

# Challenges and Perspectives of Welfare Regimes in China

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During the period of planned economy, China adopted a highly centralized approach to welfare provision, i.e. the social welfare resources were controlled and distributed by the central government, which turned out to be a heavy burden for both the government and the enterprises. With the transfer to market economy of the country and the recognition of the disadvantages of the single system of welfare provision, a more decentralized welfare regime and service network are called for to meet various demands by the society. Some changes have been taking place in the welfare regimes under such context.

## 1. Main welfare regimes in China

### Provision for the aged

With the huge amount of the old and the retired, China is facing considerable pressure in terms of the expenditure on the pension of urban residents. The government raises money through various channels. The principal portion comes from regular hand-in from enterprises and employees. Generally, the enterprise pays 20 percent of the total amount of its budgeted wage and the employee pays 8 percent of his wage. The employee will finally get pension when they get retired. In the year of 2003, the total figure from this channel reached 259.5 billion yuan. The government finance is another supplement for the fund of pension. Financial assistance for the pension fund that from the government at all levels is 54.5 billion yuan in the year of 2003, including 47.4 billion yuan offered by the central government.

Table 1: Budgetary expenditure on pension and social welfare by central finance

Unit: 100 million yuan						
Year	Total	Pension for disable and bereaved families	Pension for retires	Relief funds and social welfare	Relief funds for nature disasters	Others
1985	31.15	7.13	4.88	7.71	10.25	1.18
1986	35.58	8.77	5.77	8.69	10.64	1.71
1987	37.40	9.87	6.68	9.04	9.91	1.90
1988	41.77	11.32	7.59	9.73	10.64	2.49
1989	49.60	14.43	8.56	10.80	12.88	2.93

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1990	55.04	16.61	9.60	12.07	13.33	3.43
1991	67.32	17.21	10.32	13.18	22.51	4.10
1992	66.45	18.45	12.40	14.36	15.89	5.35
1993	75.27	20.78	14.09	17.01	15.40	7.99
1994	95.14	24.78	20.12	20.55	19.42	10.27
1995	115.46	29.11	22.78	24.19	27.27	12.11
1996	128.03	32.78	10.67	28.98	39.06	16.54
1997	142.14	37.62	13.51	36.57	34.51	19.93
1998	171.26	40.38	16.24	35.29	52.32	27.03
1999	179.88	54.57	19.68	48.52	34.05	23.06
2000	213.03	59.72	23.72	59.71	28.73	41.15
2001	266.68	69.86	30.26	89.99	35.17	41.40
2002	372.97	60.03	41.28	141.63	32.93	97.1
2003	498.82	99.15	42.19	217.69	55.71	84.08

Data resource: <http://www.mof.gov.cn> Ministry of Finance of PRC

Besides that, the related departments have carried out some policies to provide welfare services for the old people. Take the Starlight Plan for example. The Ministry of Civil Administration decided to help the establishment of welfare services in urban communities and also building of resthomes in rural area. From the year of 2001, local government would finance this plan by issuing welfare lotteries in the next 2 to 3 years and most of the earnings, which lived up to 4 billion yuan around, would be invested into it. The direct objective of this policy is to meet the needs of old people in the community and establish a welfare service network at the level of community, which makes a carrier for the community tendance. From a further perspective, this policy is consistent with the new trend of the socialization of welfare service, which means put more function to the existed local community.

It's divided into three period during the implement of Starlight Plan. It cost 3.077 billion yuan to build 7,278 Starlight Aged Home in the communities of capital cities in the provinces in the year 2001. This policy moves deeper to the lower level cities in the second period in 2002, finishing 14,943 Starlight Aged Home in communities with the investment of 5,256 billion yuan. In 2003, 10,269 Starlight Aged Home covers the main villages and towns in rural area with the investment of 5,152 billion yuan.

### **Medical insurance reform: withdraw of the government**

As for the medical care, the existed basic medical insurance regime covers urban employees only. By the end of 2003, 109.02 million people have been involved in medical care insurance, including 79.75 million employees and 29.27 million retired employees. The basic medical care insurance covers all the enterprises and employees in the urban area. The fund sources come from the payment of enterprise and employee himself. Generally, the enterprise pays 6 percent of the total amount of its wage while employee pays 2 percent of his wage, and the retired employees needn't pay for it.

While the total cost of sanitation is rising with high speed, the expenditure that government invests and the average wage of employees are unluckily shifting slowly.

Table 2: The cost of sanitation and medical care from year 1993 to 2002

year	Total cost of sanitation(billion yuan)	Total expenditure of government invest(billion yuan)	Average wage(yuan)	Total cost of medical care(billion yuan)
1993	137.04	11.938	107.10	15.430
1994	176.86	14.697	107.70	19.280
1995	225.78	16.326	103.80	23.630
1996	285.72	18.757	103.80	26.560
1997	338.49	20.920	101.10	27.760
1998	377.65	22.510	107.20	28.690
1999	417.86	23.560	113.07	32.010
2000	458.69	27.202	111.40	34.690
2001	502.59	34.559	115.20	31.290
2002	568.46	35.040	113.30	26.600

Data resource: <http://www.mof.gov.cn> Ministry of Finance of PRC

After the reform, China becomes more market oriented for health service and the proportion that government budget accounting for the total sanitation expenditure is descending year after year, from the 17% in 1995 to 14.9% in 2000. While the portion of individual sanitation expenditure in the total sanitation expenditure is boosted from 50.3% to 60.6% at the corresponding time. Such transferring to market certainly alleviates the fiscal burden that government faces, however, it makes medical institutions lack of adequate compensation that leads to over-market-oriented, which make the weak in a worse situation.

Table 3: The proportion of government invest (government invest/total fee of sanitation)

Index	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	average
Percent	8.71	8.31	7.22	6.56	6.18	5.96	5.64	5.93	6.88	6.16	6.76

Data resource: Statistics Yearbook of China (2003)

Table 4: The proportion of government sanitation invest in its total fiscal expenditure)

Index	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	average
percent	2.26	2.54	2.39	2.36	2.27	2.08	1.79	1.71	1.83	1.59	2.08

Data resource: Statistics Yearbook of China (2003)

While the expenditure that rural residents pay for medical care among their consumption is increasing gradually, while the medical service that they received is comparatively going down. In the year 2003, there are averagely 15.2 beds and 23.9 medical care staffs per hospital in villages, showing that the services farmers receives and the expenses they pays is

unconformable. In the broader villages, a more general problem is that farmers cannot afford the medical treatment money when they got severe diseases so that they have to tolerate and have no other way around. Self medical treatment takes up 79% among the means of medical insurance for rural residents. All that reflects the insufficient supply of rural medical service and the vacancy of rural medical insurance.

According to the data that released by the Ministry of Health in November 2004, up to the end of June of that year, the new cooperative medical program in rural area had been carried out in 310 counties covering 95.04 million rural residents, and the virtual rate of participation was up to 72.6%, namely 68.99 million residents were beneficiaries of this program.. Whereas considerable effect of the rural cooperative medical program, there are still 700 million people that have not been involved in the regime. Some farmers are not enthusiastic about this program considering the comparatively high portion that they should assume, let alone the expensive commercial insurance. There are still a long way to go for the further medical regime reform in this regard. At the beginning of this year, the related Departments decided to improve the policies and accelerate the implementation of it, promoting more experimental counties in the cooperative medical programs. In the year of 2006, the amount of experimental counties will arrive at 40% of the total counties, at 60% in the year of 2007, till 2010 covering all the rural residents basically. The central government will also increase financial investment to the central and western areas of the country.

### **Uneven education development among regions**

After China's reform and opening up to the outside world, both the financial system and education system come through great changes. The decentralization of financial system pushes local governments to a more important role in the educational investment, especially in compulsory education. Local government is responsible for compulsory education according to legislation. However, the imbalance of economic development in different areas leads to a further imbalance in terms of education development.

Fiscal education expenditure accounts for a low portion in GDP. The proportion of fiscal education expenditure of GDP is an important index to weigh a country's recognition for education development. This index of China is 3.28% in the year of 2003, far below the international average index 5.1%, even not catch up with the average 4% of developing countries. On the other hand, the proportion of financial education expenditure in the total financial expenditure is descending all through these 10 years, which is unsuitable to the urging public demand for education.

Table 5: Government expenditure on education as share of relevant indicators

	Expenditure for education	As share of
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	(100 million yuan)	GDP	Total expenditure (including debt)	Total expenditure (excluding debt)
1986	274.72	2.69	11.79	12.46
1987	293.93	2.46	12.00	12.99
1988	356.66	2.39	13.18	14.32
1989	412.39	2.44	13.56	14.60
1990	462.45	2.49	13.40	15.00
1991	532.39	2.46	13.96	15.72
1992	621.71	2.33	14.16	16.61
1993	754.90	2.18	14.28	16.26
1994	1018.78	2.19	16.17	17.59
1995	1196.65	2.05	15.54	17.54
1996	1415.71	2.09	15.24	17.84
1997	1545.82	2.08	13.86	16.74
1998	1726.30	2.17	13.13	15.99
1999	1927.32	2.35	12.71	14.61
2000	2179.52	2.44	12.40	13.72
2001	2636.84	2.71	12.56	13.95
2002	3105.99	2.96	12.63	14.08
2003	3351.32	2.87	12.03	13.60

Data resource: <http://www.mof.gov.cn> Ministry of Finance of PRC

Table 6: The proportion of fiscal education expenditure in the total fiscal expenditure

Year	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
proportion	17.59	17.54	17.84	16.74	15.99	14.61	13.95	13.95	14.08	14.68

Data resource: Yearbook of Finance of China (2003)

The increasing speed of fiscal educational investment is obviously slower than that of the total educational expenditure. For years, the proportion of fiscal educational expenditure in the total educational expenditure has been descending. Though the figures below reflects the trend of raising money through multi-channels, consequently making the increase of the non-fiscal investment evident, the prominent gap between the figures reveals the weakened supplement by government, which is not conform with the demand of education development.

Table 7: The proportion of fiscal educational expenditure in the total educational expenditure

Year	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Proportion	78.91	75.16	73.89	73.57	68.92	68.29	66.58	65.92	63.71	62.02

Data resource: Statistics Yearbook of China (2004)

Among the fiscal educational investment, the portion from central government is

comparatively limited, accounting for less than 10%. It primarily results from decentralization of educational investment since 1980s, local government taking on the investment of compulsory education. While in rural area, the county government, which should be the payer for education, is overloaded by it, and has to impute the expenditures to poor farmers by all means, leading to some children's dropout indirectly.

Table 8: The comparison of central and local government on the education investment

Sort Level Of gov.	Financial revenue(hundred million yuan)			Fiscal educational expenditure(hundred million yuan)		
	total	amount	proportion	total	amount	proportion
Central	21715.25	11865.27	54.6%	2937.34	240.20	8.18
Local		9849.98	45.4%		2697.14	91.82

Data resource: Statistics Yearbook of China (2004)

Since the insufficiency of fiscal expenditure on education, multi-channels of civilian fund come into being reasonably. The endowment of individuals and enterprises, such as the Hope Project, is an important composition of the fund. However, most of the civilian fund are introduced by the means of market activities, including school-run industry, socialized services, jumping fees for students and the like. In such ways, the schools can raise money for the gap of fiscal support. The role of civilian fund playing in the investment of education is increasingly enormous that has become a hot topic nowadays. From the aspect of the whole society, market economy do motivate both of the supplier and the demander on education investment, but the group of beneficiaries is limited considering the distribution for most part of the fund is concentrated in the more developed regions and strata.. whether the industry of education can attract more civilian fund depends much on the improvement of people's economic affordment and demand for education quality, consequently, the educational financing through multi-channels takes on the regional differences. In western area of China which is comparatively underdeveloped, civilian fund makes a small portion while more than 80% of education expenditure relies on fiscal investment. In middle area of China, the proportion of fiscal investment is reduced to 75% to 80%, and less than 75% in eastern China. Raising money by multi-channels is more easily to be realized in the districts with better economic development compared with the middle and western areas, where the education investment benefits fewer from the market and still relies more on common finance.

Table 9: Comparison of economic and educational development between provinces in 2000n(yuan, %)

province	GDP per capita	per capita income (urban residents)	Per capita income (rural residents)	Local fiscal revenue per capita	Fiscal expendi- -ture per capita	Level of urbani- -zation	Educa- -tional Outlay per capita	Average outlay for primary student	Average outlay for junior middle student
Beijing	22460	10350	4605	2496	3205	77.54	1397	2895	4309
Tianjin	17993	8141	3622	1335	1869	71.99	579	1645	2294

Hebei	7663	5661	2479	369	616	26.08	205	560	850
Shanxi	5137	4724	1906	347	683	34.91	211	701	1043
Inner Mongolia	5872	5129	2038	400	1041	42.68	224	945	1133
Liaoning	11226	5358	2356	698	1222	54.24	296	967	1526
Jilin	6847	4810	2023	381	956	49.68	307	993	1470
Heilongjiang	8562	4913	2148	502	1035	51.54	283	1079	1004
Shanghai	34547	11718	5596	2900	3635	88.31	1042	3715	4414
Jiangsu	11773	6800	3595	603	795	41.49	352	1044	1814
Zhejiang	13461	9279	4254	733	922	48.67	391	1577	2359
Anhui	4867	5294	1935	299	540	27.81	173	535	757
Fujian	11601	7432	3230	674	934	41.57	300	1008	1366
Jiangxi	4851	5104	2135	269	540	27.67	159	596	816
Shandong	9555	6490	2659	511	675	38.00	230	783	1056
Henan	5444	4766	1986	266	481	23.20	165	447	774
Hubei	7188	5525	2269	356	612	40.22	255	562	1108
Hunan	5639	6219	2197	275	540	29.75	217	684	1017
Guangdong	12885	9762	3654	1054	1250	55.00	364	1331	1890
Guangxi	4319	5834	1865	328	576	28.15	187	611	858
Hainan	6894	5358	2182	498	815	40.11	270	755	1308
Chongqing	5157	6276	1892	757	1463	33.09	195	699	1078
Sichuan	4784	5894	1904	105	225	26.69	165	647	955
Guizhou	2662	5122	1374	242	572	23.87	123	418	648
Yunnan	4637	6325	1479	422	966	23.36	210	819	1269
Tibet	4559	7426	1331	206	2289	18.93	294	1255	2930
Shannxi	4549	5124	1444	319	754	32.26	236	466	770
Gansu	3838	4916	1429	239	735	24.01	186	555	841
Qinghai	5087	5170	1490	320	1318	34.76	206	877	1295
Ningxia	4839	4912	1724	371	1083	32.43	228	756	1063
Xinjiang	7470	5645	1618	411	992	33.82	315	1011	1394
Gini	0.336	0.140	0.217	0.431	0.321	0.215	0.314	0.300	0.290

According to the table above, the index of local fiscal revenue per capita presents a notable provincial difference with the Gini coefficient up to 0.431, the figure of the highest Shanghai city is 27 times of that of the the lowest Sichuan province. Nine of the top ten provinces in terms of local fiscal revenue per capita locate in the eastern coastal areas. The provincial difference of fiscal expenditure per capita is also distinct with the Gini coefficient 0.321. The regional discrepancy in terms of expenditure on compulsory education corresponds with that of the economic development. In the year of 2000, the education expenditure on primary school of the highest Shanghai city is 7.9 times of that of the lowest Guizhou province. Consistency of education development with economic development can also be seen from this table, factually, the level of education development determined by that of economic development. Ordering by the value of Gini coefficient, the top three are local fiscal revenue

per capita, GDP per capita and fiscal expenditure per capita, followed by the other indices on education, which implies the greater regional difference in term of economic and finance development.

In this context, the central government implemented policy to exempt the fees of textbooks and incidental expenses for the students who were in the period of compulsory education in the middle and western area of China since the autumn of 2001 to reinforce fiscal support on education and bridge the regional gap. The central government arranged special fund for the policy, increased from 100 million yuan in 2001 to 1.17 billion yuan in 2004. From the spring of 2005, the central government broadened the scale of beneficiary and increased the subsidy standard, meanwhile it offered subsidy for accommodation to about 16 million students receiving compulsory education among the 592 impoverished counties.

### **The lowest Protection Regime**

The lowest protection regime, established in Year 1998, is to help the poor to afford the basic consumptions. Around 120 yuan per month is the line under which the government will provide the subsidies to them to reach the figure. The amount they get is the gap of the family member's average income and the lowest protection line times the number of the family members. This mainly works in urban areas and some developed regions have come rural areas. The government invest 15 to 16 billion yuan in this regime each year, 22 million people benefit from it.

## **2. Roles of other actors**

### **Roles of Non-governmental Organizations**

Under the old planned economy system, education, health care and other welfare services are totally provided by the government, much brought by the government-sponsored undertakings. During the process of institutional reform, the non-governmental organizations have been germinating, taking over some of the function as supplying welfare services to residents gradually. Up to the end of 2003, there are 142,000 registered social organizations, the increased amount corroborating the fact that NPOs and NGOs have become significant actors in the field of welfare service<sup>①</sup>. For example, SongQingling Fund who has been taking up with children's education cooperated with the Starbuck to carry out the Starbuck education program of China, aiming at offering education opportunity to children in rural areas and also training the female teachers in villages<sup>②</sup>.

Since civil society is a newly field in China, there is not a mode to dealing with the relation between government and NGOs. In most of the cases, government lacks necessary connection with NGOs in the welfare service, either government do it directly or leave the NGOs work alone. From the aspect of management, the government tightens the tache of register for



NGOs while loosen the tache of operation management afterward that some organizations have not meet the needs of residents as they ought to. Nevertheless, the government has been making some attempt to rebuild the relationship with NGOs. Since 2003, the Civil Department has encouraged civil capital entering the field of welfare service with some favorable policies and financial support, making market, NGOs and other civil strength as the main body of service supplier instead of government. The role of NGOs in welfare service has been recognized with their development, but there is still a long way to go seen as a whole. They can't get further development without the support of the government.

### **International Organizations: Intervention under Globalization**

After entering into the WTO, China faces more international intervention like other developing countries. Some developed countries and international organizations, such as World Bank, IMF and ILO are putting to more and more activities in term of international intervention on the welfare policies of developing countries. On one side, these activities influence the tendency of internal welfare policies by various aid programs, and standardize the countries' welfare policies by promoting international criterion on the other side. Some developed countries and international organizations tried to build a basic labor standards within the system framework of WTO, China confronting more challenges for policy-making.

### **Local government and community**

Most of the welfare policies are generally portraied at the beginning of formulation and the concrete running and implementation depends much on local government and the community. The mistiness and ambiguity of these policies leave flexible space to executors. The deviation at standard selection and group targeting will affect the effectiveness of one policy. Trivial but various routines for local government staffs crowd out the effort that ought to be paid on policy implementation, especially in urban communities. After the social transformation, the tasks that taken by enterprises have been handed over to communities, making the latter overloaded heavily. The staffs of community are exhausted for the arrangement and supervision from higher level. Understaffing and lacking of professional quality also restrict the impact of some certain welfare program.

### **3.Challenges and Recommendations**

The main challenges lie on the pervasion of the welfare regime by the market oriented value and the unequal welfare provision between urban and rural areas. Following recommendations are raised to improve the existing China's welfare regime:

- To establish an all round lowest protection regime: to integrate basic medical treatment, education and housing into the criteria of being protected gradually;
- To establish rural lowest protection regime. This should be budgeted by the governments, and supported by central government, provincial government and municipal government;
- To establish a national medical network;

- To reduce the personal expenditure of the medical insurance in urban areas;
- To realize real 9 year compulsory education in rural and urban areas. Much more government expenditure should be spent in education.