

► Research Brief

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Institutional constraints for the extension of social insurance coverage to informal economy workers in China

Key points

- This research brief considers institutional and administrative barriers for expanding social insurance coverage to workers in the informal economy in China.
- While urban employee social insurance has widened significantly in recent years, workers in the informal economy lack pension and medical coverage to the extent and at the levels of adequacy enjoyed by urban formal employees.
- China's fragmented and decentralized social protection delivery and fiscal systems limit the country's capacity to implement national policy guidelines promoting social insurance coverage.
- The decentralisation of social insurance administration creates opportunities for service innovation, responsiveness, and adaptation to local social and economic circumstances.
- However, the mismatch between national policy objectives and local capacities and incentives for their implementation crowd out efforts to secure the adequate protection of workers in the informal economy.
- The brief presents some of the causes of these misalignments and illustrates some ways through which China is attempting to overcome regulatory and administrative barriers to policy implementation.

Introduction

This research brief discusses social protection for workers in the informal economy in China. The International Labour Organization (ILO) Recommendation on the Transition from the Informal to the Formal Economy No. 204 (2015), refers to informal economy as *"all economic activities, excluding illicit activities, by workers and economic units that are, in law or in practice, not covered or insufficiently covered by formal arrangements"*. These include labour legislation, income taxation, entitlement to social protection or certain other employment benefits (advance notice of dismissal, severance pay, paid annual or sick leave...) (OECD and ILO 2019:26).

According to the ILO, informal employment includes informal jobs in formal sector enterprises, informal sector enterprises, or households (ILO 2013). Employers (independent contractors with employees) and own-account workers (independent contractors without employees) are considered informal when their economic units belong to the informal sector (ICLS 1993). The informal sector is an "enterprise-based" concept that *"consists of unincorporated enterprises not constituted as separate legal entities independently of their owners engaged in the production of goods or services with the primary objective of generating employment and incomes to the*

persons concerned" (ILO 2015). Employment in informal sector enterprises refers to those working in informal own-account enterprises (depending on national legislation). Informally employed workers are employed in the formal sector but are not protected by labour regulations. For the ILO and OECD *"the substantial share of informal employment in large formal enterprises can be significant and may result from lack of recognition of the employment relationship or from contracts that provide no social protection and other benefits."* (OECD and ILO 2019:38)

Employment in the informal economy is not officially defined in China. Therefore, for the purpose of this brief, the concept will be further refined based on the Chinese context, as the discussion proceeds. One important distinction to make is between the concept of flexible work used in China's Social Insurance Law 2011, and the notion of work in the informal economy. Flexible work involves the use of non-standard forms of employment¹ (ILO 2016). These new forms of employment tend to be more affected by informality than standard forms of employment, but they are not all informal jobs (ILO 2016, 2018b). Flexible work can be well regulated and protected. The reason for the higher prevalence of informality amongst non-standard forms of work is that very often, labour regulation is not always well fit to these new types of employment. For example, non-standard employment involves working time that goes beyond normal standard practices or normal workplaces (outwork) and remains insufficiently regulated (ILO 2016). In this sense, the concept of informality adds to the notion of flexibility the fact that there is not an adapted regulatory environment or its implementation is weak.

Informal employment is notably characterized by absence of social security coverage. Social protection or social security², protect workers from income insecurity caused by sickness, maternity, employment injury, unemployment, old age and other social risks.

Social security is financed under three broad modalities.

First, some social security risks are often directly paid by an employer subject to a labour relation and contract. For example, in China, sickness and wage continuation during

employment injuries are a direct liability of the employer and are not existent for self-employed workers.



Source: ILO

As a consequence, workers in the informal sector are more likely to fall into poverty in times of sickness or injury.

Secondly, social insurance refers to a contributory and collectively financed mechanism based on solidarity and risk-pooling (ILO, 2014). The benefit received by individual claimants and the financial sustainability of social insurance schemes are partly dependent on enrollees' contributions. The social insurance enrolment rate for informal economy workers generally lags behind that of workers in the formal sector (ILO 2018b). This is due to the fact that contributory schemes may not be sufficiently adapted to labour market situation of informal workers that tends to be different from that of formal full time workers (Behrendt and Nguyen 2020). For example, the rise of informal employment is largely attributed to the increase in non-standard forms of work due to labour market deregulation and other structural economic factors (Chen 2012:2). Hence, dual labour markets limit contributory-based social security provision that is legally entitled or actually enjoyed by increasing segments of the flexible and mobile workforce (Cooke and Jiang 2017; OECD 2018).

Finally, workers in the informal economy may be covered by non-contributory schemes paid by general taxes. Under-coverage of workers in the informal economy tends to be associated with poverty (Kanbur 2017). However, where state financed schemes are established to guarantee basic

¹The ILO distinguishes between four types of non-standard employment (ILO 2015:7): (1) temporary employment; (2) part-time and on-call work; (3) temporary agency work (TAW) and other forms of employment involving multiple parties; and (4) disguised employment relationships and dependent self-employment. According to Social Insurance Law in China, flexible employment excludes temporary or short term contracts, that are full time employment covered by labour relations and social security.

² The two are used interchangeably in this brief. See <https://socialprotection.org/learn/glossary/>

income security, informal workers, may also not benefit from these, due to their earnings being just above the eligibility thresholds of social assistance mean tests (Behrendt and Nguyen 2020). In addition, benefit levels under schemes paid out of general taxation may be too low and do not offer adequate protection to workers in the informal economy.

Workers in the informal economy have been hardest hit by the ongoing pandemic, which accentuated their vulnerability (ILO 2020). The recent outbreak of COVID-19 and its aftermath highlighted the existing gaps in social protection of the informal economy.

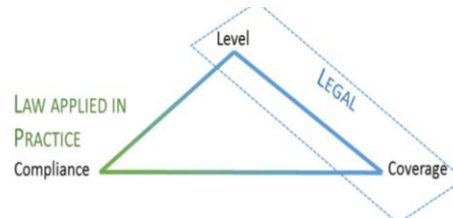
Examining under-coverage of social insurance from an institutional perspective

To analyse the reasons for low social insurance coverage of China's informal economy workers, this research brief discusses social insurance in China from an institutional perspective. The brief dwells on the complexity of aligning policy and implementation capacities and incentives for the extension of social protection to workers in the informal economy, given China's multilevel system of fiscal relations and its decentralised social security institutional arrangement. The brief argues that institutional arrangements, individuals and employers' behaviours and the interaction between the three contribute to explain deficits in social insurance coverage amongst informal economy work.

Dimensions of under-coverage of social insurance.

In general, deficits in social insurance coverage can be found at three levels (see figure 1). At a legal level, workers may be excluded from general labour and social security laws (for example due to the size of companies, or their occupation) and secondly they may be adversely incorporated in laws and regulations, for example with stricter social security eligibility or entitlement conditions or levels of protection that are lower than the ones granted to regular full time permanent employees. At a practical level, there may be insufficient application in practice of the existing laws (a problem of compliance with the legal institutional set up).

Figure 1. Deficits in social security coverage



Source: ILO 2018b:11

According to the ILO, compliance to existing laws and regulations can be promoted by mechanisms of deterrence, incentives and persuasion efforts (ILO 2018b). The first, deterrence, refers for example to stronger inspection services, the existence of credible sanctions (such as high penalties) and their enforcement but also early detection and prevention of social evasion through the exchange of data between tax authorities and social security institutions. The second mechanism, the use of incentives, is obtained for example by linking the payment of firms and workers' contributions to the access by companies and workers to business support services, markets and subjecting the proof of social security registration to other interactions with public administration. The third mechanism, of persuasion, involves increasing legal awareness of employers and workers, promoting higher tax morale and a culture of compliance and making more evident the benefits of formalisation. All these require significant efforts from the authorities in charge of implementing social security.

Whilst countries have made significant progress in addressing gaps in legal coverage by including informal workers, notably those in non-standard and flexible employment, within the scope of laws and regulations, current gaps in effective coverage are largely the consequence of the non-application of the law in practice (ILO 2016). According to the ILO and OECD the impact of compliance measures such as labour inspections, on informality depends also on the workers' valuation of the benefits being enforced. So, compliance, incentives and persuasion mechanisms are complementary. It is often the comparison between costs and benefits of formalisation that matter most to workers and employers decision to comply. At the individual level, many factors influence the costs and benefits of non-formality (ILO and OECD 2019). Because workers tend to underestimate the benefits of

social insurance³, the costs of getting insured play an important role in the individuals' decisions to comply with regulations. It is therefore critical to minimise the cost of formalisation for individuals and companies in order to encourage their formalisation (ILO and OECD 2019:55). However, institutional arrangements may contribute to raising the costs of formalisation and discourage compliance with regulations. As a result, some workers may opt out of social insurance arrangements even when it is mandatory. Therefore, to address compliance problems, balanced approaches combining deterrence with incentive and promotional measures are more effective.

Social Insurance in China

China faces similar policy challenges as those of other countries in providing universal social protection to informal economy workers. It adopts the social insurance approach to provide social protection to its citizens. Before the 1980s, Chinese urban citizens enjoyed full employment and met their needs for public services through the socialist work-unit welfare system (Gu 2001). Since the mid-1980s, the Chinese government initiated various types of social insurance schemes to protect millions of laid-off urban workers and facilitate the reform of state-owned enterprises (Wong and Ngok 2006; Hu 2015). In this research brief, focus is on pension and health insurance (including both employment-based and residence-based schemes), the backbone of China's social insurance institutions which are supposed to cover all Chinese citizens according to the Social Insurance Law. The brief does not consider unemployment insurance nor employment injury because unlike pensions and medical benefits, these schemes are not yet available for flexible workers (notably self-employed and business owners), the majority of informal economy workers in China.

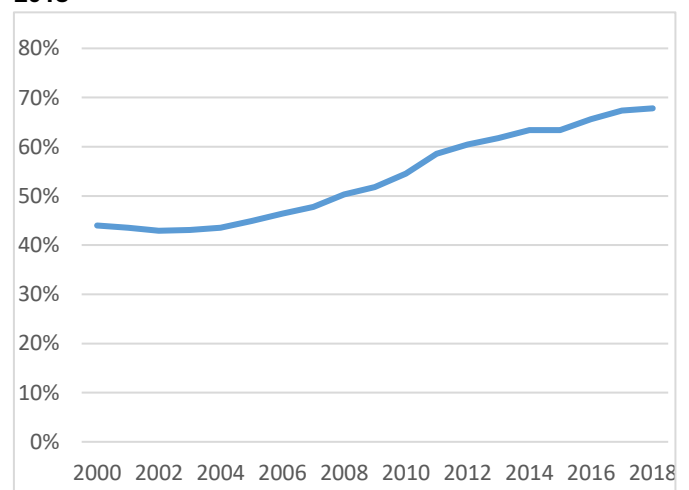
Since 2003, the Chinese government raised social policy as a national policy priority (Mok and Qian 2019). In 2007, universal social insurance coverage had been singled out as one of the national policy goals of building a "*moderately prosperous society*" by 2020. The 12th Five-Year Plan (FYP) (2011–2015) issued in 2011 had set coverage expansion of social insurance, such as pension and health insurance, as an "*obligatory target*". The 13th Five-Year Plan on Human Resources and Social Security Development set national



Source: ILO

objectives of full coverage of all who should be covered by compulsory social insurance by 2020. New social insurance schemes have been introduced to cover social groups, such as rural and urban residents as well as workers in the informal economy, that were previously excluded from such schemes (Gao et al. 2013; Giles et al. 2013; Huang 2014; Ngok 2016). As a result, China achieved remarkable progress in coverage expansion in the recent decade. For example, according to the 13th FYP (2016–2020) issued in 2016, the enrolment rate for the pension scheme is expected to reach 90% in 2020 compared with 82% in 2015. The coverage rate of the basic employee pension scheme for the urban labour force was about 68% in 2018, up from 43% in 2003 (Figure 2).

Figure 2: Enrollees of the Basic Employee Pension Scheme as a Share of Urban Labour Force in China, 2000–2018



Source: CEIC.

³ Individuals tend to minimise the risks of becoming sick and are short sighted to the risks of outliving their savings.

However, the persisting differences in rural–urban residence regulations still limiting access to social insurance schemes for certain categories of workers, and the diversity of social insurance regulations applicable to different forms of employment, have resulted in the fragmentation of the social insurance system in China (Ngok 2016).

The first fracture line is the household registration status and locality. The household registration system (*hukou*) divides the population into two categories, namely, rural and urban residents based on their residential location. In the past few years, China launched household registration reforms to support the coverage expansion of social insurance. For example, China consolidated two separate programmes for rural and urban residents into one that applies to both urban and rural residents (pension in 2014 and health insurance in 2016, respectively). In April 2019, China relaxed the household registration system for cities with fewer than three million residents and for cities with between three and five million inhabitants in December 2019.

The second fracture line relates to differences in the social insurance regulations applicable to different forms of employment. Social insurance schemes, generally managed by local governments at and above the county level, vary across regions in terms of the scope, coverage and benefit levels, including sometimes within the same province (Gao et al., 2013; Ngok 2016). China's social insurance is a tiered system according to the form of employment. Residents and workers in the informal economy, urban workers with formal employment are enrolled into different social insurance schemes with different regulations on contributions and benefits (Ngok, 2016; Ringen and Ngok, 2017). Contributions from employers and employees in proportion to their wages are required for enrolling in employment-based social insurance. Contributions to social insurance in China are a complex system with different employer rates by province or city, and remain comparatively high for self-employed and business owners (Table 1). The definition of benefits also varies across social insurance schemes. For urban and rural residents, the contributions and benefits for pension and health insurance are a lump sum decided by the local government. Workers who do not receive social insurance contribution from their employers are encouraged to contribute to social insurance on a voluntary basis due to the protection available based on residence.

Table 1: Rates of Contributions and Benefits to Pension and Health Insurance in Urban China

Programme	Contribution		Are the benefits proportional to contribution?
Insurance schemes for employees			
	Employer (payroll)	Employee (monthly wage)	
Basic pension	16%	8%	✓
Basic health	6%	2%	✗
Insurance schemes for residents			
	Resident		
Pension	Annual lump sum		✗
Health	Annual lump sum		✗

Sources: Compiled by the authors



Source: ILO

In sum, social protection in the form of social insurance in China varies across locations and forms of employment. In addition to this, China's fiscal and administrative decentralisation, has made interregional benefits transfer relatively difficult. Since the implementation of the Social Insurance Law in the early 2010s, several official documents specified the mechanism to improve the portability. For example, recent documents allow enrollees' pension contribution to be calculated by phases in different schemes, but the benefit can be paid in a unified way. However, the portability is still not a reality in practice across the country as there are important variations in local insurance policy design and local implementation of national policy guidelines and the regulations are restricted to workers in full time permanent positions (Giles, et al 2018; Yuan 2020). In practice, some provinces, especially those recipients of many migrant workers, resist exporting portions of contributions paid by local employers or by the local governments, to other provinces.

Table 2: Enrollment Rates of Different Groups in Social Insurance Schemes (in percentage)

Urban Labour Force (N=3,160)	Urban Pension Scheme (including urban employment based and residence based pension)	Urban Social Health Insurance (including urban employment based and residence based health insurance)
Formal economy workers (N = 1,093)	90.29	94.84
Informal economy workers (N = 2,067)	46.66	57.71
Employers (N = 531)	33.60	41.22
Employees (N = 1,536)	51.66	64.03

Note: Sampling weights from CLDS 2012 are applied on the enrollment rates, see Jiang, Qian and Wen (2018).

Social insurance for workers in the informal economy in China

In China, urban workers in informal sector enterprises and informal employment accounted for more than half of the total urban labour force in recent years. According to the 2013 China Household Income Project (CHIP), a nationwide household survey, about 54.4% of the total employed (urban and rural) were in the informal economy, ranging from freelancers and private contractors to migrants working without employment contracts and proprietors of small-scale private enterprises (ILO 2018).

China's Labour Contract Law was passed in 2008 to regulate industrial relations and the Social Insurance Law was enacted in 2010 to regulate various social insurance schemes. It is compulsory for all full-time workers, regardless of enterprise type and household registration status, to enrol in the employee insurance scheme. However, for the flexibly employed/self-employed, it is voluntary for them to enrol in the employment-based pension and social health insurance scheme.

While the coverage of social insurance has widened significantly in recent years, that for urban informal economy workers still lags behind their counterparts in the formal economy. Examining individual-level data from China Labour-force Dynamics Survey (CLDS) 2012, a nationally representative household survey, Jiang, Qian and Wen (2018) found that the enrolment rate of formal economy workers ranges from 90% to 95% which is nearly twice that of informal economy workers (see Table 2). For informal sector enterprises, enrolment rates of employers are lower than those of employees

Institutional reasons for the under-coverage of informal economy workers in social insurance

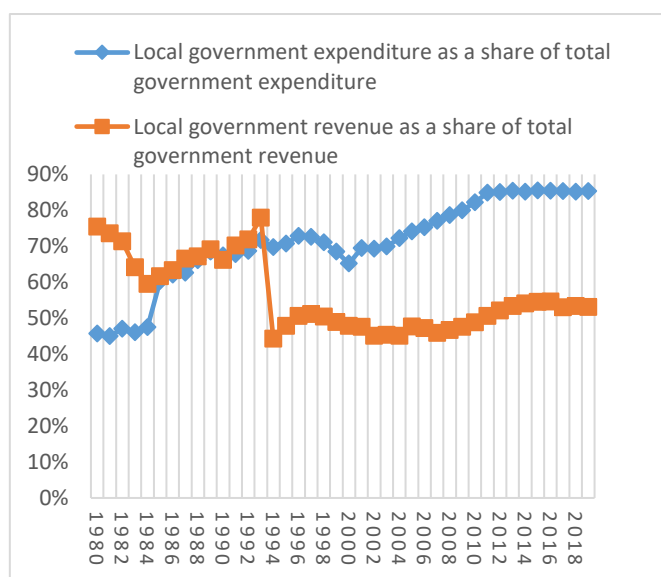
The central-local fiscal relations system in China, the current performance evaluation system for local officials, and the household registration system contribute to weak social insurance coverage of the informal economy. This section presents the factors that help explain the weak enforcement of social insurance for informal economy workers at the local level, and the low promotional efforts, aimed at informal economy workers in flexible work patterns.

Central local fiscal relations

As China's social insurance schemes are managed at the local level, the local government's capacity and incentives are critical for implementing social insurance regulations. The cost to serve a growing and multifaceted workforce, to enforce social insurance regulations, and to take proactive measures so that all workers who should be adequately covered by social insurance arrangements are effectively so, falls on local governments. Indeed, China's decentralized fiscal system channels major tax revenues to the central government but the local government retains the responsibility of financing and providing public services (Wong and Bird 2008). In particular, there are no fiscal transfers from central to local government earmarked for the administration of social security. Local governments prioritise the operational costs for social security from their general budgets. Therefore, the general fiscal condition of local governments is crucial for handling caseloads and enforcing social insurance regulation (Qian 2017).

In recent years, local governments are responsible for over 80% of government expenditure while they are only assigned with about 50% of government revenue (Figure 3). There is hence in general a huge discrepancy between the local government's fiscal capacity and its expenditure responsibility.

Figure 3: The Central-Local Share of Fiscal Revenue/Expenditure, 1980-2019



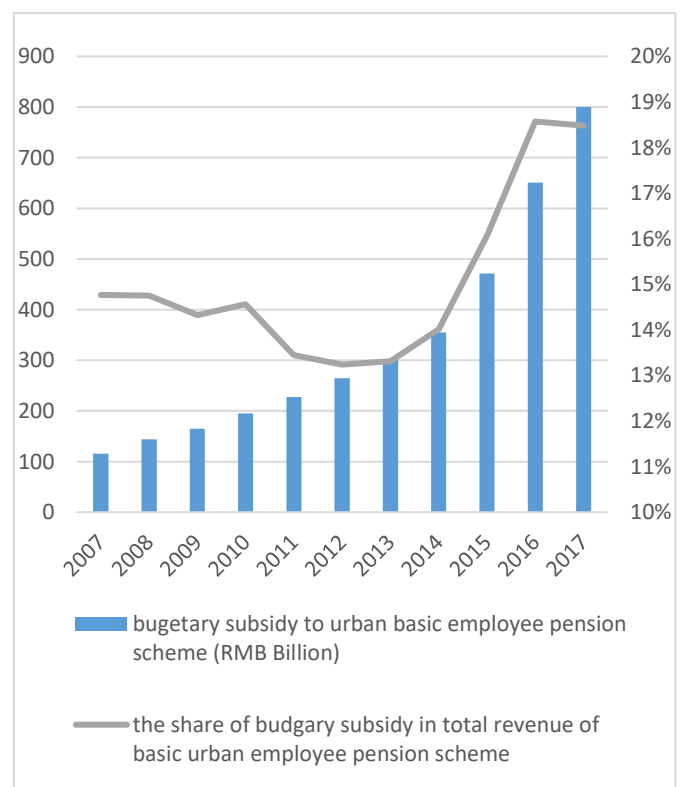
Source: Ministry of Finance, China.

By contrast, the central governments of OECD countries finance a major share of government expenditure,

accounting for about 41% of total government expenditure on average in 2015 (OECD 2017).

In terms of financial transfers for contributions and benefit payments, in China, the central government normally provides supplements pension benefits and local governments provide matching grants for individual contributions. For example, in 2020, all levels of government were required to subsidize RMB550 per enrollee in the basic urban employee pension scheme. In addition, they were requested to allocate budgets to match the subsidy to benefits from the central government. Figure 4 shows that in recent years, government at all levels has upped the budgeted subsidy for the basic urban employee pension scheme from RMB115 billion (14.8% of pension fund revenue) in 2007 to over RMB800 billion (18.5% of pension fund revenue) in 2017.

Figure 4: Increasing Share of Budgetary Subsidy for Basic Urban Employee Pension Scheme, 2007-2017



Source: Statistical Communiqués for Human Resources and Social Security, various years.

In this context, local governments with limited fiscal capacity may not be able to provide sufficient social protection for informal economy workers, by providing matching grants to individuals' contributions and to

government efforts. Based on prefecture-level fiscal data from 2003 and 2012, Mok and Qian (2019) suggest that the social expenditure at the prefecture level increased with the fiscal revenue and the size of the formal sector. Examining a nationwide labour force survey in 2012, Jiang, Qian, and Wen (2018) find that social insurance enrolment for informal economy workers is likely to be higher in a city with larger fiscal capacity.

To counter the disparities in fiscal capacity, China has sought to streamline the collection of contributions across the country. International experience has showed that some countries improved their levels of compliance and efficiency in the collection of social security contributions by merging the services in charge of social security collection with tax administration (Bakirtzi 2011). Similarly, China's national and local taxation collection and management reform, initiated in January 2019, aimed to centralize the collection of contributions and merge them with the tax authorities⁴. This would significantly reduce the imbalances in administrative capacity between provinces. It would streamline operations with tax collection (contributions being based on monthly reporting of income for individual income tax filings), triggering more automatic auditing practices and would allow to reduce underpayment and enforce social insurance regulations more uniformly. Due to strained economic environment in 2019, the concern over the increased tax burden led to a pause in the implementation of the reform. The reform has been restarted from the second half of year 2020.

Performance management systems

Reverting to the issue of the limitation in numbers of inspectors, higher effectiveness of inspection relied on organizational changes and reforms in the structure of incentives. For example, an incentive scheme for inspectors linked part of their wages to individual and group performance in Brazil. In addition, special inspection teams dealt with situations that are more complex in certain sectors (Mauricio and Vasquez 2019:34).

In China, since the middle 1990s, a performance evaluation system has been applied to make the incentives of local officials align with those of the upper level governments (Whiting 2004; Landry 2008). Therefore, the performance evaluation system of officials plays an important role in the social security enforcement efforts at local level. Studies

show that local officials at grass roots level are more likely to be promoted if they have achieved better economic performance as indicated by GDP or fiscal revenue growth or met more immediate targets concerning for example job retention or promotion.

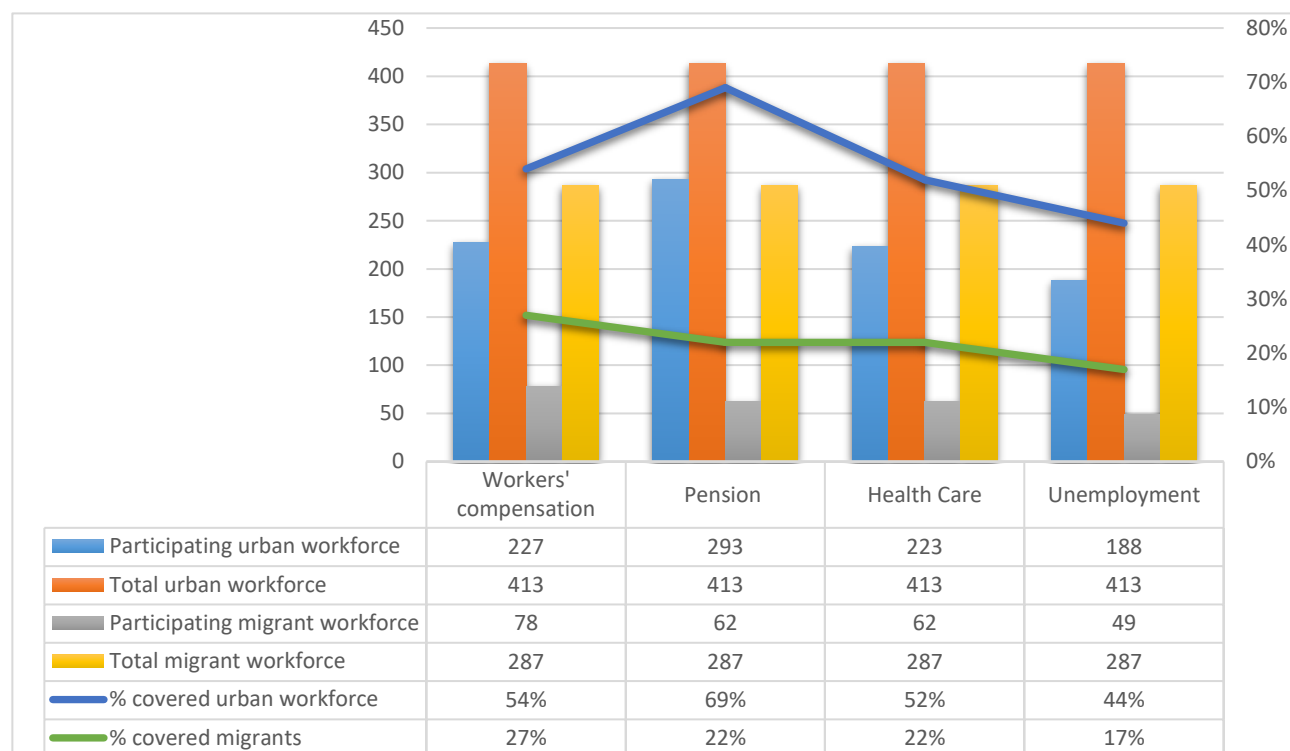
Local authorities are concerned especially with the financial and economic survival of smaller companies in labour-intensive industries. These are industries where there are more risks of failing to make social insurance contributions.⁵ The threat of greater controls or tougher sanctions for non-compliance with labour regulations should act as incentive for the regularization of labour relations. However, an intensification of labour inspections may also produce the opposite effect as it could destroy informal jobs, resulting in a negative impact on unemployment (Mauricio and Vasquez 2019:34).

Persisting limitations of household registration systems for access of informal workers to social insurance

The household registration system still imposes restrictions in practice on social insurance enrolment in some provinces. Social insurance benefit and policy varies with different household registration status. The hukou system initiated in the 1950s segregates people by their hometown and by urban versus rural status. It regulates migration between cities and between rural and urban areas. There are two major dimensions of hukou status: (1) "agriculture" and "non-agriculture" hukou, with the latter assigned to urban residents; and (2) hukou location. In most cases, hukou status does not affect the participation of migrant workers in stable full time jobs any more. Workers in flexible forms of employment who do not have hukou at their place of work, however, are still not able to participate in social insurance on a voluntary basis in their usual place of work. For example, Figure 5 shows that only 22% and 17% of migrant workers are enrolled in pension and unemployment insurance schemes for urban employees respectively, which were much lower than the national average of 69% and 44% (National Bureau of Statistics 2015).

⁴ <https://www.china-briefing.com/news/chinas-tax-bureau-to-collect-social-insurance/>

⁵ <https://www.ft.com/content/bf3700dc-b582-11e8-bbc3-ccd7de085ffe>

Figure 5: Number of Participants in Social Insurance Schemes in China, 2017 (millions)

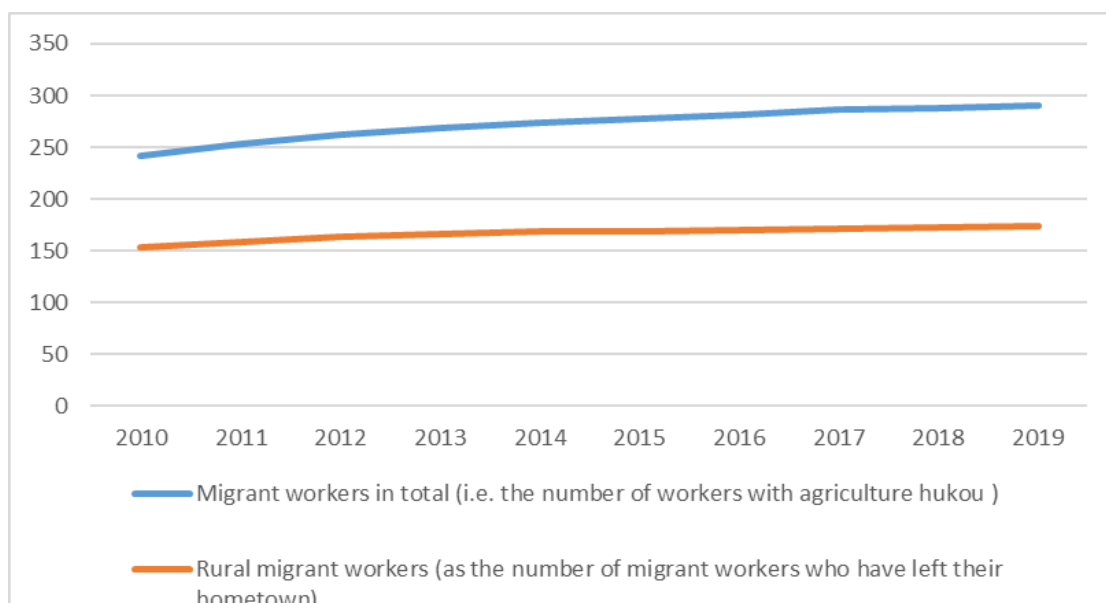
Source: Statistical Communiqués for Human Resources and Social Security, 2018.

Figure 7 shows the gap between the number of urban residents and urban hukou holders. The number of urban residents without hukou (i.e. the floating population), which include migrant workers and their family members, is large. Most of these migrants come from rural areas. Migrant workers from other cities constitute about 20% (World Bank 2014). Figure 6 shows the number of workers with agriculture hukou as well as the number of migrant workers who have left their hometown. Over 60% of migrant workers have left their hometown and found jobs elsewhere.

The efforts necessary for affiliating the mobile /floating population with social insurance are greater than for registering the local stable working population. In addition, contributions of mobile workers impose a risk to funds to which they contribute. Under the current pension administrative structure, local governments collect contributions and pay benefits. Local governments who receive migrant workers are responsible to fill the funds' deficits by using local fiscal resources. Therefore, they have incentives to protect local pooling funds, and avoid transferring migrant workers' contribution records and financial balances to other provinces.

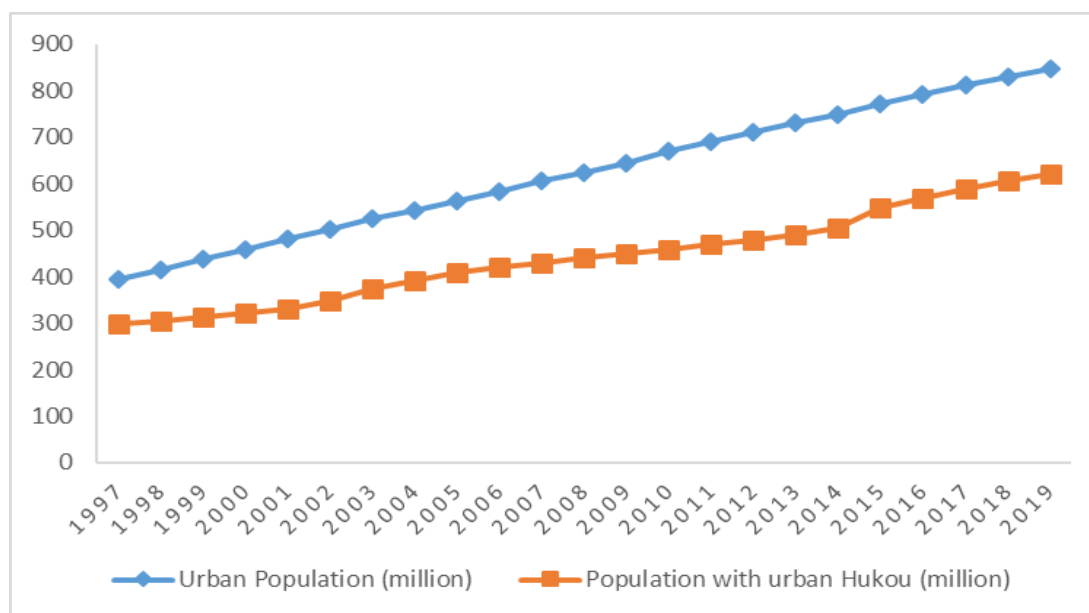
In sum, these institutional factors first can limit local governments' capacity to enforce social insurance regulations for full time employees, due to limited fiscal capacity, contributing to informal employment. In addition, local officials may lack the incentives to enforce labour obligations as their performance is sometimes evaluated based on GDP growth, attracting investment, and preserving jobs, rather than on enhancing social protection. Finally, in some provinces, social protection may not be directly accessible in the place of work for some workers in the informal economy, notably migrants in flexible forms of employment. In this case, the hukou system limits the responsibility of local authorities to make additional efforts to promote their access to social security. Where such limitations exist, informal workers are not able to contribute to social insurance schemes at their place of work and will therefore lack access to benefits comparable the ones available for local residents. Hence, for all these reasons institutional barriers increase the cost of compliance and participation in social security for firms and individual workers.

Figure 6: Urbanization and Household Registration System (hukou) in China, 1997-2019, in millions



Source: National Bureau of Statistics, Monitoring Report on Rural Migrant Workers, various years

Figure 7: Number of Migrant Workers in Recent Years (million) (2010-2019)



Source: Statistical Communiqués for Human Resources and Social Security, various years.

Compliance by workers and employers with the duty to enrol and contribute to social insurance

Firms and workers' costs of compliance with the regulatory requirements are considered as one possible reason for the under-coverage of social insurance. Lack of compliance with social insurance regulations may involve non-declaration of the jobs or the employees, for example underreporting the number of migrants and not informing workers, notably migrants, about their rights and obligations. Although Labour Contract Law of China recognises the concept of *de facto* employment relationships and generally requires employers in such relationships the same responsibilities as when written contracts are in place, it does not specify how *de facto* employment relationships should be established or proven. This makes it more costly for workers to demand compliance with Social Insurance Law in case contracts are not written. Therefore evasion of contributions is more likely when contracts are not signed or when contracts are not compliant with labour protection-related laws. Finally, international studies show that informal employment may take the form of false full time independent contractors, or underreporting of pensionable wages sometimes with collusion of employees (ILO 2016).



Source: 123RF

With the institutional constraints mentioned earlier, employees, self-employed workers, and employers may respond to social insurance in various ways. Workers' responses are generally heterogeneous based on their socioeconomic characteristics, such as employment status (e.g. employer or employee), and location of hukou.

First, the self-employed and small business owners who are without urban/local hukou are more likely than those with

urban/local hukou not to participate in social insurance schemes as they perceive little benefit from taking up social insurance. Indeed, according to the results of regression analysis in a nationwide survey in 2012, the high-income self-employed in the informal economy are likely to opt themselves out of the basic employee insurance and instead enrol themselves in the commercial pension and health (Jiang, Qian and Wen 2018). There may be several explanations for this.

Even when they are legally authorised to contribute on a voluntary basis in their place of work, they may not be able to continue contributing in another province if the regulation is different. Since migrants are often highly mobile, this will compromise the accrual of rights over their lifetime. In addition, even when a worker travels to another province and is able to continue contributing on a voluntary basis, the portability of the rights they accrued in the province of origin is not guaranteed for flexible workers as it is for formal employees. Finally, workers in the informal economy who do not have legal entitlement to contribute on a voluntary basis in their place of work, have to resort to residence based social security, which does not provide the same level of benefits as for urban employee schemes. Finally, as the self-employed and small business contractors of the urban informal economy are not required to enrol with the employee social insurance, they have discretionary power to decide on the type of insurance schemes they prefer (e.g. between public and private insurance (Jiang, Qian and Wen 2018). They are thus more likely than other informal economy workers to enrol in privately managed commercial insurance programmes.

Secondly, as argued before, effective enforcement of obligations to contribute to social insurance should make informal employment less attractive by making it more costly. When local governments do not prioritise enforcement of social insurance obligations, the cost of informality is reduced. From the perspective of the worker, the impact of enforcement measures on informality also depend on his or her valuation of the benefits being enforced. Workers may not participate in social insurance if the costs of participating outweigh potential benefits, even if it is mandatory.

Exploring fiscal data and social assistance data at the city level between 2003 and 2011, Qian and Mok (2016) find a crowding-out effect between various social protection institutions when urban informal employees prefer to not to contribute and benefit from unemployment insurance and claim social assistance benefits instead (when they are

likely to qualify since they cease to earn any income). This crowding-out effect is confirmed by Gilli, Li, and Qian (2018), who conducted a study using more recent city-level data between 2007 and 2013. They cross-checked the status of social programs managed by the Ministry of Human Resources and Social Security (i.e. unemployment insurance) and Ministry of Civil Affairs (i.e. social assistance). What draws workers in the informal economy are not the benefits of social assistance, which are generally lower than that of unemployment insurance, but the access to a basket of subsidies for housing, education and health care that social assistance affords.

ILO Recommendation 204 concerning the transition from the informal economy advises in its article 12 that countries should ensure coordination across different levels of government and cooperation between the relevant bodies and authorities, such as tax authorities, social security institutions, labour inspectorates, customs authorities, migration bodies and employment services... Whilst some local authorities are making efforts to increase coordination in service delivery in China, there is still a horizontal misalignment across different social protection policies and a vertical mismatch between policy objectives and local capacities and incentives for their implementation. These misalignments crowd out efforts to secure adequate protection of workers in informal economy.

Social insurance coverage for the informal economy after the outbreak of the COVID-19

To mitigate against possible adverse effects on the labour market, during the early COVID-19 outbreak, contribution to social insurance were reduced or delayed. Unemployment insurance coverage was expanded to workers who had not yet acquired full rights and those that had expired their rights to benefits.

The size of the informal economy is likely to increase under the COVID-19 outbreak. At the National People's Congress meeting in May 2020, Chinese Premier Li Keqiang applauded mobile stalls and vendors in Chinese cities for injecting life and economic vitality after the reopening. About 3.99 million people managed to make a living working as Meituan food delivery drivers in 2019, a 23% increase from that in 2018. Between January 20, 2020 and March 30, 2020 (i.e. after the outbreak of COVID-19), there were about 458,000 newly registered food delivery drivers under Meituan (Guangming daily 2020). It was reported

that 78 million people were providing services for the platform economy in China (State Information Center 2020). In a recent report, the number of users and providers in the platform economy reached about 800 million in 2019 (The State Information Centre 2020). The industrial relations and corresponding social insurance enrolment for the flexibly employed are policy issues that are still under discussion.

Flexible employment (e.g. part-time based, task-based jobs and self-employment) has been singled out after the outbreak of the COVID-19 as an area that provides employment opportunities. It was estimated by the National Bureau of Statistics that the number of flexibly employed persons had increased by 20% in the first quarter of 2020 compared to that of 2019 (National Bureau of Statistics 2020). For example, many delivery drivers contracted by platforms are flexibly employed or part-time based. Over 47% of food delivery drivers were reportedly without social insurance in 2018 (The Paper 2019). In April 2020, the National Development and Reform Commission and Cyberspace Administration of China jointly released an action plan in April 2020 to promote flexible employment, job-sharing and gig-economy in the expanding digital economy.

The government is set to support digital platforms to promote flexible employment and job-sharing. These platforms can provide services of job-matching and job-search in the labour market. New jobs such as freelance designers, ride-hailing drivers, food deliverymen, online match-makers, online fitness coaches, freelance



Source: ILO

photographers, and so on will be supported by social insurance (National Development and Reform Commission and Cyberspace Administration of China 2020). However, details have yet to be made known.

To face the existing financial limitations in operations, China's social security administration is relying increasingly on the use of information systems to offer services online (information including through Artificial Intelligence powered social media channels and live streaming hotlines, online registration and changes in status, biometric live proofs, mobile payments via Wechat and Alipay systems). This trend accentuated during the response to COVID 19. For example, in the province of Sichuan, 90% of interactions with social security are now done online (80% in Zhejiang). The implementation and development of information systems and data exchange mechanisms at provincial and national levels will be critical to reduce institutional barriers to registration to social security and will contribute to further reducing informal economy in the country.

Conclusion

The informal economy is likely to remain a very important part of the urban labour market in China with economic recovery partly reliant on flexible and platform work. But the way to expand social insurance coverage to informal economy workers remains an important challenge.

In China, the effectiveness of government policy is constrained by the level of compliance of its sub-national governments, in charge of policy implementation. While the central level has defined clear national priorities of universal social security coverage, this brief identified some barriers for their implementation at local level.

First, fiscal constraints limit the amount that local governments can spend on improvements in social insurance operations at the local level, and their ability to match central level subsidies to contributions or benefits of workers in the informal economy. Though this shortfall may be partly compensated in poor provinces by transfers from the national level, the brief shows that there is a growing mismatch between local government expenses as part of total expenses and local government revenues as part of total revenues in the country. Secondly, there is a possible mismatch between national and local policy priorities due to stronger focus of lower levels of government on economic and job stabilisation indicators. The brief showed efforts in China to increase the efficiency of social insurance collection system by streamlining the

collaboration with the tax authorities. In addition, the brief contrasted the weak incentives in existing performance management systems at lower levels of government in China with the example of Brasil which improved the effectiveness of its national inspection services by embedding incentives in the inspectors' performance management system. Thirdly, local governments who receive migrant workers are responsible to fill social security funds' deficits by using local fiscal resources. Therefore, they have incentives to protect local funding pools. This creates incentives to bar informal workers in non-standard forms of employment from accessing voluntary coverage in their places of work, and to export their benefits to other provinces.

As a result of these institutional features, workers in the informal economy are shown to opt out of social insurance and instead contribute to commercial insurance. This shows that many such workers have capacity to contribute to social insurance but choose not to do so. In addition, the brief shows evidence that the lack of coordination between different policy areas at local level accentuates disincentives to contribute to social insurance.

To address these institutional shortcomings, the government has been promoting streamlined national collection mechanisms, and has established the objective of having provincial pension insurance pools and soon a national pension insurance pool. It also accentuated the push for better integration of data information systems across provinces and nationally. For example since 2020, it is possible to use the national social insurance platform to register and claim unemployment benefits anywhere in China. At the other end, the fact that policy delivery systems are decentralized at local level, offers the ability of social insurance to experiment, innovate and be responsive to local circumstances. This constitutes an opportunity for formalisation since it requires a set of integrated economic and social protection policy approaches with the end user in mind.

In short, addressing institutional constraints is critical to ensure universal coverage. However alone, it might not help expanding social insurance coverage for informal economy workers. Workers' responses to policy changes also play a part in the end result. Future social policy reforms must take into consideration the varying preferences of informal economy workers, and their effective behaviour including their calculations of costs and benefits of formalisation, and their growing search for flexibility and mobility.

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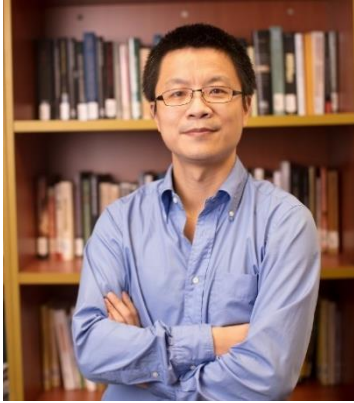
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