pep policy brief
partnership for economic policy
number 105 December 2012

Setting up a uniformed social security system under huge rural migration in China

By Zhang Yaxiong, Zhao Kun and Li Jifeng

Migrant workers and social security

Migrant workers in China have made substantial contributions to the country's urban economic development in recent years, but have not been provided with access to a corresponding social security system.

In particular, the issue of transfer and continuation of their pension insurance between jurisdictions has not been resolved, resulting in a low participation rate of migrant workers in the current pension insurance scheme.

In 2009, new policies were proposed by the Chinese government to safeguard these workers' social security.

According to China's National Bureau of Statistics, 145.33 million rural migrant laborers were working in urban China in 2009, accounting for 18,6% of all employment in the country.

The same year (2009), a team of local researchers were granted with PEP support to develop a SICGE model of China's economy (a CGE model for China by the State Information Center) including a rural labour migration module, in order to **analyze the impact of the new policy on migrant workers and the economy as a whole.**

Key findings

The researchers used their model to conduct policy simulations based on three different scenarios.

1 – Less confidence scenario:
Migrant workers' basic pension insurance CANNOT be transferred or continued (old policy)

Result: Workers' income decline, inducing them to leave urban areas to return home.

2 – Security scenario:
Migrant workers' basic pension insurance CAN be transferred or continued "in part" between jurisdictions (new policy).

Result: Expected benefits and wages attract an increasing number of rural laborers to urban areas, but with some short-term negative effects.

3 – Well-expected scenario:
Basic pension insurance CAN be transferred/continued AND migrant workers can access the same types of social security insurance as urban (non-migrant) workers

Results: Larger expected benefits for migrant workers induce long-term positive impact on economic growth (increase in labor and capital, leading to higher GDP output).

Policy recommendations

Overall, results from the researchers 's simulations show that current policies in China have, at best, a limited ability to promote rural labor migration in the country.

These limitations are essentially due to differing contributions rates and large income gaps between provinces, among other factors.

The researchers thus suggest that **complementary policies** should be implemented as soon as possible - to improve China's social security system, promote the transfer of rural laborers and accelerate the country's urbanization to encourage long-term economic growth.

See the list of policy measures recommended by the researchers in the right column:

1. Lower the payment ratio between migrant workers and employers and provide subsidies to ensure that rural migrant workers enjoy the same rights and benefits as urban workers
2. Accelerate the provincial and national coordination of the basic pension insurance, including unified payment base and pension treatment - to avoid the inequity resulting from the regions' differing wage levels
3. Integrate other social securities for the rural migrant workers - such as the medical insurance and the compulsory education for their children - to the urban (or unified) social security system in order to improve city life prospects.

This policy brief is based on the outcomes of PEP project MPIA-11351 and working paper 2012-08