

The Expansion of Public Service in China

in the wake of Global Economic Crisis

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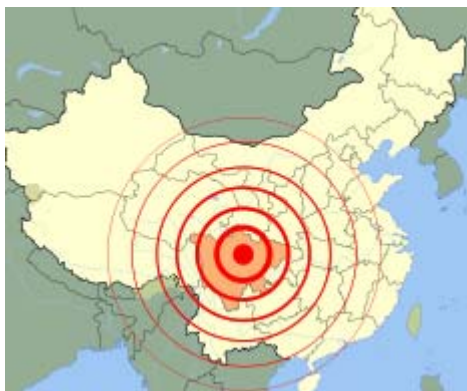
One. The Year 2008 in Retrospect

1. Major government restructuring

Ministry of Human Resources and Social Security (MOHRSS) was established in March 2008, in the Chinese government institutional reform merging the functions of the former Ministry of Personnel and the Ministry of Labor and Social Security. It has become one of the five super Ministries of the newly identified 27 Ministries /Commissions of the State Council- the Cabinet. The ministry is responsible for social management and public services, including promoting employment, stabilizing labor relation and improving social security, the ministry is also responsible for public personnel administration including civil service and public institution human resources issues.

2. The May 12 Wenchuan earth quake

This was one of the most devastating earthquakes since the founding of the People's Republic. It measured at 8.0 M., 68,000 people were killed, 17,921 missing, 374,643 injured. The hard stricken area covered 100,000 square kilometers. The disaster caused as much as 845.2 billion RMB yuan economic loss.



3. The 30th anniversary of the Opening-up policy:

2008 marked the 30th anniversary of Opening-up and Reform. In late 1978, the Opening up policy was introduced. Since then the world has witnessed a growing China with remarkable economic, social and technological achievements. Over the 30 years' period, China's GDP rose from 364.5 billion yuan in 1978 to 24.95 trillion yuan in 2007, the average annual growth rate is 9.8 percent, more than three times the world average during the same period. The average annual disposable income of urban residents rose from 343 yuan in 1978 to 13,786 yuan in

2007, an increase of 6.5 times. The average annual income of farmers rose from 134 yuan in 1978 to 4,140 yuan in 2007, an increase of 6.3 times. The poor population in rural areas went down from 250 million in 1978 to 14 million in 2007. China had fulfilled the goals of the first phase and second phase in its "three-step development strategy".

4. China and the World

Economic interdependence: By the end of 2007, there were 2,800,000 registered foreign companies, with 2.11 trillion US dollar investment. China's 2007 foreign trade amounted 2.1737 trillion US, constituting 8% world trade. China has become a major trading nation. The direct investment in foreign countries in 2007 in non financial sectors amounted to 40 billion US, an increase of 63.3% compared to the previous year.

Two. The impacts of Global Financial Crisis on China

Since the third quarter of 2008, the economy of China had been gravely affected by the global financial crisis.

- Suspend and closed down factories: The shrinking external demand has led to over manufacturing capacity in some industries, resulting in business difficulties for enterprises, particularly the export-oriented labor-intensive SMEs;
- Declining exports and import: In July 2008, the Foreign trade plummeted to negative territory, at the end of the year the growth was -29%;
- Slow down in growth: GDP fell quickly from 9% in July 2008 to 6.8% in December.
- FDI: number of approved FDI projects dropped by 39 %;
- The employment situation became grave, facing the most severe difficulty and challenge since 2000;
- The registered urban unemployment rate:4.2%, an increase of 0.2% than the previous year;
- Rural migrant workers: by the end of 2008, 8 million rural migrant workers returned to their home town.

Three. Chinese government responses measures

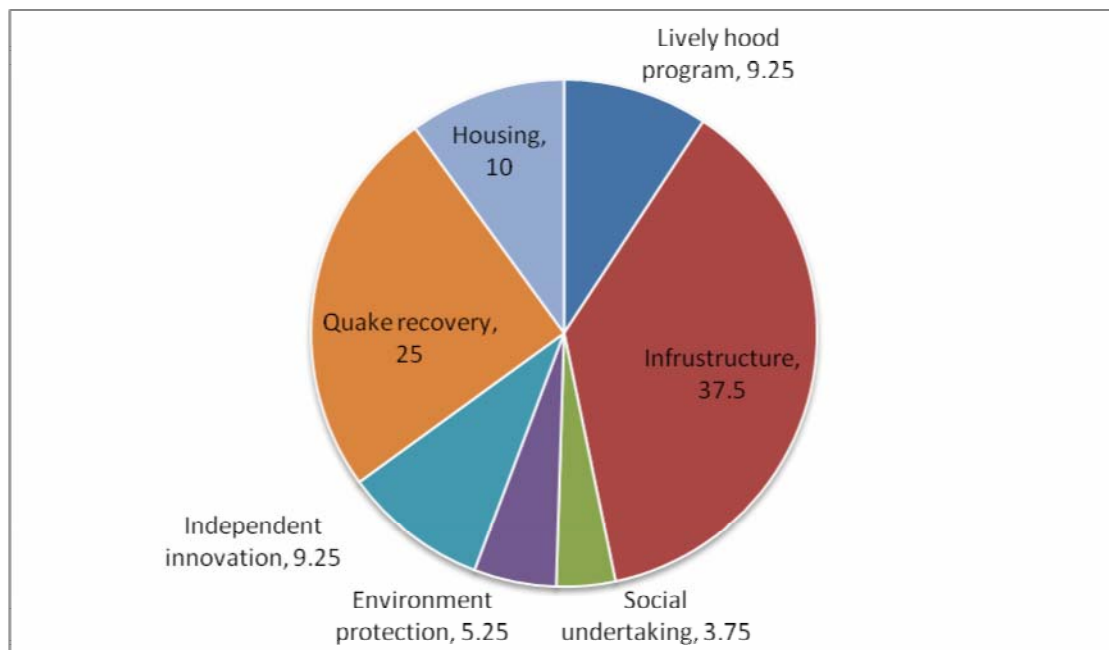
1. Adopt a more liberal monetary policy

The government adopted a relatively ease monetary policy to lower the interest rate and enhance the liquidity of banking system. The Chinese central bank lowered the interest rates of deposit and loan for five times in a row; the central bank also lowered the required deposit reserve ratio for four times in order to ease the burden of the enterprises, expand liquidity and promote economic growth. A credit of ¥7 trillion was channeled through the banking system to counter the impact of the credit crunch.

2. Increase government spending

The government rolled out an additional 4 trillion RMB biennial investment plan, focusing on infrastructure development: low income housing, rural drinking water safety projects that benefited 60.69 million people, 380,000 kilometers of roads have been built, 266,000 kilometers of electric power lines have been upgraded, 800,000 dilapidated houses in the countryside have been renovated, and permanent housing for 92,000 nomadic families have been built.

The 4 trillion RMB biennial investments

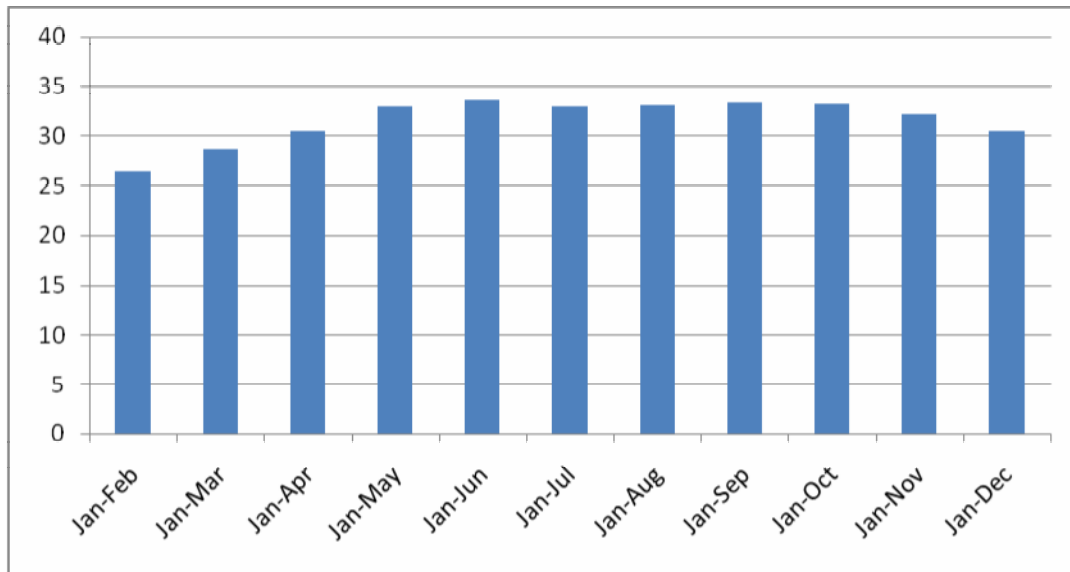


(Source: National Development and Reform Commission, 2009)

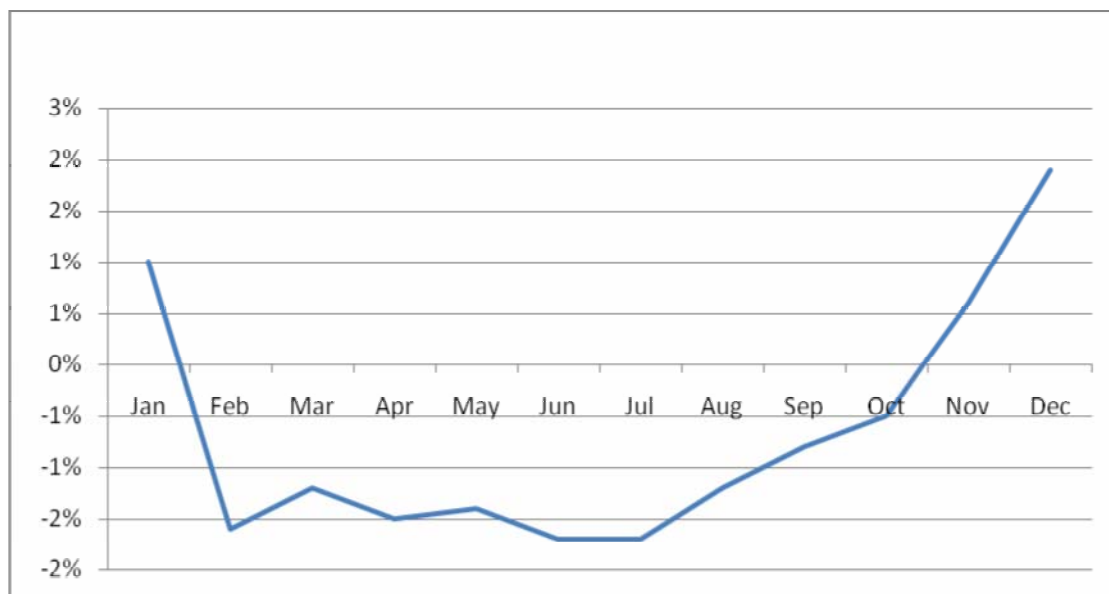
Note:

1. Lively hood programs: water, natural gas, electricity, road etc.
2. Infrastructure: large scale infrastructure projects such as rail way, high way, water conservancy and restructure of electricity net in the urban area;
3. Social undertakings: health, education and culture;
4. Environment protection: projects on saving energy, reduction of emission, and ecological construction;
5. Independent innovation: facilitating independent innovation in key areas.
6. Quake recovery: recovery and restructure for the Wenchuan earth quake areas;
7. Housing: Indemnificatory housing such as low rent housing and shanty town building.

Fixed Assets Investment Growth in Urban Area in 2009 (percentage)



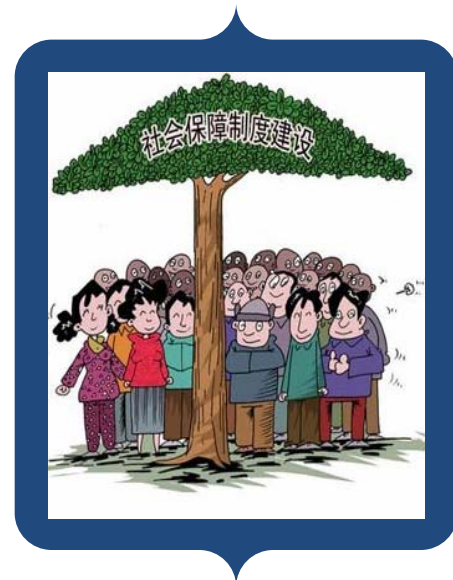
Monthly CPI in 2009



3. Promote employment and preserve jobs

The central government allocated 42.6 billion yuan in special employment funds, an increase of 59%. The central government provided job training for 21 million urban and rural workers. Measures include:

- 8000 RMB yuan tax reduction for people who engage in individual business;
- 50,000 RMB yuan micro-credit a year ;
- Exemption from administrative charges;
- 4800 RMB yuan tax waiver a year for enterprise hiring an unemployed or laid-off worker plus subsidies for the old-age, medical and unemployment insurance contributions;
- Labor-intensive small businesses may be eligible for up to 2 million RMB yuan micro-credit for employing a prescribed number of unemployed or laid-off workers;
- Vulnerable workers participating in public-sector job creation scheme can receive social insurance subsidy and job subsidy;
- Workers in flexible forms of employment may receive social insurance subsidy;
- Free employment service and vocational training to the unemployed workers and migrant workers from rural areas;
- Supports migrant workers to start businesses in their own hometowns, organizes the returning migrant workers to participate in "work for relief" programs;
- Vocational training for migrant workers returning to their home places.



4. Expand social protection

The Chinese social security system composed of: Urban employee basic old-age insurance; Basic medical insurance (Urban employee basic medical insurance, Urban resident basic medical insurance, New cooperative medical system); Unemployment insurance; Work injury insurance; Maternity insurance.

【Civil servants have a separate retiree fee system.】

Expand the coverage of social insurance schemes, with focus upon covering private sector employees, rural migrant workers, people with flexible employment and self-employed people.

- Increase basic pension for enterprise retirees. The pension for retirees was raised at an annual rate of 10% for the following two years;
- Increase the level of unemployment insurance benefits, work-related injury

insurance benefits, as well as the minimum living allowances in both rural and urban areas;

- Implement the new health care reform. Increase the coverage rates of both basic medical insurance for urban workers and urban residents and the new rural cooperative medical insurance;
- Launch the pilot program of new rural social old-age insurance subsidized by the central government. 10% of counties (cities or districts) join the first stage of the program. Rural residents above the age of 16 (students are excluded) who are not participants of the urban employee basic old-age insurance are eligible to participate voluntarily at the place of their registered residence.

5. Improve public employment service

- Government collects and publicizes job vacancy information and provides free services such as job placement, occupational guidance and policy consulting;
- In 2009, a program was launched to provide internship for 3 million college graduates in total in a 3 year period;
- In 2009, the government plans to help 1 million most vulnerable workers to get employed.
- Launch the Spring Breeze Campaign.
- Efforts had been made to improve the matching of labor-sending and labor receiving information, enhance job placement and vocational training;
- Promote business start-up of migrant workers returning to the country side or organize them to go to other places to find jobs;
- Carry out special vocational training programs to enhance the employability of workers. In 2009, 4 types of training programs were launched. First, skills-upgrading and job transference training for employees of enterprises in difficulties to help them secure jobs; second, vocational skills training or business start-up training for rural migrant workers who have lost their jobs and returned home, to help them get reemployed or start their own business; third, 3 to 6 months of skills trainings for the unemployed to promote their reemployment; fourth, 6 to 12 months of trainings for new entrants to the labor market to increase their employability.

6. Improve the civil service

Since its introduction in 1993, the civil service system has seen constant improvement. In April 2005, the fifteenth session of the tenth National People's Congress reviewed and adopted the Civil Service Law. The promulgation and implementation of Civil Service Law put civil service management onto legal-based track.

- Institutionalize the merit based competition and selection. A large number of

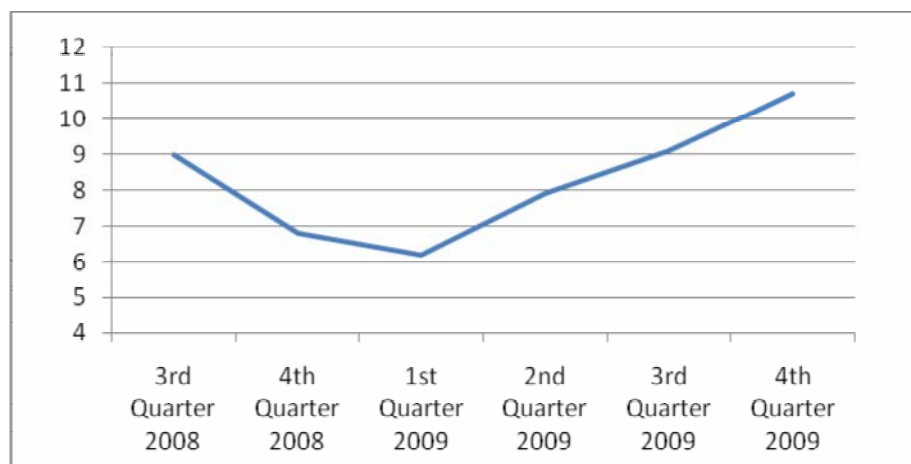
talented youths with strong academic background have been recruited. Promotion on the basis of competition is adopted, whereby a large number of well-qualified civil servants have been promoted;

- Appraisal system is adopted, civil servants are evaluated in five aspects: integrity, competency, diligence, accomplishment and honesty. The appraisal result is linked to awards and punishment, wage, promotion and demotion, dismissal and other elements in civil service management;
- The implementation of appeal and personnel dispute arbitration system helps to rectify the unfair personnel dealings and effectively protects the legitimate right and interests of civil servants;
- Systems regarding retirement, resignation, dismissal and transfer are in place, effectively solve the problem that "once you're in the system, it's hard to get out";
- Entry training, promotion training, specialized training and in-service training have been implemented;
- The implementation of code of conduct, discipline, punishment, job rotation, avoidance, etc., strengthens the supervision and regulation of civil servants, identifies the professional requirements for civil servants, standardizes conducts in performing official duties and promotes the building of a clean government.

Four. The effectiveness of the Responses

1. GDP resumed growth: A V shaped rebound in GDP growth. Annual average growth is 8.7%

GDP since 3rd quarter of 2008 to the end of 2009



Source: National Bureau of Statistics

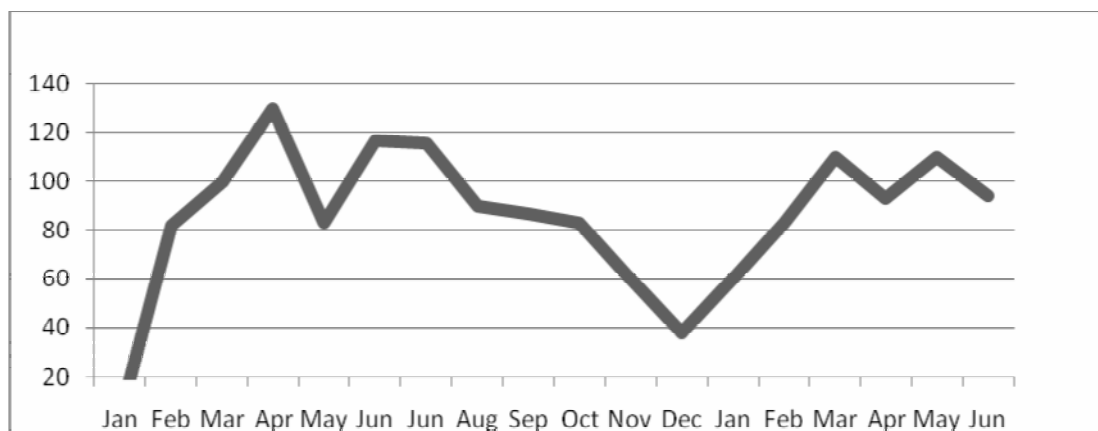
Import and Export Growth in 2009



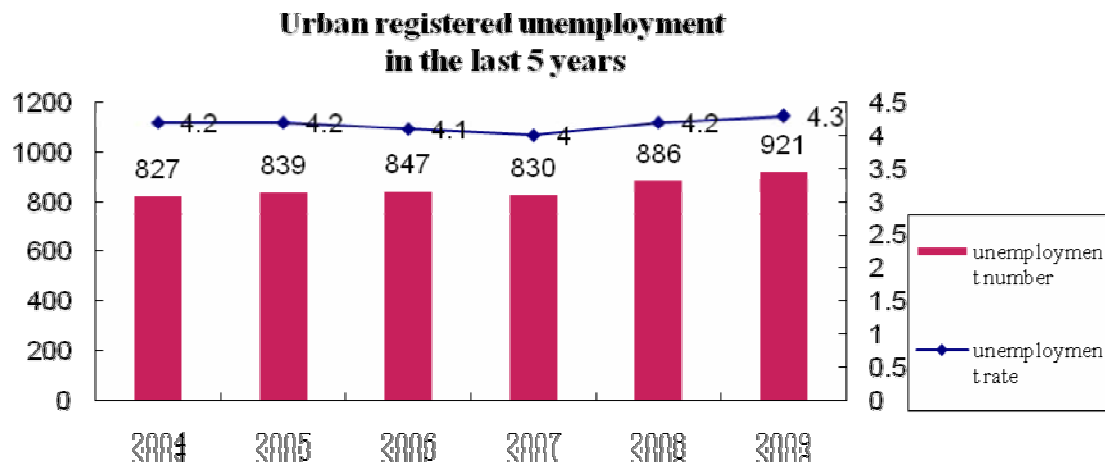
Source: National Bureau of Statistics

2. The employment targets accomplished: 11.02 million new jobs were created in urban areas, representing 122% of the 9 million original annual target; 5.14 million laid-off and unemployed workers reemployed, 103% of the 5 million target; 1.64 million vulnerable workers employed, 164% of the 1 million target.

New jobs by month 2008 to 2009 (10,000)



Source: Ministry of Human Resource and Social Security, China

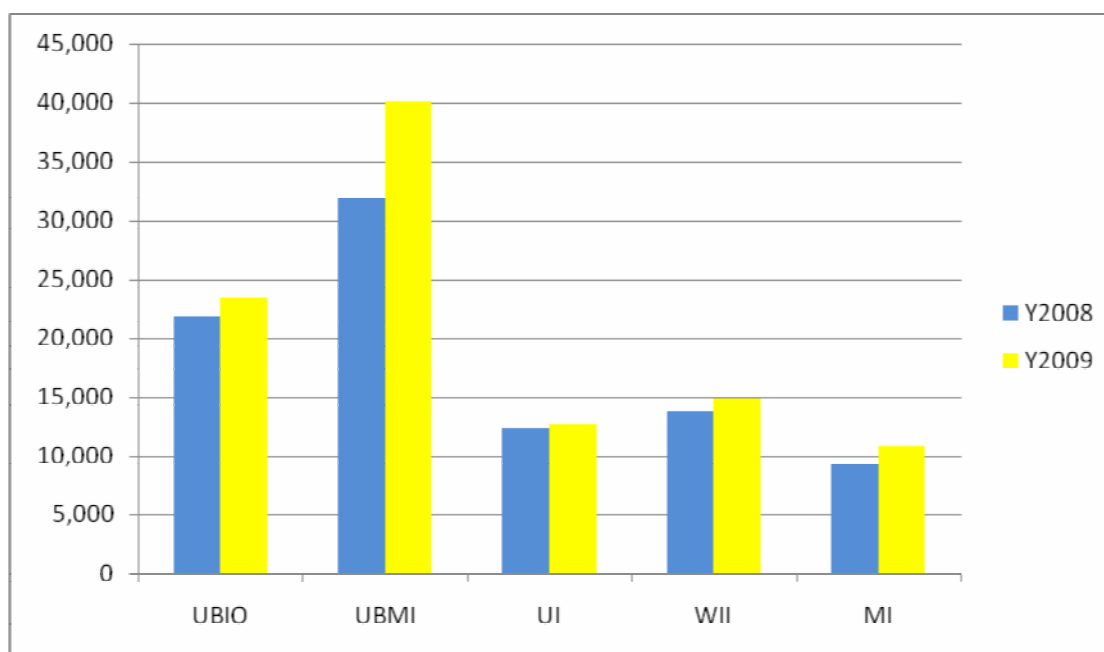


Unit: 10,000 persons

Source: Ministry of Human Resources and Social Security, China

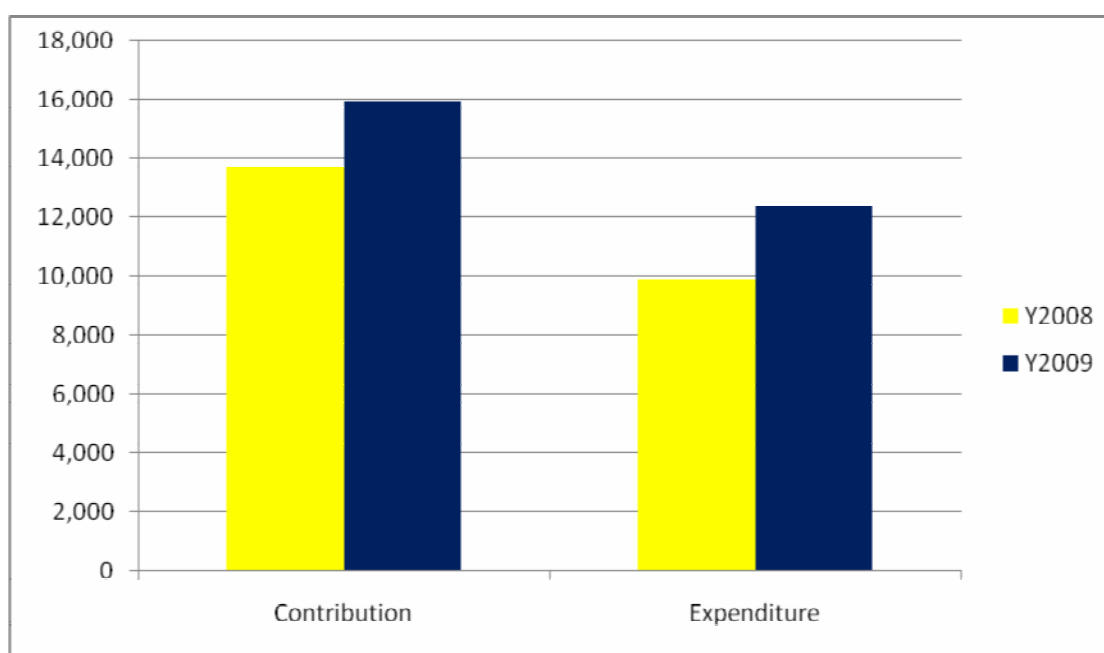
3. The pension schemes are in place in almost all provincial regions. People in the region could easily transfer his or her pension account from one city to another city in case he or she needs to do so.
4. The central government launched a pilot project for a new rural pension insurance system in 320 counties out of 2861 county level regions 11.8%. That is a historical development in China's social security system.

Participants in the five social insurances schemes in 2008 & 2009



(Source: Ministry of Human Resources and Social Security, PRC, 2009)

Total contribution and expenditure of the five social insurances schemes



Unit: 100 million

(Source: Ministry of Human Resources and Social Security, PRC, 2009)