

## SOCIAL PROTECTION FOR THE INFORMAL SECTOR IN URBAN CHINA: INSTITUTIONAL CONSTRAINTS AND SELF-SELECTION BEHAVIOUR

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### Key implications

1. The social protection for China's urban informal sector labour force, which reaches about half the number of urban workers, lags significantly behind.
2. This under-coverage is due to institutional constraints, particularly the household registration system *hukou* and the intergovernmental fiscal system, as well as self-selection behaviour related to the limited benefits of social insurance.



### Background

Renewed concern has emerged for the universal coverage of social protection because of restricted livelihood opportunities and high levels of poverty under globalisation and labour market segmentation. Many countries adopt social insurance programmes to secure protection from income insecurity caused by sickness, maternity, employment injury, unemployment, and old age. Since 2003, the Chinese government has begun to expand the scope of social insurance programmes to provide universal social protection coverage.

Following past studies, this project defines the informal sector labour force as working people with informality in either outside the formal sector enterprises (e.g. urban-registered private enterprises, most of which are small-scaled, or individual businesses), or employment relation (e.g. without a written contract, flexibly employed or self-employed). The informal labour accounts for over half of China's urban workers in recent years. However, the social protection for this sector generally lags significantly behind.

Drawing on the literature, this study suggests that institutional constraints and self-selection are two main explanations for the informal sector's under-enrollment of social insurance programmes. Institutional constraints refer to specific rules, procedures, and practices that are treated as given to individuals who create patterned behaviour and interactions. *Hukou* is a major institutional constraint for programme enrolment in China. Rural and non-local *hukou* are institutional barriers that create higher enrolment costs of social insurance programmes for the informal sector labour force than those created by local urban *hukou*. The

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intergovernmental fiscal system which determines the local fiscal capacity is another major institutional constraint. Sufficient local fiscal capacity is pivotal to expand the coverage and improve the benefits of social insurance. Self-selection in the current study refers to the purposeful actions of people in response to a state policy. The self-selection behaviour of the informal sector labour force for social insurance enrolment is based on the assumption of the self-interest of individuals and their rational analysis of risks, costs, and benefits.

## Methods

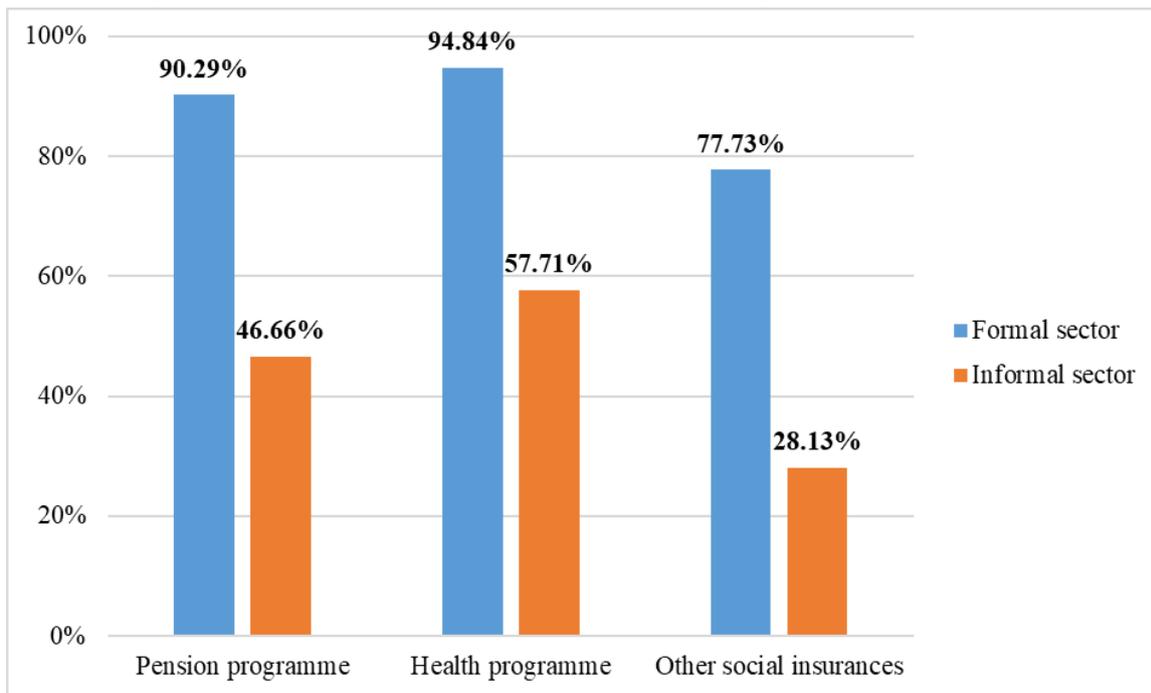
This study uses a recent nationwide individual-level survey and city-level statistics to examine these two explanations for the under-enrolment of social insurance programme in urban China. Individual-level data are sourced from the China Labour-force Dynamics Survey (CLDS) 2012, a nationally representative household survey. The analysis is restricted to a sample of urban individuals who are engaged in non-farming work. Individual-level data are merged with contextual data for 57 city-level units in 2011. The contextual data are drawn from the China Premium Database which provides city-level statistics.

The combined data sets have three main advantages. To start with, the CLDS 2012 with city-level statistics prompted the critical analysis of the national development of social insurance programmes whilst considering the city-level variations. In addition, this study draws on an inclusive sample with migrants and non-migrants, thus provides accurate estimations of the social protection for the entire labour force of the informal sector. Last but not least, the CLDS 2012 reflect the updated policy outcomes amidst social protection expansion, as the Labour Contract Law and Social Insurance Law were implemented in 2008 and 2011, respectively.

## Key findings

1. Enrolment in social insurance programmes is far from universal. Informal sector workers are disadvantaged in the enrolment with social insurance programmes, inclusive of pension, health, and other programmes (unemployment, work-related injury, and maternity insurances) (Figure 1).
2. The non-local and rural *hukou* and the intergovernmental fiscal system are major institutional constraints in achieving universal coverage of social protection.
3. The programme enrolment is also determined by self-selection behaviour. Employers in the informal sector are likely to opt-out of social insurance.
4. Employers in the informal sector with rural or non-local *hukou* are more likely to opt-out of social insurance, which suggests that self-selection behaviour is constrained by institutions.

**Figure 1.** Enrolment rates of social insurance programmes in urban China



Data source: China Labour-force Dynamics Survey (CLDS) 2012.

Note: Other social insurances include unemployment, work-related injury, and maternity insurance programmes.

## Significance of the study

This study provides a comprehensive view of social insurance coverage based on nationally representative individual- and city-level data. Furthermore, this study is the first thorough investigation of the disadvantages of the informal sector labour force in social protection in urban China. Institutional constraints and self-selection behaviour are highlighted as reasons for the under-coverage of social programmes for the labour force of the urban informal sector. Last but not least, this research reveals the interaction between self-selection behaviour and institutional constraints. The integrative explanation of institutional arrangement and individual behaviour provides new insights into the understanding of the under-coverage of social protection for the informal sector labour force.

## RELATED PUBLICATIONS

Jiang, Jin, Jiwei Qian and Zhuoyi Wen. 2018. "Social protection for the informal sector in urban China: institutional constraints and self-selection behaviour." *Journal of Social Policy*, Vol. 47, Issue 2: 335-357.

## REQUEST FOR MORE DETAILS

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