



Summary Notes on SPRP Component 1 2018 Panel Discussion Meeting

Topics 1.1.3, 1.3.5, 1.3.8



Component One Panel discussion meeting on 2018 Research topics of the EU-China Social protection reform project SPRP was held on 13 September 2018 in Beijing, Tangla Yaxiu Hotel. Some 30 participants (see annex 2) took part in the event, that was chaired by Mr. Michele Bruni, SPRP European Team leader and Mr. Zhang Guoqing, Main Expert, SPRP Component One . Chinese and European experts first discussed the topic of income distribution, based on a European comparative study prepared by Mr. Jean-Yves Hocquet and a Chinese Assessment report prepared by Mr. Li Shi. The meeting then discussed the topics of Population mobility based on an Assessment report prepared by Mr. Jin Weigang, and of High-Quality Development and Workforce Quality improvement on the basis of an Assessment report prepared by Mr. Yang Weiguo. European experts from Belgium (Ms. Ann Coenen), France (Ms. Veronique Dunaud) and Poland (Ms. Agnieszka Majcher- Teleon) contributed their comments to the discussion. The agenda of the meeting is reproduced as annex 1.

I. Welcome speech by Ms Wang Rong (EUD, China)

1. Ms Wang Rong, project officer of EUD Beijing, warmly welcomes all the participants to this year's panel discussion meeting for SPRP Component 1 on behalf of the EU. She briefly introduces the background of the project and the achievement made in the past four years under the cooperative framework between EU delegation and Chinese government in the field of social protection. Ms Wang continues to indicate that the proposal for extending the project into 2019 will contribute to the bridging of the 13th and 14th Five Year Plan in the field of social protection.

2. As far as Component 1 is concerned, the technical issues in 2018 activities address the following aspects: income distribution, population mobility, vocational training and new forms of employment, universal pension model, and gender issues in social protection. In the context of the C1 work plan in 2018, and to support China on its move towards what has started being called "the New Normal" economy, the EU is proud to be part of the recent efforts going to be discussed today among peer researchers from China and EU under the leadership of NDRC. The panel discussion in Beijing is the first meeting to discuss the preliminary findings mostly from the Chinese research teams, which will be continued in Brussels on a broader scale during an international workshop attended not only by researchers but also policy makers from EU and China.

3. Ms Wang goes into details on each topic to be discussed at the panel discussion. The first one is on income distribution. Primary income distribution is crucial to a harmonious society, especially when inequality in primary income distribution is relatively high at present in China. Researches have been conducted under the topic of income distribution for the project in previous years, one of which is the effect of social security on income redistribution, notably in old age pension. This year's research topic will deepen the analysis of different tools in income distribution, which include direct taxation, indirect taxation, social security contributions, access to public services, public subsidies, social benefits, and relevant policy of wage, etc. Parallel research activities are undergoing both from Chinese and European side. Mr. Hocquet, our high-level French specialist, will make comparison within European context and analyze different patterns in income distribution policy, which will provide valuable reference to China on its way of building a modern and harmonious society.

4. Labour mobility is the second topic on agenda, which is the key to ensure continuous and sustainable development of China's economy. As a matter of fact, population movement has in recent years become a major component in Chinese society. However, the analysis of the phenomenon, as well as relevant regulatory framework and accompanying labor and social policies are in a way lagging behind, which may impair the required mobility and harm the continuous development of the society under "the New Normal" economy. The project was therefore particularly lucky to have Mr. Jin Weigang and his research team to address the issue of employment and social security under the background of population movement in China. In the formulation of policy recommendation in this respect, the project will rely on the expertise from EU countries. The experience is particularly rich for promoting free movement of workers across countries which constitute one of the key reasons for founding and expanding the scope of the EU. The representatives of selected countries are here at the panel discussion to share with our Chinese counterparts their research and perspective on population mobility as well as related employment policy.

5. China is indeed going through a fundamental transformation from an economy in pursuit of high speed economic growth to higher efficiency and equality, better structure, and more sustainability and innovation in economy. The upgrading of economic development demands that the labor force be equipped with a set of vocational competences quite different from those in the past. Thus it has become vital for vocational training to explore how to promote capacity building for the labor market which is more compatible with the new trend of Chinese economy. The transition from unskilled labor to skilled employment requires clear identification of ways and means through which social protection can help build modern lifelong vocational training system. Professor Yang Weiguo and his team from Renmin University have produced an impressive research report for this topic. And matching with their findings, the experts from European side will join in

the discussion in Brussels to complete this year's research project on this topic. We also look forward to the policy recommendations that will emerge from the discussion to be submitted to the government.

6. This dialogue is held at a moment approaching the conclusion of the 13th Five Year Plan where all three topics are categorized as most fundamental policy areas for the future development in China. The EU will continue to work with China to invest more in unskilled people, facilitate mobility, and modernize law and social protection systems to be fit for purpose of 21st century while at the same time to promote entrepreneurship and innovation. Ms Wang concludes her speech by wishing all at seats a successful day of discussions.

II. Welcome speech by Mrs. Zhang Xinmei (NDRC)

7. Ms Zhang firstly expresses her pleasure to attend the panel discussion and warmly welcomes our EU experts of their presence in Beijing at such a lovely season. She explains on the basis of Ms Wang's introduction that this year's topics are continuous work extended from the research conducted in previous years. And the selection of the topics is in line with the priorities of NDRC's study visits to EU which bear most uncertainty and ambiguity from NDRC's point of view. China is in its transition from an economy of high growth rate to one of medium-high growth rate where high quality development has become a key advocate. Under this particular circumstance, it is crucial to improve the structure for income distribution, to promote high quality labor market and employment, and to upgrade the vocational capability of labor force especially for the development of ICT and artificial intelligence industry.

8. The topic of income distribution is closely related to high quality development in that a more optimized income distribution system would help in enhancing the overall consumption capacity of the country while at the same time striving for a balance between efficiency and equality. Most of the European countries have overcome what has been called the middle-income trap and grown to be developed economies; there are so much valuable experiences for us to learn from in this respect. It is under the current situation of intensified local and regional conflict as well as global economic collision that this year's discussion proves to be even more significant.

9. It is very impressive to see how rich and profound our EU experts' experience and engagement in the field of labor market, employment policy as well as social protection. Meanwhile, we are lucky to have invited prominent experts from top-tier Chinese university, research institute as well as governmental organization. With this remarkable combination of personnel, it is safe to say that we are going to enjoy a meaningful gathering of discussion today, which will definitely help in improving the policy making in the field of income distribution, high quality employment and vocational training in China. Ms Zhang concludes her speech by thanking all for their presence and wishing for a fruitful discussion.

III. Overview of income distribution policies in Europe by Mr. Jean-Yves Hocquet

10. Mr. Hocquet starts his presentation by expressing his gratitude for being invited to the event and his pleasure of being in Beijing once again. The research by Mr. Hocquet aims to summarize the main challenges in income distribution policies and their main contradiction. Income policy is believed to be one of the core means of public intervention. The state intervened in the constitution of primary incomes, especially in France, during the post-world war II period through the control of collective bargaining, the purpose of which is to fight inflation, support growth, amend major unjustifiable discrepancies, and to achieve a balanced partition of incomes. In our days, market regulates primary income distribution in France, while the state ran redistribution through taxation and social benefit.

11. After the Second World War, the state decided that discrepancies in income inequality should be corrected thus tried indirectly at least to influence the primary income repartition. It also was a French phenomenon that income inequality is not a public debate, at least directly. When we speak about income

policy, we are talking more about social cohesion, measures against poverty, and income redistribution and even immigration. The fight against income inequality is often the indirect effect of other social policies. There has been a theory implying that the poorest actually benefit from the creation of wealth without regarding income inequality, yet, researches from IMF, OECD, and the Davos Forum stress that there is a gap between inequality and growth. Mr. Hocquet deals income inequality here as national topic, while the consequences can be accessed at different stage of life between genders, age, employment status, space and time.

12. The presentation takes place within a framework which is diverse and qualitative. There is no definitive evidence-based conclusion. There are a lot of dimensions of inequality to be taken into consideration, among which the psychological dimension of inequality is especially strong. Policy makers get from academic world data of large uncertainty and dispersed opinions with which they would enjoy a large room for decision about the definition of problems and the future we want to have, as is the case of income redistribution.

13. The richest 10% of the population now earn 9.6 times the income of the poorest 10%; this ratio is up from 7:1 in the 1980s. In 2012, the bottom 40% owned only 3% of total household wealth in 19 OECD countries and the top 10% controlled 50% of all total household wealth while the wealthiest 1% held 19%. Even in Sweden, which is seen as a model for other European countries, 15% of the wealthiest collectively control 70% of Stockholm stock market. The richest 1% in Sweden captures 20% share of all private wealth in 1968 and the number has increased to 40% in 2006.

14. High levels of income inequality are a problem from the viewpoint of social fairness and cohesion, and they practically invalidate the notion of equality of opportunity.” This is a quote from László Andor, the Commissioner for Employment, Social Affairs and Inclusion in a presentation in 2014. This quote represents a broad consensus in international organizations which is difficult to express at national level. Even Europe is performing relatively better than all the other regions and areas in the world, the income inequality between countries and regions has become a source of concern for the future. Since the crisis of 2008, discrepancies among EU countries are also widening in the respect of income inequality. Within the Euro area, central member states are improving while southern member states, like Italy are falling behind.

15. The late Atkinson, the prominent expert on the study of poverty, stressed the issues of social justice that “the kind of society in which we would like to live is one in which at least the gaps are not too big between the top and the bottom.” Another expert, Anthony Giddens, states that “this generation’s inequality of outcome is the next generation’s inequality of opportunity” last but not least, the OECD in its report *A broken social elevator? How to Promote Social Mobility?* claims that we cannot afford to neglect the education and skills of any part of our societies.

16. The European 2020 Strategy gave more importance to the issue that countries should improve social equality, but again, it is an indirect expression with some poverty ratio target, employment ratio target, etc. but no direct indication of income inequality. The questions of ways to increase primary incomes will not be discussed at length at today’s presentation but some mentioning of the issue is necessary. Firstly, evolution of forms of employment and working conditions shows polarization of the labor market – 1/3 of those employed in the OECD are employed in non-standard forms; this represents most of the jobs created. Secondly, technological and economic context have been changed by the rise of information and communication technologies (ICTs). Thirdly, fiscal and social policies have become less effective on household income. Fourthly, ambiguous impact of openness puts pressure on national policies to create less protective jobs, and increase in the level of education and female activity has reduced inequalities but increase inequality in single or childless households.

17. As regards to the measures to tackle the income inequality, market income distribution should step in as the first stop to reduce inequality significantly. Full employment and better working conditions (people’s self-perception and status in society) have an indirect effect for income inequality. Competition policy does not only concern with efficiency of markets but also with the impact on employment or on consumers. Furthermore, taxes and transfers can serve to moderate differences in income and wealth.

18. There are four key policy levers contributing to income redistribution: the average rate of taxation, the progressivity of taxation, the average rate of social transfers, and the targeting of social transfers. Thus income redistribution can be seen in a simple equation of transfer rate* targeting+ tax rate*progressivity. What are the main lessons? Different countries lie at the extreme of each policy lever. There is a broad variety of configurations that provide the same magnitude of redistribution. No country strains all four levers simultaneously because of political trade-offs. Strongly progressive taxation appears incompatible with a high rate of taxation.

19. Countries where transfers are most targeted are less effective in reducing inequality which is referred to as the “paradox of redistribution”. There is a positive yet weak relationship between targeting and redistribution. Variations in income inequality over time affect preferences for redistribution. Individuals living in economies where substantial redistribution already exists do not want more redistribution as is the case of Sweden.

20. There are three main methodological inputs coming from this study: employer social security contributions; imputations of indirect taxes such as VAT; pensions as income rather than transfers.

21. The general conclusions of this study:

- Taxes: both levers of taxation (tax rate and tax progressivity) reduce inequality.
- Transfers: most of the impact is due to the rate of transfers more than targeting.
- If public pensions are categorized as income rather than transfers, the redistributive effect of transfers is dramatically reduced.
- The imputation of missing taxes also challenges the usual ordering of countries in terms of efficiency in inequality reduction.
- Taxation makes a stronger contribution to inequality reduction than transfers (excluding public pensions). There are notable exceptions, such as the United Kingdom.
- The main predictor of disposable income inequality is market income inequality.
- Negative correlation between the progressivity of the tax system and the extent of social spending.
- Trade-off exists between progressivity and the average rate of taxes.

22. Mr. Hocquet shows some charts to visualize his research conclusion. The analysis categorizes EU countries into two clusters according to the reductive effect of inequality: low reduction cluster of countries where Gini index decreases by 0.07 and tax redistribution always exceeds transfer redistribution; and high reduction cluster of countries where Gini index decreases by 0.11 (United Kingdom, France, Italy, Sweden). There are notable exceptions such as the UK where the role for transfers is dominant, whereas in Italy the tax stoyole for transfers represents more than 75% of the inequality reduction.

23. Mr. Hocquet concludes his presentation by quoting Professor Joseph Stiglitz, a Nobel-winning scholar, that “There are many lessons to be learned as we reflect on the 2008 crisis, but the most important is that the challenge was – and remains – political, not economic: there is nothing that inherently prevents our economy from being run in a way that ensures full employment and shared prosperity. Secular stagnation was just an excuse for flawed economic policies. Unless and until the selfishness and myopia that define our politics is overcome, an economy that serves the many, rather than the few, will remain an impossible dream. Even if GDP increases, the incomes of the majority of citizens will stagnate.” Mr. Hocquet gives his remarks that there is still very large room for policy makers to design accurate transfer policy and redistribution policy, and the challenge is not on redistribution policy but inequality on primary income.

24. Mr. Bruni thanks Mr. Hocquet for his very comprehensive presentation and gives his remarks that he agrees with Mr. Hocquet that the relationship between market and intervention should be made clear. He then raises a question regarding tools for income redistribution on the 12th page of Mr. Hocquet’s presentation and asks for more explanation from Mr. Hocquet. Mr. Hocquet explains that there are two

levers for taxation and two levers for social benefits. The average rate for taxation is calculated by real state income instead of legal tax lever. Mr. Bruni raises the question of how to measure tax progressivity as well as targeting for transfer. Mr. Hocquet explains that these two indexes are calculated through large number of samples from a lot of countries. But in reality, the design of tax progressivity is up to the state and political decisions. The targeting for social benefits, when there is too strong a tendency in targeting, people sometimes feel reluctant to pay contributions because they don't feel obliged that way.

25. Mr. Zhang Guoqing raises the question about the poverty line in Europe – are there differences among countries and how is it calculated. Mr. Hocquet replies that in the Europe 2020 Strategy there is clear emphasis on poverty reduction through Open Coordination Method. A person is seen as poverty population if his / her income is fewer than 60% of the average income by specific national definition. We can see that there is the objective to reduce poverty but there are no direct income redistribution policies in this regard. The national poverty lines are different because they are set at national level.

26. Ms Zhang Xinmei gives her remarks that question lies in the extent of state intervention – how to achieve an ideal balance between market distribution and government intervention? Another issue is how to assess the effect of the four policy levers of redistribution. The third question relates to the targeting of social transfer. Mr. Hocquet replies that this is a very complicated issue. A lot of researches have been conducted. Social benefit brought by state intervention varies drastically across countries. It is solely up to the national governments to choose from a pool of political instruments for the design of their own social benefit system. There are some detailed description in this aspect in his final report and hopefully will provide some useful insight.

27. Mr. Bruni concludes the session that we are here discussing from the point of view of an economist on the issue of income distribution but in the end, it is up to the politicians to decide what the objective to achieve is. It is a matter of political consideration and political choice for a redistribution policy. Ms Zhang states that this very occasion today is a good opportunity for us to learn from the path of EU countries on these issues and hopefully it will be part of the effort that leads China to a better, more equal, more efficient, and more sustainable future.

IV. Chinese policy and regulations on income distribution by Ms Zhu Mengbing on behalf of Mr. Li Shi

28. Ms Zhu Mengbing takes over the floor by firstly reporting that it is a pity that Mr. Li Shi wouldn't be able to join the discussion because he is doing an overseas mission in Finland, but he will be in Brussels for the international workshop in the coming week. She continues to illustrate that there are two measures taken by the government to exert influence on income redistribution: the first one is progressive taxation of personal income tax, consumption tax, and VAT; the second one is public transfer policy including public education, healthcare and housing subsidy. The research mainly focuses on the redistributive effect of taxation and social protection system, which is divided into the following parts:

- The impact of direct and indirect taxes on income redistribution in urban and rural China
- The redistributive effect of social security system including contribution to social protection and public and private transfer schemes
- The simulation analysis of the redistributive effects of personal income tax reform in 2018
- Discussion, conclusion and policy recommendations

29. Ms Zhu first talks out the redistributive effect of taxes in China. Taxation constitutes a key element for state finance. Chinese tax system plays an important role in income redistribution among high income group and low income group as well as resolving income discrepancy among different regions through the following two ways: firstly, direct taxation transfer which is imposing taxes upon high income group while increasing subsidies to the low-income group; secondly, indirect taxation of levying taxes on the goods purchased by high-income consumers while providing subsidies for some goods purchased by low-income consumers. The division of direct and indirect taxes is characterized by their transferability: direct taxes

include personal income tax and property tax; indirect taxes include VAT, consumption tax, and certain types of business tax.

30. The current status of China's taxation system bears two features: firstly, revenue of indirect taxes takes fairly large proportion of total tax revenue, while the proportion of direct taxes is much smaller; secondly, the proportion of the VAT is quite large whereas the proportion of personal income tax is quite marginal (5%). A comparison with other countries on the redistributive effect of taxation shows that:

- Firstly, the personal income tax system in developed countries turns out to be progressive, and the proportion of personal income tax of total tax revenue is quite large, the percentage of which is 40% in the US, 28% in the UK, 19% in France, and 24% on average in OECD countries. By contrast, in China, although the personal income tax helps to narrow the income gap, but its role is very limited.
- Secondly, the direct tax system in developed countries includes not only personal income tax, but also a tax on property "by reason of its ownership", such as real estate property tax. By contrast, Chinese direct tax mainly refers to taxes imposed upon a person.
- Thirdly, the redistributive effect of tax system is much larger in developed countries. Estimation indicates that the change in Gini coefficient attributed to personal income taxes in OECD countries is around 0.03 while the figure is 0.0013 in China. The larger redistributive effect of personal income tax system in OECD countries is largely driven by the decreasing tax burden among the low-income group.

31. The relevant statistical analysis of the research measures two indexes, the first one is the average ratio of tax on income (The average ratio of tax on income = Taxes/Household Income before taxes), the second one is MT Index, which measures how big the discrepancy is between Gini coefficient before and after taxation. Two sets of database are used for analysis: China Household Income Project 2013 and China Family Panel Studies with the reference year of 2012 and 2016. The figures are presented in tables and graphs from which patterns can be found regarding the redistributive effect of tax system in China.

32. Starting with the category of indirect taxes, it is shown that VAT and consumption tax exert the biggest influence on income redistribution, whereas direct tax such as personal income tax has very little impact on household income no matter seen from a national scale or just rural residences. It is estimated that the disposable income per capita sees a decrease of 13% in urban areas and 15% in rural areas. As for the average ratio of tax on income, the country average is about 16.33%, which means all forms the taxes for each household takes up 16.33% of the total income. Among the different schemes of taxes, VAT constitute the highest proportion of 13%, followed by consumption tax, while personal income tax only takes up 0.11% of the total income. It is also evident that the average ratio of tax on income for rural residents is around 19%, which is relatively higher than that for urban residents.

33. In addition, the analysis also looks at whether the tax system in China is progressive or regressive. National data on household income before tax is divided into 10 groups, the first one being the poorest while the last one being the richest. We can see that the proportion of VAT in total household income is decreasing, which means rich people are paying proportionally less as compared with poor people. The same result comes from the analysis of consumption tax, showing that the indirect taxes in China are regressive at present. On the other hand, personal income tax is progressive in that people with higher income pay more taxes.

34. We then look at MT Index. Data from 2013 shows that the Gini coefficient increases by 3% after taxation, which can be explained by the regressivity of VAT and consumption tax on income redistribution. Gini coefficient increases by 2.66% after VAT and another 0.7% after consumption tax. Given the very marginal progressivity of personal income tax and other taxes, the Gini coefficient increases by 3% after all types of taxes are deducted in total household income.

35. Another perspective to look at the figures is the polarization between rural and urban areas. We can infer from the previous figures that VAT enlarges the income discrepancy in rural areas by 5.6% due to a higher proportion of VAT in total household income in rural areas. If taken into consideration all the taxes

including VAT, the income inequality is widened by 7% in rural areas and only 2% in urban areas. On the side of the regressive effect of indirect taxes, personal income tax which targets urban employees exerts a positive effect on narrowing the income discrepancy in urban areas by 0.5%. Taking a look at figures for 2012 and 2016, the same conclusion can be reached that the general redistributive effect of tax system in China remains to be widening income inequality, especially VAT.

36. The second part of the research deals with the redistributive effect of social protection system in China. Social protection schemes affect income redistribution in two ways: contributions in pension system, medical insurance, etc. and public transfers such as pension benefit, *dibao*, and certain types of public subsidies. An international comparative study shows the following conclusions:

- The proportion of spending on social security program is much higher in developed countries than in China (40% vs 12%)
- The current social security system in developed countries has already covered the whole population while in China, the current social security system is fragmented and do not achieve full coverage. System fragmentation is still prevailing in the field of social protection
- The social security system plays an important role in reducing the income gap in developed countries, whereas its redistributive effect is much smaller in China, even counter-active.
- Pension system in developed countries balances equality and efficiency whereas pension system in China is still suffering from system fragmentation, urban-rural gap, implicit debt, and deficit personal account.
- With the function of social security system, the Gini coefficient of the national income inequality in the US fell 50%, while in China it only makes the national income gap narrowed by 13%, with discrepancy of 22% in urban areas and 17% in rural areas.

37. Next the analysis tries to find out the redistributive effect of contribution to social protection and that of public and private transfers. Social protection contributions are seen as generally regressive in that they increase income inequality; for example, contribution to medical insurance increase income inequality by 0.3%. If we look at income in the form of transfers, we can see that public transfers decrease the Gini coefficient of market income by 8%, among which pension benefit income contributes 6.5%. Private transfer is also a powerful redistributive tool which brings down the Gini coefficient by 6%.

38. If comparing the situation in urban and rural China, we can find out that contribution to social protection schemes tends to widen income inequality in both urban and rural areas. Pension benefit serves as the major source of income for elderly people in urban areas which helps narrow the income inequality in urban areas by almost 20%. However, in rural areas, private transfers, which are made of transfers from family members who work in urban areas and other types of subsidies, are the prior tool for income redistribution. Referring to the data in 2012 and 2016, the same conclusion can be made that contribution to social protection schemes widens income inequality to a certain extent while public transfers narrows income inequality.

39. The third part of the research runs a simulation analysis based on the new framework for personal income tax put forward in August, 2018 to see its redistributive effect. The monthly standard deduction will be increased from RMB3500 to RMB5000 (up to RMB60,000 /year). And the tax rate table will be optimized to alleviate the tax rate of the low-income groups. It is obvious that the number of tax payer will decrease significantly by 20%. Assuming that all the other conditions in the labor market remain unchanged, on the basis of the actual growth rate of wages in 2013-2018, we calculate wages in 2018 under 3 different circumstances: 1) On the basis of the ratio of personal income taxes on income in the dataset, we then simulate the disposable income in 2018; 2) According to the current monthly standard deduction, which is RMB3500, and assuming that all the employees are taxed at various rates according to the tax rate table in which they fall, and then we calculate the disposable income in 2018; 3) According to the revised monthly

standard deduction, which is RMB5000, and assuming that all the employees are taxed at various rates according to the tax rate table in which they fall, and then we calculate the disposable income in 2018.

40. Scenario 1) shows a very limited decrease of Gini coefficient by 0.2% which may result from the fact that a large group of tax payers are paying less than they should. Scenario 2) sees a relatively evident decrease of Gini coefficient by 3.3% when assuming all tax payers are paying the duly amount of taxes. Scenario 3) sees a decrease of Gini coefficient by 1.7% when raising the minimum threshold to 5000 RMB, in other words, the redistributive effect of personal income tax is weakened in the new scheme.

41. The explanation for this phenomenon lies in the fact that the real problem in personal income tax in China is not the minimum threshold but the existence of horizontal inequality when looking at taxation for different source of income. For example, middle income group tends to pay more personal income tax due to the high proportion of wage income in their total income; while high income group tends to pay less personal income tax because most of their income comes in the form of investment and property.

42. To summarize, indirect taxes especially in the forms of VAT and consumption tax, show regressive effect on income redistribution. Direct taxes on the other hand have a rather limited progressive effect on income redistribution. As regard to the contribution to social protection schemes, medical insurance fee is evidently regressive; public and private transfers serve as powerful tools for income redistribution, especially pension benefit which narrows income gap significantly.

43. Ms Zhu concludes her presentation by briefly going through some conclusions and policy recommendations of the research. The conclusions of the research are as followed:

- China's indirect tax system is regressive, while personal income tax is progressive. Thus, indirect taxes increase the national income inequality
- Although the progressive taxes such as personal income tax weakens the regressive effect of indirect tax. However, due to their small scale, its role in narrowing the income gap is very limited
- The regressive effect of indirect tax is larger in rural areas, and it has a larger effect of expanding income inequality in rural China
- Social security system can help to narrow the income gap
- In particular, the social security contribution plays a role in increasing the income gap
- By contrast, a variety of social security and welfare programs with public transfer income has played a role in narrowing income gap, which is derived from the role of pension benefit

44. The policy recommendations from this research are as followed:

- First of all, further reform the personal income tax system to increase its role in income re-distribution
- Second, increase the sources (sorts) and proportion of direct taxes
- Third, unify the urban and rural system to change the fragmented social security system
- Fourth, further improve the coverage, and achieve the goal of equally protecting all the disadvantaged people
- Fifth, increase the progressive effect of contribution to social protection schemes

45. Mr. Bruni expresses his appreciation for Ms Zhu's presentation. He then gives the floor to participants for discussion. Mr. Fang Lianquan gives his comments and reflections based on the presentation by Ms Zhu. Redistributive effects of social protection schemes and tax system are of great importance in the social and economic reform in China. As many of us may know, the responsibility of collecting contribution to social protection falls under the administration of taxes which brings worries whether the tax burden will be exacerbated. Mr. Fang points out that the comparison of contributory fees to social protection schemes with

taxation has been going on for a long time in China, the debate of which lies on whether contribution is a kind of tax or not. The distinctive feature of the two can be quite blurred in some context. In addition, as a result of the regressivity of contributions, it is not at all hard to understand why some private enterprises tend to pay less contributory fees than they actually are supposed to. This is a problem for China's social protection system.

46. Mr. Fang also shares his thoughts on personal income tax reform. Personal income should include other forms of income than just wage; meanwhile, tax rates should also be differentiated by more categories. As regard to the number of tax payers, as a matter of fact, the total number of personal income tax payers is not a lot. There is no official figure but some scholars estimate it to be around 30 to 40 million, which is a very low proportion as compared with the total employment population of 6 to 7 billion. It is advisable that the tax administration should set up a database for working population which can serve as a basis for possible future income tax reform.

47. Mr. Hocquet gives his comments that it can be seen that China is quite different from Europe in terms of redistributive tools. In Europe tax system forms the basis for income redistribution, the majority of which is direct taxes. Europe used to have a simple social redistribution system mostly through taxation; but now there is no pure model – social redistribution and protection is funded through taxes as well as contribution. It is important to consider the resources for social system thus the question lies in assessment and methodology of actuary. He agrees with the presentation that direct taxation on personal income should be redesigned to consider all forms of income other than wage.

48. Ms Zhu raises the question to Mr. Hocquet that she would like to see if personal income tax in France or Italy constitutes the majority of direct taxation and the extent of influence of property tax and estate tax on redistribution. Mr. Hocquet replies that as a matter of fact, personal income tax is also decreasing in France; and the progressivity is rooted through the introduction of flat tax of various forms of capital income. There are a large number of taxes related to property tax, but in general they are not considered as income tax.

V. Employment and social protection under the background of population mobility by Ms Zhang Libin on behalf of Mr. Jin Weigang

49. Mr. Zhang Guoqing opens the afternoon session. Ms Zhang Libin gives the presentation on behalf of Mr. Jin Weigang on the topic of employment and social protection policy under the background of population movement in China. The research outline is threefold: firstly, a comprehensive account of employment and social security under the background of population movement in China; secondly, the situation of employment and social security in the EU and its member state; and thirdly, policy recommendations based on previous analysis.

50. Ms Zhang firstly gives an overall account of the population movement in China. Population movement has been a continuous phenomenon in China since the beginning of industrialization and urbanization. Three groups of people constitute the majority of mobility: rural migrant workers, urban employees and retirees, among whom rural migrant workers take up the defining proportion. In 2017, the total amount of rural migrant workers has reached 286.52 million, becoming the definite majority of industry workers in China; thus the research mainly focuses on this group of population when studying the mobility issues in China.

51. Statistics are combed through to draw some characteristics of mobility of migrant workers. 60% of the migrant workers work outside their home area while the other 40% work locally; all migrant workers are under constant transition among different employment opportunities, 40% of whom seek jobs within their local rural area, 33% seek jobs within their local provinces while 27% seek jobs outside their local provinces. Nearly 50% of the migrant workers reside in urban areas, 10% reside in rural areas away from home while 40% reside in their local rural areas. Overall inflow of migrant workers occurs in the eastern part of China; overall outflow of migrant workers occurs in the middle and western part of China; both types of flow occur in the northeast part of China. When breaking down to regions, 83% of migrant workers from the eastern

part of China are moving within their provinces, the figures are 39% for those from middle part of China and 49% for those from western part of China.

52. The educational level of migrant worker is relatively low in general: 73% of them receive junior secondary school education and lower, 17% are high school graduate and 10% have college degree and above. Only 1/3 of migrant workers are provided with vocational training. Male workers with a family to support constitute the majority of the group.

53. The demographic analysis of migrant workers shows that for migrant workers seeking jobs outside their local areas, they are younger in age (34.3 years old on average) with relatively higher educational level, 72% are younger than 40 years old. But there are less female workers in proportion and fewer are married. For migrant workers who move around their local areas, they are relatively older (44.8 years old on average), 34% are below 40 years old; 34% are between the age of 41 to 50; and 33% are 50 years old and above. They are with relatively lower educational qualification and female workers take up more proportion and more are married.

54. regarding the employment status of migrant workers, half of the migrant workers are working in the secondary industry, among whom 30% are working in manufacturing and 19% in construction; 48% of the migrant workers are within the service industry. Migrant workers generally suffer from relatively low income with a monthly income on average of 3485 RMB. Those who work locally earn 20% less than those who seek jobs outside their locality. Moreover, 64% of migrant workers work for more than 8 hours daily; 78% of migrant workers work for more than 44 hours weekly; only 35% are working with employment contracts, therefore there is still very large room for improving the working condition for migrant workers.

55. The general trends for the mobility of migrant workers have the following features: firstly, the total number of migrant workers is still increasing but the growth rate is slowing down; secondly, the average distance of mobility is shortening – 96.4% of the new generation of migrant workers are mostly moving within their home provinces; thirdly, the educational level for migrant workers is increasing slowly, which is mainly manifested by the increasing number of people with high school diploma; fourthly, more and more migrant workers are working in service industry; and lastly, there has been steady growth in average monthly income for migrant workers.

56. Ms Zhang continues to introduce the social protection policy and its effectiveness for migrant workers. Firstly, the government has successively promulgated policies and measures such as the transfer and continuity of basic pension within a certain scheme and between different schemes. Cross-region transfer of urban employee pension scheme has been made possible since 2009 and rural-urban transfer of basic residence pension scheme has also been working since 2004, which enable migrant workers to make transfer between the basic pension schemes according to regulations.

57. Regulations are put forward to guarantee the smooth transfer among different types of medical insurance schemes for migrant workers; on top of that, the approval to carry out off-site medical treatment service has also been proved to enhance the efficiency of medical insurance for migrant workers. There is no nationally unified policy about transfer and continuation of unemployment insurance for migrant workers. Nevertheless, in some laws and regulations, the principles and requirements have been clearly defined at regional level. To conclude this section, three areas of improvement can be found in respect to social protection policy for migrant workers: firstly, there are considerable amount of policies to guarantee the coverage of social protection schemes for migrant workers; secondly, population mobility is enhanced by the improvement in system equality and mutual aid; thirdly, coverage of social protection schemes for migrant workers has been increased significantly.

58. There are of course several areas which are still impairing the smooth migration in the field of employment and social protection. Firstly, due to restrictions on population inflow in some megacities, migrant workers are entitled with very limited access to public service as compared with registered residents including healthcare and housing. Secondly, there has been limited employment protection and legislative support for migrant workers. Thirdly, migrant workers are lacking the satisfying professional competence for

current urban development. Fourthly, the impact of rural land system reform is to a certain extent blocking the mobility from rural to urban areas.

59. From the perspective of social protection, problems occur in three aspects. Firstly, the efficiency of social insurance management is not high so that sometimes the transfer and continue are difficulty. Secondly, low level of data management is affecting the smooth transfer among schemes. Thirdly, there are still obstacles in cross-region transfer of basic medical insurance due to huge economic discrepancy in different regions.

60. Ms Zhang then moves on to the second part of the research which is the situation of employment and social protection in the EU and its member states from the standpoint of population movement. There are currently three forms of workforce mobility in EU: long term workforce; cross-border mobility; and dispatched workers. 2016 sees around 11.8 million people moving around in 28 EU member states. Countries of workforce inflow are the UK, Germany, Spain, Italy, France, Belgium; the inflow population to the UK and Germany takes up 50% of the total inflow. Countries of outflow are: Romania, Poland, Italy, and Portugal (50% of the total outflow). Male and female migrants are around the same volumes, but male migrants take up more percentage in newly entering member states. The employment rate for mobile workers keeps increasing, unemployment rate is decreasing, and there is no substantial difference compared with residential employment situation. Seasonal workers have become an important group in the migrating labor force within EU. Migrants with advanced skills are the target group for EU migrant policy to cope with international competition.

61. Positive impacts brought by migrating workers on social and economic development are as followed: in the long term, occupational migrants help boost economy and cope with challenges in population structure both at present and in the future; low skilled migrant workers meet the demand for such division of labor while bringing no harm to local wage level and employment rate; migrants have brought minor positive impact towards hosting country's public finances; in time of crisis, labor force mobility at a larger scale help reduce mismatching of human resources and improve allocation of labor.

62. Negative impacts are also evident: firstly, the outflow of most qualified workers can impair economic performance and influence slightly the production rate of the outflow countries; secondly, large quantity of outflow of labor force may bring decrease in the number of tax payers, bringing challenge to the payment of governmental loan; thirdly, dispatched workers may have a limited negative impact on social stability.

63. The EU highly values the institutional principles to promote mobility within the EU and member states. The principle of free movement for workers guarantees that all EU residents and their family members are entitled to freedom to move, work, and reside within all member states. No discrimination should be borne upon EU residents no matter which member state they choose to work and reside in, including wage, working condition, working safety, vocational training, housing, social benefit, the right to join the union , etc. The aggregation of benefit in social protection and coordination within EU member states makes sure that EU residents who are employed by a certain member state are entitled to all social benefit of that country regardless of their nationality. Moreover, the social benefit one receives in one country can be accumulated if he / she moves to another country according to certain methodology of accounting.

64. In the field of social protection, a legal framework of EU Social Security Coordination Plan is put forward to ensure population mobility. Firstly, you are covered by the legislation of one country at a time so you only pay contributions in one country. Secondly, there is the principle of equal treatment regardless of nationality. Thirdly, when you claim a benefit, your previous periods of insurance, work or residence in other countries are taken into account if necessary. Fourthly, there is the principle of exportability of social benefit across different member states.

65. On the whole, the EU has already achieved free movement and equal treatment of labor force in the system. However, population mobility still faces some practical problems, such as legal and managerial issues, housing costs and possibilities, gender differences, Pension portability, language barriers, identification of professional qualifications, etc. To tackle these issues, measures are taken including

effective integration of policy management and coordination mechanisms, and cooperation and support for the protection of the rights of migrants.

66. A framework of policy recommendations is presented at the third part of the research. On macro level, four aspects are to be improved: firstly, to improve financial system to support population movement including the upgrading of transfer payment system and taxation, reforming resource pricing mechanism, and shaping an environmental compensation system; secondly, to adapt a moderated migrant policy to gradually remove the institutional barrier for population mobility; thirdly, to speed up the rural collective property right system reform; and fourthly, to enhance administration and public service for migrant population.

67. On more detailed policy level, suggestions are made to improve employment policy as well as social protection policy for migrant workers. Public administration should strive for equality and justice for all residential population in terms of employment opportunity, employment public services and relevant subsidies. Employment protection and legal support should play a more active role for migrant workers. Vocational training for migrant workers should be strengthened. Rural-urban coordination of employment and unification of labor market should be taken into consideration. Special attention should be given to second and third generation of migrant workers. Social protection policy for migrant workers needs to focus on the overall coordination and policy convergence for transfer among different medical and pension schemes as well as the expansion of coverage to include and attract migrant workers into the social protection system.

VI. High-quality Development and Workforce Quality Improvement by Mr. Yang Weiguo

68. Mr. Yang Weiguo is given the floor for presenting the research on high quality development and workforce quality improvement. The outline of the research consists four parts: high quality development echoes with China's New Development Philosophy; high quality development requires higher workforce quality; EU experience in improving workforce quality; and improving workforce quality through human capital lifecycle theory.

69. Mr. Yang first gives a historical account of different stages of development China has gone through since 1949. From 1949 to 1957 was the exploration stage when China was transforming from an agricultural country to an industrial country and completed its socialist transformation. From 1979 to 2013 was the concentration stage when China put economic growth at the center, gradually improved the market mechanism and established a socialist market economic system. From 2014 to present is the new era age. China has been taking the new normal of economic development as the basis and high quality economic development as the starting point. Quality has been emphasized in all aspects of social and economic development. Such emphasis shows improvement in development theories after the main social contradictions are redefined.

70. The research takes references from a lot of international frameworks to grasp the very concept for high quality development itself including the Human Development Index by UN, Lisbon Strategy of the EU, OECD 2011 Green Growth Strategy, etc. National best practices are also examined in the light of high quality development such as the initiative of re-industrialization in Poland, Belgium's strategic priority in digital integration, energy, human connectivity and medical technology, Germany's call for Industry 4.0 which aims to improve the intelligence of manufacturing industry, establish intelligent factories featuring adaptability, resource efficiency and genetic engineering, and bring together customers and business partners into business processes and value-creation processes.

71. The new development philosophy can be seen as China's response to the issue of high quality development which is brought about in specific social and economic context. China's economy has shifted from a high-speed growth stage to a medium-high development stage and is at a critical stage of transforming its growth model, optimizing the economic structure, changing its growth drivers. On social level, major contradiction lies between unbalanced and inadequate development and the people's ever-

growing needs for a better life. The implementation of the new development philosophy will gradually build a modern economic system, and improve the quality and efficiency of development in order to meet the growing needs of the people and realize balanced and all-round development among regions, industries and different social groups.

72. Coming from the previous discussion, the research tries to provide a tentative definition for high quality development in China with the following connotations:

- Development with innovation: support the development of the modern economic system through the development of an innovation system, including, firstly, digital economy and sharing economy based on Internet and digital technology and secondly, the application of artificial intelligence based on industrial robots and computerization and automation.
- Development through coordination: in terms of development pattern, at the macro level, China should promote balanced development of its central, western and eastern regions; at the intermediate level, efforts should be made to promote the simultaneous development of the old industrial bases in northeast China, the Beijing-Tianjin-Hebei region, the Yangtze River economic belt and the border areas; at the micro level, coordinated development of cities and towns of different sizes should be encouraged through the formation of urban agglomerations.
- Development through green model: on the basis of meeting the requirements of sustainable development, it is necessary to achieve coordination between high-quality supply and green demand, optimize industrial production capacity through supply-side reform, allocate existing resources, cultivate green skills and achieve low-carbon development and high efficiency.
- Development through opening-up: upholding and deepening reform and opening-up will help promote the transformation and upgrading of China's economy through market liberalization. It's an important guarantee of high-quality development in the future; meanwhile, open development should also mean greater openness in the domestic market.
- Development through sharing: firstly, countries share the benefits of economic exchanges; secondly, all members of society share the benefits of national economic development.

73. Mr. Yang then goes into the second part of the research which discusses the inadequacy of workforce quality in China. The life expectancy of Chinese labor forces is relatively low at the current stage. The mental health status of Chinese workforce is not ideal, causing many workplace problems. The education attainment of China's workforce is not up to the requirement of high-quality development. The gender difference in secondary education attainment is evident, and the enrollment rate is low as a whole. The education attainment of migrant workers is low and progress in this aspect is slow. The skills of the workforce cannot meet the requirements of high quality development. The low proportion of technical specialists makes it difficult to meet the requirements of economic transformation. Low total labor productivity affects the development of key industries. The vocational training for workers cannot meet the requirements of high quality input and output, and the development of training institutions is slow. The enrollment rate of training programs is falling. The training content is not compatible with regional planning.

74. Moreover, there is a lack of complete legal system which can serve the basis and incentive for providing groups with employment difficulties with assistance in terms of employment promotion and educational improvement. At a time when local governments' fiscal power is closely linked to their administrative authorities, local governments can hardly provide sufficient financial support for large-scale and systematic improvement of workforce quality. Yet, the lack of participation by social capitals cannot effectively fill up the gap. The existing policies haven't paid enough attention to the skills and comprehensive quality of the workforce in the manufacturing industry and the real economy. There is a lack of corresponding development policies as supporting measures.

75. A comparative study of best practices in EU and its selected member states is conducted by the research to shed light on some possible solutions for the improvement of China's workforce quality. The EU strives to

improve workforce quality from four aspects: first and foremost, lifelong learning strategy, then there is strategic emphasis on the training for young people, thirdly, vocational training system, and lastly, innovation strategy. Denmark also provides valuable examples in ensuring the overall quality of its population through education and lifelong learning initiatives, ICT infrastructure construction, and advocate for work / life balance. Poland's effort in improving its workforce quality is featured by the government-led action plans to achieve balanced regional development. In Belgium, the government is working closely with private sectors to come up with the optimized vocational training public service system. Germany is also a well-established model in the field of vocational training assistance, employment service, and relevant social welfare system for workforce.

76. Following human capital lifecycle theory, the research tries to come up with a policy structure for systematically improving workforce quality which entails the following aspects:

- Improve food supply in rural areas; pay close attention to the nutritional wellbeing of poor rural residents, especially that of "left-behind" children. Further improve the medical and health care service in rural areas; raise awareness on mental health among rural labor. Adopt prevention and control measures targeting specific occupational diseases to improve the effectiveness of policy measures; let the market play a role in encouraging service industry employees to receive psychological health counseling and therapy service purchased by the government.
- Further extend compulsory education to 12 years old by including high school education. Gradually ease access to higher education and produce students that can meet the demand of the labor market, cut through the professional education and the ordinary higher education system, the society education and national education are also involved.
- Rely on market forces to resolve the mismatch between skills learned and skills needed. Companies should help design and guide the internship experience of students. Efforts should be made to improve the feedback mechanism for companies to evaluate interns. The government should make overall plans and strike a balance among the development of schools, students and companies. In its cooperation and responsibility-sharing with schools and companies, the government should make sure that contracts between students and enterprises and the partnership agreements between schools and enterprises are honored.
- The legislation should include detailed stipulations on the duration, types and funding sources of training in each industry to protect the right of workers to training. The law clarifies responsibilities and obligations by stipulating that such trainings should be funded primarily by public spending in the form of public-private partnership. Focus on training activities in high-tech industries and advanced manufacturing industries; Companies should encourage new employees to "learn on the job", allowing workers to accumulate experience and improve their skills.
- Vocational trainings should be expanded from the traditional technologies to new and emerging technologies. China should gradually transition away from the government-led training model toward a market-driven, private-sector-led model. It should encourage qualifies companies to open vocational colleges and other types of training institutions according the needs of the market. We can learn from the European Centre for the Development of Vocational Training in setting up vocational training centers that enjoy policy support, formulating and implementing vocational training policies, releasing information on existing education and training policies and monitoring labor market trends.
- New employment models supported by the platform economy, shared economy are more flexible and adaptable to changing market environment; jobs with more flexible hours can be created with the help of the Internet. Find more ways to make more people eligible for employment training and programs on entrepreneurship, and gradually form a skill training system that combines classroom teaching with self-learning and marries hands-on practice with professional guidance and assistance; Open to the public technological and educational resources of platforms such as university laboratories, vocational colleges and science and technology parks via government purchase of public services.

- Improve the infrastructures and form incentive mechanisms to effectively encourage the lifelong learning of workers. Establish a national qualification scheme for lifelong learning, and promote the development and implementation of the scheme. Strengthen the regulation of examinations for self-taught students in higher education and establish special channels so that students and other groups in vocational and technical schools will have the opportunity to participate in the college entrance examination again. workers who want to learn can be rewarded with something similar to an “education voucher” which can be used to further education or training; Make sensible use of resources of higher education institutions, vocational training institutions and private-sector education and training institutions.
- While building a sound legal system governing the labor market, the government should allow the private sector to play a supplementary role in improving the quality, education and skill level of the workforce. More emphasis should be given to market players when it comes to improving labor skills through education and training.

VII. Comments submitted by European Experts

77. Ms Coenen shares her comments on the presentations and some reflections about the training and labor policy in Belgium. She first raises the issue concerning migrant workers in China whether any data is available as for the situation for migrant workers who work in informal job settings such as the ones without social protection. For Mr. Yang’s presentation where micro study on the needs of enterprises, Ms Coenen comments that in Belgium they are working on the same issue. Database is being established for the discussion of such issues because enterprises are feeling lost about what they actually need in the labor market under the new development of economy.

78. Ms Coenen makes some clarification about Mr. Yang’s presentation on Flander’s employment service. The Flemish employment service is quite unique in Europe. There used to be only one public service system for employment in Belgium, which was regionalized in 1989, but the differences are very small. The VDAB is by far the largest one among the regional public service institutes because they are accommodating the biggest amount of population.

79. Ms Coenen then gives some introduction on the topic of population mobility and skill and quality development. It is clear that a big advantage of Belgium compared with China is the universal coverage of social protection schemes to not only Belgian residents but also residents from other EU countries. This coverage also includes unemployed population and again, regardless of their nationalities. However, the labor market is still seen as segregated – huge progress has been made in gender equality in employment, and we have the least gender income discrepancy among OECD countries; on the other hand, we still have a lot of low quality jobs with low wages, less stable employment status, no extra benefit; and the mobility between these two ends of jobs is quite difficult. The effort to change the situation lies with a more inclusive education system where migrants are accommodated with extra language courses and vocational training. But the dilemma exists in that people who engage in lifelong learning are those with high quality skills already, so we still need to try to reach those who need our support most.

80. In Belgium, we are promoting a culture of lifelong learning which is very important to increase the chance of employment for low skilled population and the elderly. In Belgium, people over 50 tend to stay at a job for a long time, they don’t want to look for new opportunities, and when they are unemployed, it will be almost impossible for them to go back to job market again. Promoting lifelong learning will help them locate a more satisfying job rather than an early retirement, which is quite tempting, but we should make it less tempting by finding the elderly another possible employment opportunity. On top of that, funding is always a key issue for public services like education and healthcare. What we are doing now is looking for alternate path of vocational training rather than rebuilding a brand new system altogether.

81. Ms Dunaud then is invited to talk about vocational training in France. She first introduces the organization she works for – it is a public funded commercial organization under the administration of Labor

and Commerce Department. It was founded after the World War II to provide people with training to engage in post war construction in France. Some facts and figures: in 2017 the budget is 1 billion Euros, plus 0.8 billion from public funding and another 150 million from private investment; the current employees are around 7000 people; we undertake 150 training missions every year; 81% of the trainees are certified at the end of their program and 69% of them manage to find a job in half of a year after the training. We accommodate people of all age groups as long as they feel the need for vocational training. Different industrial categories are designed for training programs including manufacturing, computer services, etc. Meanwhile, skills for new market needs are also accommodated. We help other countries as well to put up training school at local settings, for example, one in Morocco and one in Russia to help the government create vocational schools and train trainers so that they can train other people after we leave.

82. The vocational training system in France has gone through a long history of changes. The first time this idea was brought up was in 1792. Condorcet in his report on the general organization of public education sets out what constitutes the first explicit definition of adult education. In 1946 the right to vocational training appears for the first time, as the right to social security, in the preamble to the Constitution of the Fourth Republic. In 1959, we had a new law, Law Debré on social promotion, allowing training centers to set up evening classes. The idea was that training should be an individual effort rewarded with a promotion. In 1966 the state steps in the field of training, and only training must be proposed by the public service.

83. After the events of May 1968, the social partners and the State during the Grenelle agreements provide for a negotiation on vocational training between employer representatives and employee representatives. The goal was to meet the needs for skilled labor of companies, and answer to the individual promotion aspirations, meet the growth and the consumer society, and correct inequalities in the school system. The result of the negotiations between the employers' representatives and the employee representatives on 9 July 1970 is the first agreement of the social partners on vocational training. The agreement bases the legitimacy of the social partners to govern the system of continuous training, which brings vocational training into labor law, it excludes the public sector from the device.

84. The law of 16 July 1971 will take over the decisions of the social partners and introduce a training expense obligation for companies. The contribution rate is 0.80% of the gross payroll for companies with more than ten employees. The law lays down the principle of private financing of training creation of a training market (supply and demand) exclusion of independent professions. New laws were passed in 1993 and 2000. The 1993 Law reforms the financing of vocational training (all companies, whatever their size, must finance vocational training it lays down the principle of a capital time training allowing the employee to follow during their working time training actions included in the training plan of the company. Aubry II law of 19 January 2000 dedicates the jurisprudential principle of the obligation for the employer to adapt the employees to the evolution of their jobs. Any training action in this context constitutes actual working time.

85. Law in 2015 as well as the Law of 1 August 2018 decide that for the freedom to choose one's professional future each employee will benefit ever year 500 € with a maximum of 5000 € to finance his Personal Training Account. These sums are taken from the contributions paid by companies (1.68%) of the gross payroll for companies with 11 or more and 1.23% on gross payroll for companies with fewer than 11 employees.

86. What characterizes today vocational training in France is a system based on the contributions of companies whatever their size. Obligations for companies to train their employee with an obligation to maintain their skills, to contribute to their maintenance and to their evolution in employment and to participate in the development of their skill. Social partners share important role in the definitions of political orientations and training priorities, in the management of professional training funds through management bodies. There has been an increasingly strong responsibility of employees to ensure their employability through a personal training account will now be monetized.

87. Ms Majcher-Teleon shares her comments on high quality development for labor market in Poland. She first express that there is a common ground for consideration when talking about high quality development

in China and in Poland, where lifecycle theory, human capital theory, physical and mental health as well as vocational competence are the key issues to be addressed. What needs stress from her part is Poland's emphasis on ageing and gender issues in workforce quality development, which are not included in the presentations.

88. Ms Majcher-Teleon comments on the mentioning of Poland's innovation and balanced development program as valuable and good choices of policy to promote high quality development. As a matter of fact, a big challenge for Poland at the current stage is to overcome the medium growth trap. We are convinced that innovation and high-quality labor force are the key elements. I believe we can learn from each other on this particular issue.

89. Ms Majcher-Teleon points out that Poland is facing with a series of challenge in terms of mobility, skilled labor force shortage, unbalanced regional development, etc. Some regions have quite high unemployment rate while other regions and cities have very low unemployment rate and jobs are waiting for people but somehow there are no population mobility being observed. 2/3 of the population stay in their hometown, and one of the reasons for which is the low-income level since housing can be quite expensive if moving to another place. If you come from a small town and would like to work in a bigger city, it might be 100 kilometers away; no one can commute everyday on such a distance. It would actually be easier to move to another EU country for that matter.

90. The policy recommendations are extremely comprehensive and quite ambitious in Ms Majcher-Teleon's opinion. And these action plans are also applicable to Poland as well. One important issue which is not mentioned in Poland now in reference to the policy recommendations is the issue of qualifications and recognition of informal and non-formal education. We established the national qualification system with different validation methods so that people don't actually need to go to formal education or training to receive certification of their learning outcome in their jobs.

91. Another aspect worth mentioning is the lack of funding for vocational training. An interesting case is that in Poland, a lot of money is spent on vocational training, but it is discovered that funding is not the key impediment to the low participation in vocational training. What factors are holding back vocational training? It is an important issue to think about.

VIII. Comments submitted by other experts, NDRC, SPRP and general discussion

92. Mr. Fang gives his remarks on the presentations in the afternoon. The relationship between social protection and employment is an important academic debate not just for China but also for Europe. What happens if the contributions to social protection schemes are overly charged? We have been getting consultancy from construction companies about what kind of labor contract should be designed so that they can help ease the burden of social protection contributions for the company. Experience from the EU has shown the counteractive role of social protection towards labor market. It is crucial to keep in mind that the design of social protection schemes should make sure the contributory burden doesn't fall onto the younger generation, or private enterprises, or simply on individuals.

93. We should foresee that the future of employment lies in the key word of flexibility, which is already the case in European countries. 1/3 of labor force in Europe currently is under flexible employment. How to ensure the protection for this type of employment? Moreover, how to engage this group of the workforce into social protection schemes? Vocational training and education are indispensable in high quality employment including the flexible ones. Mr. Fang mentions that in Europe as well as in the US, there has been advocating to promote the WTW strategy, welfare to work, the underlying logic of which shows the importance of vocational training in improving professional competence, education level, and employability and consequently inviting better employment opportunity for individuals. It is in this sense that we can say vocational training helps in eliminating poverty in the long run.

94. Mr. Bruni takes over the floor to share his comments and general reflections on the presentations and discussions. Being a teacher in economics in university, he sometimes gets the feeling that vocational training is over stated in comparison to formal education. Vocational training should be building on education not substituting education. In recent years, vocational training has become some social buffer: we are getting a lot of money from the EU, then something doesn't go well on the labor market, people decide to take vocational training for two year or three or four years and get subsidies from government. Of course, there are different models for developing vocational training, you can learn from Italy or France, no problem. But you should think about the means and ends for designing a vocational training system.

95. Mr. Bruni shares with the audience some data on population mobility. There is about 20% of the total population under mobility in China, about 300 million; this figure is more than the total international migration which is up to now 260 million. So, we are saying China has more internal migrants than all migrants in the world. And Europe, in the presentation, has 11 million internal migrants. The question then is why China has 20% of its population on the move while the EU has only 2%? Because the EU also has 55 million international migrants besides that 11 million internal migrants. Then the question becomes why these 55 million? Why do they leave where they come from to the EU? This is a fundamental question to answer. Because if you don't know the reasons or you get the wrong reasons, then you won't be able to cope with the phenomenon. Statistically speaking, Japan is open to migration which some people would never believe, but they do have 3 million of international migrants. We can't find proper corresponding data for China, not after 2012, but this is an interesting and important issue to think about.

96. The working age population in Europe started to decline 20 years ago; it would be impossible for the EU to develop into the current social and economic status without migrants. The problem for China is that in the next 45 years, China will lose 218 million in working age. What does it mean? It means migrants will come, because if they don't, the economy will stop. The discussion about improving workforce quality is very timely and important. But the stress is that it is not just about quality, it is also about quantity.

97. Ms Marzena Breza reflects on the basis of the previous comments that the last job for her was in the ministry of labor and social policy in Poland when she was working on the issue of lifelong learning, meaning to help the senior workers stay in employment status for as long as possible or help them enjoy life in good condition. Living independently has always been valued in Europe and lifelong learning is one of the key aspects for it helps keep people active in the labor market for as long as possible. China is doing a lot in this area. But on the other hand, you see the Chinese elderly people of the age 50 or 60, whose main duty has become to look after their grandchildren, it seems quite a waste from the standpoint of human resources. It would be profitable for the state, the population, and for individuals to be able to stay active in labor market to the age of 60 or even 65.

98. Mr. Hocquet shares some historical background on mobility issues in the EU. The freedom to move and work in the EU is part of a bigger coordination scheme including public services, trade, and common market. But we are expanding the topic of mobility to include not only workers but also students and retirees. In some member states, people would choose to move to the Nordic countries when they retire, which is also creating issues in the field of social protection at EU and country level. Social protection system has always been part of the national identity, bearing national characteristics; that's why we are talking about coordination instead of unification. This might be a point worth mentioning when discussing the EU experience for China's context.

99. Two layers of issues are to be addressed in mobility in the EU, the coordination of social benefit and legislation. There are inevitable discrepancies among member states, for instance, the standard for minimum wage varies among member states, the coordination and monitoring for such a thing is crucial to avoid too much competition among member states for attracting active labor. Another issue is legislation. It is not intended that all legislation and regulations in the field of social protection should be unified among member states; the emphasis is on open coordination. It is not a clear-cut law, but a framework of common goals, indexes, best practices and communication mechanisms. The EU policies are not imposed upon member states but the outcome of coordination, cooperation and integration.

IX. Concluding statements

100. Ms Tang Ling on behalf of NDRC gives the concluding remarks for the panel discussion that it is without a doubt a very successful meeting where presentations and discussions among top-tier experts from the EU and China are rich and insightful on the topics that are of utmost importance to China's future development. This is the fourth year for the EU-China SPRP project, and the cooperation has always been smooth and productive. Lastly, Ms Tang expresses her gratitude to all participants for their continuous engagement with NDRC and wish for a safe journey back home to the EU experts.

Shi Chuan (Ms.),
September 23, 2018

Annex 1 – Agenda

| | |
|---|--|
| 09.30 – 09.45 | Welcome speeches - Ms Wang Rong, Project Officer, EU Delegation, Beijing - Mrs. Zhang Xinmei, Division Director, Division of Social Protection, DEID, NDRC |
| First session: Topic 1.3.5 INCOME DISTRIBUTION POLICIES CHAIR PERSON AND MODERATOR Mr. Michele Bruni, Team Leader, EU-China SPRP | |
| 09.45 – 10.30 | Overview of Income Distribution Policies in Europe by Mr. Jean-Yves Hocquet, European Consultant |
| 10.30 – 11.15 | Draft report on Chinese Policy and Regulations on Income Distribution presented by Ms Zhu Mengbing on behalf of Mr. Li Shi, Short term expert |
| 11.15 – 11.30 | <i>Coffee – Tea break</i> |
| 11.30– 12.00 | Comments submitted by other experts, NDRC, SPRP and general discussion |
| 12.15-13.45 | <i>Lunch break</i> |
| Second Session: Topics 1.1.3 and 1.3.8 POPULATION MOBILITY, QUALITY-ORIENTED DEVELOPMENT AND CAPACITY BUILDING FOR THE LABOUR FORCE CHAIR PERSON AND MODERATOR Mr. Zhang Guoqing, Main Expert, Component One, EU-China SPRP | |
| 13.45 – 14.30 | Draft report on Population mobility in China – relations with employment promotion and social protection reform in China presented by Ms. Zhang Libin on behalf of Mr. Jin Weigang, Short term expert |
| 14.30 – 15.15 | Draft report on Quality-oriented development and capacity building for the labour force in China, presented by Mr. Yang Weiguo, Short term expert |
| 15.15– 15.30 | <i>Coffee – Tea break</i> |
| 15.30 – 16.15 | Comments submitted by European Experts - Ms. Ann Coenen, Labour Market Analyst, Federal Public Service Employment, Labour Market and Social dialogue of Belgium - Ms. Véronique Dunaud, Executive Director, the local Agency of Châtelleraut/Futuroscope of the French Agency for Adults Vocational Training, AFPA - Ms. Agnieszka Majcher- Teleon, Chief/Senior Expert, Ministry of Family, Labour and Social Policy, Poland |
| 16.15 – 16.30 | Comments submitted by other experts, NDRC, SPRP and general discussion |
| 16.30 – 16.45 | Operational conclusions on Employment promotion and Income distribution and concluding statements by SPRP and NDRC representatives |

Annex 2 – List of Participants

| NDRC | |
|---|---|
| Name | Position/Institution/Organization |
| Mrs. Tong Siyun | Deputy Division Director, Division of General Affairs, Department of Employment and Income Distribution (DEID), National Development and Reform Commission (NDRC) |
| Mrs. Chen Jun | Division Director, Income Distribution Division, DEID, NDRC |
| Mr. Li Xiaoliang | Chief Officer, Income Distribution Division, DEID, NDRC |
| Mrs. Zhang Xinmei | Division Director, Division of Social Protection, DEID, NDRC |
| Mrs. Tang Ling | Division Director, Division of Social Protection, DEID, NDRC |
| Mr. Niu Ming | Deputy Division Director, Division of Social Protection, DEID, NDRC |
| Mr. Tao Xing | Officer, Division of Social Protection, DEID, NDRC |
| Mr. Tu Shijie | Officer, Division of Social Protection, DEID, NDRC |
| Mr. Chang Hao | Division Director, International Cooperation Division, International Cooperation Center of National Development and Reform Commission (ICC-NDRC) |
| Mrs. Wang Yingsi | Chief Officer, International Cooperation Division, ICC-NDRC |
| Mrs. Li Xiaojuan | Chief Officer, International Cooperation Division, ICC-NDRC |
| Chinese Experts | |
| Ms. Zhu Mengbing | Researcher, China Institute for Income Distribution, Beijing Normal University |
| Mr. Yang Weiguo | Dean & Professor, School of Labor and Human Resources, Renmin University of China |
| Ms. Zheng Qi | PhD candidate, School of Labor and Human Resources, Renmin University of China |
| Mr. Qiu Zitong | PhD candidate, School of Labor and Human Resources, Renmin University of China |
| Mr. Jin Weigang | President & Professor, Chinese Academy of Labour & Social Security |
| Ms. Zhang Libin | Director of Employment Office, Chinese Academy of Labour & Social Security |
| Ms. Zhao Weiei | Associate Researcher, Pension Office, Chinese Academy of Labour & Social Security |
| EU Experts | |
| Mr. Jean-Yves Hocquet | Professor, French National School for Higher Social Security Studies |
| Ms. Ann Coenen | Labour Market Analyst, Federal Public Service Employment, Labour Market and Social dialogue of Belgium |
| Ms. Veronique Dunaud | Executive Director, the local Agency of Châtelleraut/Futuroscope of the French Agency for Adults Vocational Training, AFPA |
| Ms. Agnieszka Majcher-Teleon | Chief/Senior Expert, Ministry of Family, Labour and Social Policy, Poland |
| EU China & SPRP office staff | |
| Ms. Wang Rong | Project Officer, Delegation of the European Union to China |
| Mr. Michele Bruni | EU Resident Expert Component 2 / Team Leader, EU-CHINA SPRP |
| Mr. Zhang Guoqing | Main Expert (Operations) Component 1, EU-CHINA SPRP |
| Ms. Marzena Breza | EU Resident Expert Component 3, EU-CHINA SPRP |
| Mr. Fang Lianquan | Main Expert (Research) Component 1, EU-CHINA SPRP, Researcher at CASS |
| Ms. Shi Chuan | Component Assistant, Component 1, EU-CHINA SPRP |
| Ms. Valentina Pignotti | Assistant to the Team Leader, EU-CHINA SPRP |
| Ms. Iwona Rogacka-Hu | Component Assistant, Component 3, EU-CHINA SPRP |
| Mr. Giovanni Lin Guowang | Interpreter, EU-CHINA SPRP |