SOCIAL SECURITY REFORM AND ITS IMPACT ON URBANISATION:
The Case of Shanghai

Zhigang YUAN

School of Economics
Fudan University

Jan. 2015
Social security system in China

- Established by the central and local governments.
- Provided according to one’s hukou registration places.
- Huge differences in social security systems between rural and urban areas, and between two provinces/cities.

Figure: Social Security System in China
Introduction

Temporary migration brings challenges to social security system

- Total number of migrants is **236 million**, **17.43%** of the total population (in 2012).
- Some cities offer for migrant workers certain level of social security, but far below those with that city’s urban hukou identity.
- Two types of urbanization rates: (i) the share of permanent urban residents in total population, (ii) the share of those with urban hukou. (right figure)
- The process of citizenization with social security reform as its core content emerges.

**Figure: Urbanization Rates in China**

Urbanization and Social Security System of Shanghai

Urbanization Development in Shanghai

Figure: the Number of Permanent Residents, Permanent Residents Living in the Urban Areas, Population with Shanghai hukou and Population with Shanghai Urban hukou since 1978

Urbanization and Social Security System of Shanghai

Social insurance system in Shanghai (four main types)

- **(i) Urban Social Insurance.** For urban employees (with Shanghai urban *hukou*), five parts (wuxian in Chinese)
- **(ii) Small Town Social Insurance.** For land lost farmers and farmers with non-agricultural employment (with Shanghai *hukou*), five parts (wuxian in Chinese)
- **(iii) Immigrant Employees’ Comprehensive Insurance.** For immigrant employees without Shanghai *hukou*, three parts (subsidies for the elderly, hospitalization and occupational injury insurance)
- **(iv) Rural Social Insurance.** For rural residents with Shanghai rural *hukou*, one part (basic endowment insurance)
- Supplements: supplementary endowment insurance, supplementary system for urban housing fund system
Social Security Reform and Age Structure

- The pension system in China (partial pay-as-you-go plan) is influenced greatly by the age structure;
- Aging damages the equipment ability for social insurances.
- Shanghai hukou population has severe aging problem, which is alleviated by importing working-aged immigrants (right figure);
- Insufficient supply or lack of social security reduces migrant intentions, or drives the immigrants back to their hukou registration place.

Figure: Demographic Pyramid of hukou Population and Immigrants
SOURCE: The Fifth Census Data Compilation of Shanghai in 2000, and the Sixth Census Data Compilation of Shanghai in 2010. The unit is person.
Social Security Reform and Age Structure

- **New policy** enacted in 2011 (migrant workers' comprehensive insurance switches to mandatory urban employees' endowment insurance) helps to enlarge the fund collection fundamentals.
- The balance of income and expenditure quickly climbs from **4.24 billion Yuan** in 2010 to **26.39 billion Yuan** in 2012. (right figure)
Social Security Reform and Its Impact on Population Structure

Social Security Reform and Population Spatial Structure

- From 2000 to 2010, migrants are moved from central areas to suburbs compared with hukou residents; (right figure)
- In suburbs, some immigrant concentrating areas have emerged;
- Migrants are not included in the “four in one” (si wei yi ti in Chinese) housing security system;
- Lack of basic housing security, migrants especially the rural migrant workers tend to choose informal housing, to concentrate in city shanty towns with lower public safety condition.

Figure: The Spatial Distribution of Density and Proportion of Temporary Immigrants in 2000 and 2010 (person/square kilometer, %)

Social Security Reform in Shanghai and Further Development of Urbanization

Social Security Reform and Enterprise Cost Burden

Table: Number of Contributors of Urban Employees’ Social Insurance in Shanghai from 2005 to 2012 (ten thousand)

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Endowment Insurance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td># Urban Employees</td>
<td>436.52</td>
<td>460.75</td>
<td>467.45</td>
<td>478.59</td>
<td>489.06</td>
<td>522.44</td>
<td>902.58</td>
<td>921.11</td>
</tr>
<tr>
<td># Self-employed and Freelance Staffs</td>
<td>18.26</td>
<td>16.97</td>
<td>16.38</td>
<td>16.67</td>
<td>17.8</td>
<td>20.43</td>
<td>24.35</td>
<td>26.87</td>
</tr>
<tr>
<td># Retired Pensioners</td>
<td>279.72</td>
<td>294.69</td>
<td>309.99</td>
<td>324.42</td>
<td>338.85</td>
<td>352.02</td>
<td>363.95</td>
<td>378.4</td>
</tr>
<tr>
<td>Small Cities and Towns Social Insurance</td>
<td>110.16</td>
<td>139.8</td>
<td>138.61</td>
<td>148.02</td>
<td>155.39</td>
<td>114.44</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shanghai Immigrant Employee’s Comprehensive Insurance</td>
<td>247.7</td>
<td>279</td>
<td>333.6</td>
<td>383.8</td>
<td>378.41</td>
<td>404.84</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Social Security Reform and Enterprise Cost Burden

Since the reform of social insurance system in 2011, the number of SME are significantly decreased, especially small-sized enterprises is reduced by 6880, with a decline rate as high as 46%.

Figure: The Number of Medium-sized and Small-sized Industrial Enterprises in Shanghai from 2004 to 2012

Conclusion

- In China, social security system and *hukou* registration system are closely related, which results in varieties of contradictions in a megacity like Shanghai.

- As the pioneer of economic development and reform in China, Shanghai's social security reform is important not only for its own development, but also has a reference value for similar megacities like Beijing and Guangzhou.

- For future social security reform:
  
  (i) carrying out joint reforms not a single one, joint regional cooperatives, governments take the leading role and responsibilities;

  (ii) increasing the flexibilities of social insurances, and reducing the employers’ costs on social security;

  (iii) the 2014’s *hukou* system reform puts on the agenda of the residence permit system (ju zhu zheng in Chinese), and the related social security will mainly characterized with wide coverage and lower standards.
THANK YOU

ZGYUAN@FUDAN.EDU.CN