020 and https://www.yicai.com/news/100663284.html, accessed 5 August 2020. See also http://www.gov.cn/xinwen/2020-04/21/content_5504862.htm, accessed 11 December 2020.

7.3 This unresponsiveness also means that the UI scheme has been ineffective as a macroeconomic tool, both for tracking labour market conditions and acting as a countercyclical mechanism for injecting cash into the economy to support income and consumption.

7.4 Reform of the UI system is long overdue. The current system is based on the Unemployment Insurance Regulations promulgated in January 1999 to meet the needs of the planned SOE reforms and massive downsizing of their workforce. They were set at a time when the government was just starting to rebuild its fiscal capacity from the disruptions brought by dismantling the planned economy and when budget revenues had fallen to just 12% of GDP.[40] Affordability concerns led to setting a low level of benefit aimed only to "maintain basic living needs".

7.5 The conditions facing China are vastly different today and COVID-19 provides an opportunity for a much-needed overhaul of the UI scheme by promulgating the revised unemployment insurance regulations that were circulated in 2017 for public comment but were never officially adopted.[41] Among the proposed changes were expanding coverage to include all types of enterprises including social organisations, foundations, small and medium enterprises and private proprietorships; and improving fairness by providing equal treatment to all participants regardless of *hukou* status, unifying benefit standards and improving portability. Adopting these changes would go a long way towards correcting some of the faults of the current system.

7.6 The urgency for reforming the UI system to better meet today's needs is two-fold. At the microeconomic level, more generous unemployment benefits may improve efficiency by providing unemployed workers with the incentive and the means to acquire new skills and conduct more extensive job searches. Ensuring equity in the treatment of workers in the UI system would improve the distribution of income and

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[40] Wong, Christine and Richard Bird, "China's Fiscal System: A Work in Progress", in L Brandt and T Rawski (eds). *China's Great Transformation: Origins, Mechanism, and Consequences of the Post-Reform Economic Boom.* New York, Cambridge University Press, 2008.

[41] http://www.cfbond.com/zclb/detail/20200520/1000200000018451589969361169803058_1.html, 15 August 2020.

alleviate the urban-rural divide, while helping to absorb migrant workers more fully into China's social welfare system.

7.7 The new dual circulation strategy depends on strengthening domestic consumption. A well-functioning UI scheme is a critical part of a robust social protection system to boost consumer confidence and reduce the need for savings. As China enters the "new normal" with lower growth rates, unemployment will be an increasing concern even after the COVID effect has passed, and the consumption-smoothing role of the UI scheme will be increasingly salient.

7.8 While coverage of the UI scheme should be expanded to include all workers in the formal sector including private companies, it will be infeasible and probably undesirable to strive to extend coverage to the informal sector given the informational and enforcement challenges. The unstable incomes and irregular durations of work that characterise this sector may make it difficult for workers to make regular contributions. At the same time, it is also difficult for authorities to verify their eligibility for benefits, such as the reasons for unemployment and the labour market status.

7.9 Instead, the UI scheme must work alongside other social protection programmes such as *dibao* to provide coverage for all workers, a point emphasised by top leaders such as Premier Li Keqiang. In recognition of the current limitations of the UI scheme, Premier Li has called repeatedly for relaxing eligibility rules, extending benefit periods and raising benefit levels, and for those in need to be covered by the dibao programme if they are ineligible for UI benefits.[42]

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42 http://www.gov.cn/premier/2020-04/22/content_5505082.htm, accessed 11 July 2020.