CHINA'S NEW CHALLENGES: INCOME INEQUALITY, POVERTY AND SOCIAL SECURITY SYSTEM

Yang C.

Ph.D., Professor. Beijing Normal University. Department of Economics
Beijing, Chinese People's Republic. E-mail: info@bnu.edu.cn

Zavyalova E.B.

Ph.D., Professor. MGIMO-University. Economic Policy Department, head of the Department
Moscow, Russian Federation. E-mail: e.zavyalova@inno.mgimo.ru

Аннотация. Россия и Китай представляют динамично развивающуюся группу стран, демонстрирующих за последние десять лет беспрецедентно высокие темпы роста. Вместе с тем, бурный экономический рост стал причиной возникновения ряда социальных проблем, которые требуют немедленного решения. Представленная статья посвящена социальной политике Китая. Изучение мер, предпринятых КНР для решения насущных задач, может быть весьма полезным для новых быстроразвивающихся экономик, уделяющих особое внимание социальной сфере, и, в частности, для России.

Ключевые слова: социальная политика Китая; социальные реформы; неравенство доходов; бедность; демографические изменения; система социального обеспечения

Код УДК: 330.34

Annotation. China and Russia are representing the rapidly developing group of countries that have shown unprecedentedly high growth rates in the previous decade. But rapid economic growth has resulted in some social problems that need urgent solutions. The article is devoted to the Chinese social policy. The Chinese measures undertaken to meet new challengers may be useful for other emerging economies that put special emphasis on social security issues, especially Russia.

Keywords: Chinese social policy; social reforms; income inequality; poverty; demographic change; social security system

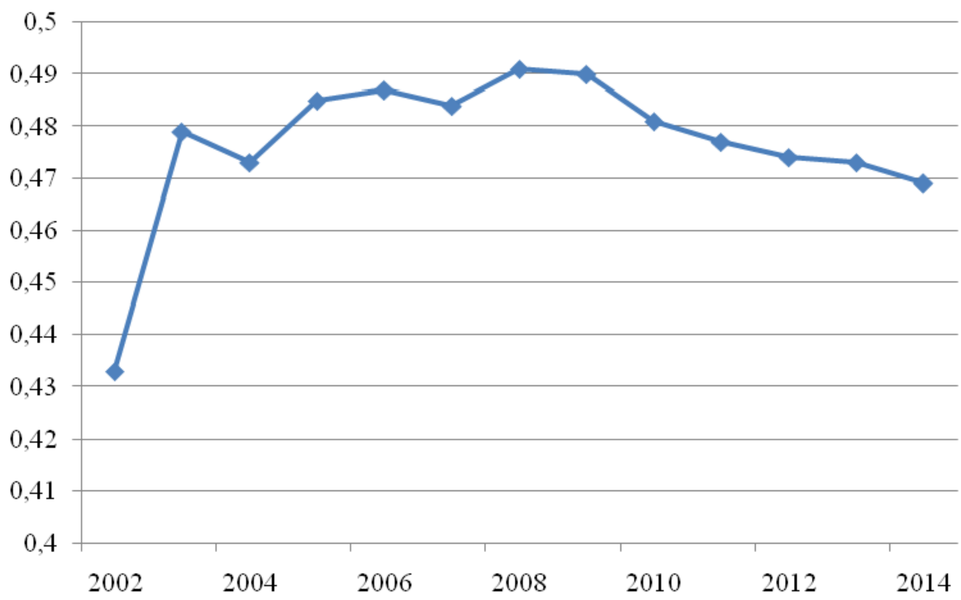
The Chinese GDP achieved the record high level in 2014 – 10.36 trillion USD (compared to 9.44 trillion in 2013). The average growth rate of 7.4% [1] was one of the world's highest. It is also worth mentioning that GDP per capita is rising at a significant rate, 7593 USD (compared with 7000 USD in 2013). All in all China contributes 12% to the world GDP (compared to 5% in 2000). Moreover, China has become one of the most significant world economic players with the world largest trade volume in the world. Exports account for $2.21 trillion USD ($49.6 billion USD to Russia), imports $1.95 trillion USD ($39.7 billion USD from Russia). Foreign reserves account for $3.82 trillion USD.

All these figures led to the appearance of a common perception of the Chinese economic miracle. Many developing countries tried to copy the Chinese economic policy to ensure higher and sustainable economic growth rate. But such rapid development has some built-in negative features, such as: rising labor costs, decreasing labor force, employment pressure, slowdown of trade growth, economic restructuring, debts of local governments and appearance of a «middle income trap».

This article aims at analyses of major social issues and challenges resulting from the rapid economic development, such as increasing income inequality, aging population, demographic change and social security network.

INCOME INEQUALITY

The GDP grows at a faster pace than real personal income rate. The first concerns about it were articulated in the previous decade when the average annual GDP growth rates rose to 11.6% during 2002-2007 while rural and urban household income per capita grew only at 6.8% and 9.6%, respectively. As a result Chinese statistics showed lasting increase of the national income Gini coefficients (ranges from 0 to 1; the higher the figure, the more unequal of income) till 2008, while the decline after 2009 may not be statistically significant according to some research [2] (Pic. 1). The above mentioned trends resulted in one of the world highest income ratios (Pic. 2).

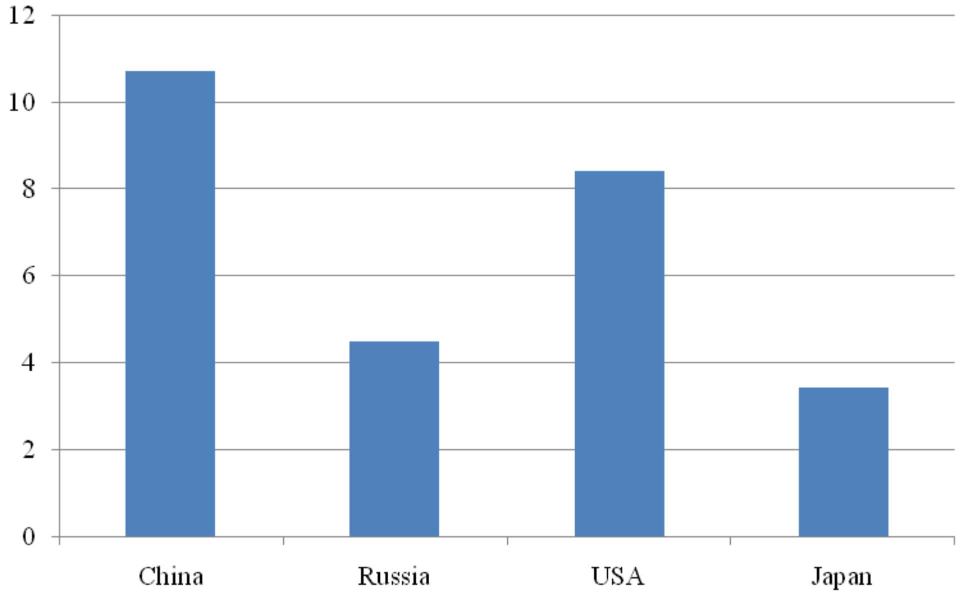


Pic. 1. Gini coefficient

Source: National Bureau of Statistics of China [2]

But the worst thing about this tendency is that various social layers and regions were affected by it differently. Now Chinese government is seriously concerned about the growing gaps between urban and rural areas, Western and Eastern regions. The situation is aggravated by growing differentiation in industries and between employees of monopolistic state owned enterprises and competitive private firms.

As a result only 1% of the wealthiest families own 30% of national wealth and top 10% of the wealthiest families own 64% of national wealth. It is important to mention that wealth differences are more obvious than labor income.



Pic. 2. Average income ratio of the top 20% to bottom 20% population

Source: The World Bank [1]

POVERTY

The problem of poverty is rather controversial. On the one hand in the recent decades China managed to reduce poverty level significantly. It is a huge achievement of the national government policy supported by the world general tendency of poverty reduction. In 1978 poverty population accounted for 250 million (30% of total population) compared with only 26.9 million (2% of total population) in 2010. In 2011 the Chinese poverty line was raised from $0.55 USD/day to $1 USD/day (in 2010 dollars, $1.91 by PPP). Still, poor population accounted for 128 million, only 9.5% of total population.

On the other hand, there are serious problems that need urgent address. The most obvious is the higher poverty rate in rural area (4 times as high as in urban area, where poverty is growing mostly because of migrant workers and disabled). The fact is enhanced by the latest social statistical data showing that the share of potentially poor rural population is growing. The urban population reached 51% of the national population (45% by the end of 2010). The number of rural-urban migrant workers is also growing – 240 million (132 million in 2006). Another problem is represented by the fact that the ratio of extremely low income population (under 0.5 USD/day) has not declined significantly with economic development [2].

One of the urgent and growing concerns is the increasing poverty gap index (a gap between average income level and poverty line) that requires more transfer payments from the government. The Chinese government is undertaking significant efforts in fighting inequality and poverty. 2011 can be seen as a turning point in the Chinese government inequality reduction policy. First of all two major policy adjustments were implemented: tax exemption level was raised to 3500 RMB/month from 2000 RMB/month, and poverty line 1196 RMB/year in 2009 up to 2300 RMB/year ($1 USD/day). The next significant step was made in the direction of reforming progressive income tax system, 7-tier system was implemented ranging from 3%to 45% (9 tiers before 2011). Significant steps were undertaken in 2014. To enhance the effect of the tax reform the government decided to reduce wages and salaries of the high rank managers and employees of some monopolistic state owned enterprises.

In the framework of the anti-inequality policy special emphasis is put on regional aspects. The government launched regional rebalancing policies, such as Western Development Strategy (1999); the Reviving the Northeastern Strategy (2003); the Rise of the Central Region Scheme (2006). Additionally, series of pro-rural policies since 2003 is considered to be very efficient, especially, agricultural tax exemption, exempted school fees for students in compulsory education, Dibao (low-income family) program implemented in both rural and urban areas, agricultural subsidies to rural households.

Still, there are some remaining problems that cannot be solved in the near future.

The first problem is insufficient tax base. Only 30 million people are qualified for paying income taxes. That leads to the situation when personal tax account for only 6.7% of total tax revenue. At the same time in China there is still no taxation on wealth, nor property tax or bequest tax. This excludes the whole layer of taxpayers and eventually leads to further growth of inequality.

It is well known that social reforms take time. But before the first results are seen it is the government that has to pay to socially unprotected people. Unfortunately, the current practice is characterized by the limited coverage and strength of low income family assistance, still more than 120 million people live under poverty line.

DEMOGRAPHIC CHANGE

For more than 30 years China has been consistently perusing a specific demographic policy. It led to the one of the world lowest social indicators growth rates. Annual population growth rate is only 0.5%. China also has one of the lowest fertility rates in the world: 1.18 [4]. Unbalanced gender ratio raises fears that the situation will get worse with years. The negative impact of the reform resulted in the aging population, which in turn leads to the rise of the dependency ratio.

As a result population bonus responsible for the Chinese economic miracle of the previous decades is disappearing. For instance, as China grows, wages and living standards rise Chinese workers are becoming more «expensive».

The slowdown of the birth rate and the aging population resulted in an unprecedented for China problem of the lack of labor. At the same time overall dependency ratio starts to increase that leads to more retirement and social security concerns.

What is done to improve the situation? Starting from 2014 families in which husband or wife is the only child of their parents now can have two children. 60% of the qualified families on survey say they intend to have the second child, an estimation of up to 2 million new births each year. But against the expectations in view of high cost of raising children young families were not eager to participate in the program. Out of 11 million qualified couples, only 70,000 applied, 62,000 got approval, way below the estimation before.

CHINESE SOCIAL SECURITY SYSTEM

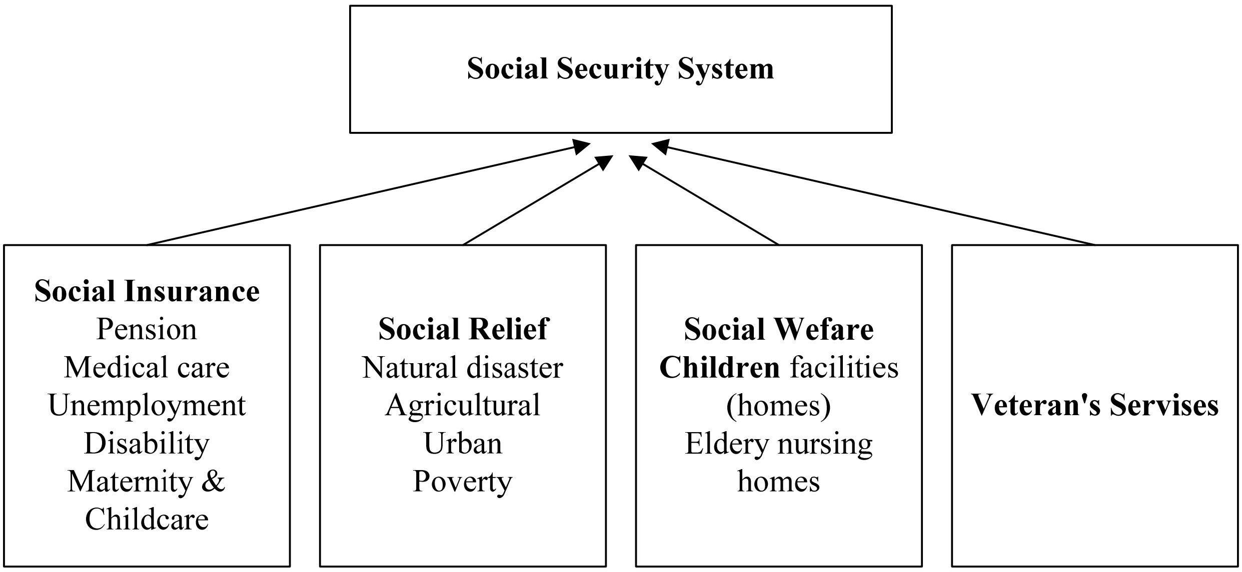
The Chinese social security system is divided into four levels:

The first level: officials, civil servants and public institutions who enjoy superior financial provision for pension, free medical care and even at public expense convalescence;

The second level: the general city employees, businesses and individuals are financed by the cost of insurance, personal accounts and social pooling;

The third level: the residents of the city who have no fixed work have to purchase commercial insurance;

The fourth level: the rural population to participate in the low-level rural old-age cooperative medical.



Pic. 3. Construction of the Social Insurance

Within this sphere the most important issue is the pension system reform. In 2009 less than 30% of China's adults were covered by the government's pension patchwork. The only cushion for most rural seniors was their field and their family. However, pensions have spread at extraordinary speed. According to China's Ministry of Human Resources and Social Security, 842 million people are now enrolled in one scheme or another by the end of 2014: over 80% of adults. China's new rural pension has added over 240 million people in just two years–more than are covered by America's Social Security.

It can be considered as historic achievement, but there are still several problems that call for immediate attention.

First of all pension benefits are very basic and vary across rural and urban, west and east. Underfunding is the general problem. In some rural regions the basic pension can be as low as 55 yuan (about $8.75) per month.

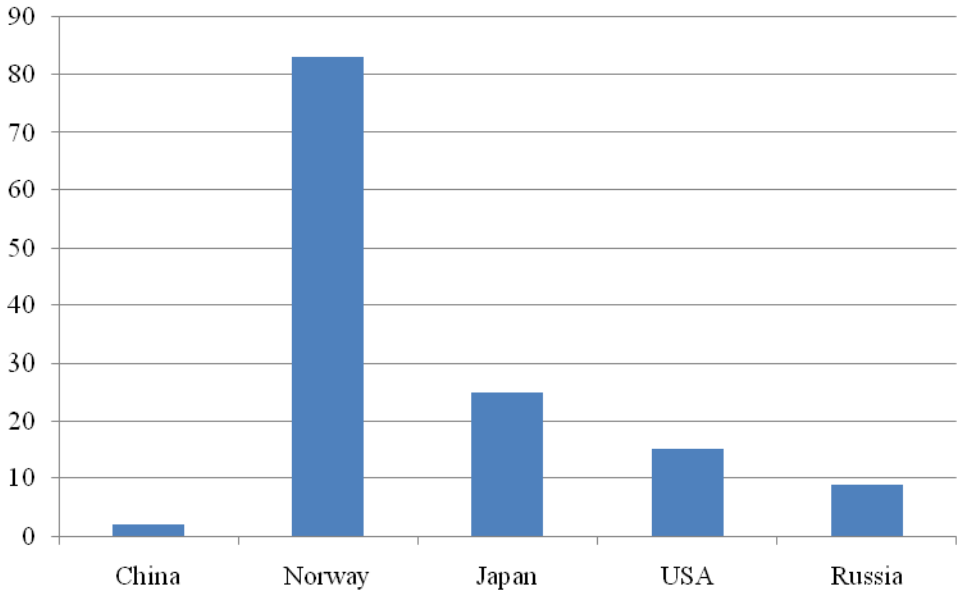
Both rural and urban workers are obliged to supplement the state pension with contributions to individual accounts. By one estimate about 400 billion USD has been paid into these accounts. But little of that money has stayed in them. Unlike individual accounts in nearby Hong Kong or Singapore, China's Pension fund is not carefully segregated and invested in financial portfolios, held in the contributor's name. Local governments use the money for other things, such as paying the bills, speculating in property, or paying the pensions of today's retired–especially those shed by state-owned enterprises during the downsizings of the 1990s.

The problem financing pensions is a growing concern of the Chinese government. The pension burden will increase as the country ages. By 2035 almost 30% of Chinese will be 60 or over (compared with about 14.9% today). The country cannot afford to put so many people out to pasture.

The most probable solution is the rise of the official retirement age. Over the next decade it should be raised from 60, for men, and as early as 50 for blue-collar women, to 65 for everybody.

Accumulated pension fund shortage is estimated 300 billion USD, 14 provinces have a pension gap. On the other hand, the pension fund/GDP ratio is also among the lowest in the world [5].

The central government should take charge of the pension system. It could fill the empty accounts, glue the fragmented system together and ideally make pensions much more portable.



Pic. 4. pension fund/GDP ratio

Source: China's Pension Report 2012 [5]

In terms of structure, the long-term goal should be to give individuals greater control over their own accounts, choosing their investments as they do in Hong Kong (with appropriate safety nets and so on).

The problem here is that China still lacks the mature and open financial systems of Hong Kong and Singapore: its helter-skelter stock market is hardly ideal for retirement savings at the moment. So change will have to be gradual.

The problems are aggravated by the fiscal crisis of the social security fund caused by the following reasons: difficulty of premium collection, undeveloped legal system, poor business condition of companies, deficiency in social security administration, inefficient premium collection method.

The optimal solution seems to be the transfer of SOEs profits into pension fund. The former social security system became a major obstacle to the ongoing reform of state-owned enterprises. Thus there was no choice but to reform the old system and establish a new one. In pursuing the reform of state-owned enterprises following the reforms and market opening of 1978, state-owned enterprises sought to improve efficiency by restructuring and reducing excess employment. For the successful reform of state-owned enterprises and maintenance of social stability, it was necessary to alleviate the anxieties of unemployed and laid-off persons by promoting re-employment and at the same time laying out the social security safety net of unemployment insurance, medical insurance, and pension insurance. There is another option also. Government could hand over some of its foreign assets to the National Social Security Fund. That would fill the accounts and diversify household portfolios, without asking too much of China's own immature financial markets. Turn the empty accounts into «notional» accounts, as pioneered by Sweden. Under this system, individual contributions determine benefits, according to a transparent formula that reflects the retiree's life expectancy and the economy's ability to pay. The benefits are still paid out from a mix of current taxes and a central pension fund.

But as the financial system matures, the social security system should steadily shed its Chinese characteristics in favor of capitalist ones, as in the Hong Kong model.

ЛИТЕРАТУРА

1. GDP growth (annual %) [Electronic resource]. – Access mode : http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG
2. National Bureau of Statistics of China [Electronic resource]. – Access mode : http://www.stats.gov.cn/english/
3. European Central Bank [Electronic resource]. – Access mode : http://www.ecb.europa.eu/
4. China's sixth national population census, 2010 [Electronic resource]. – Access mode : http://www.stats.gov.cn/english/
5. China Pension Development Report: 2012 / Zheng BingWen – Economic Management