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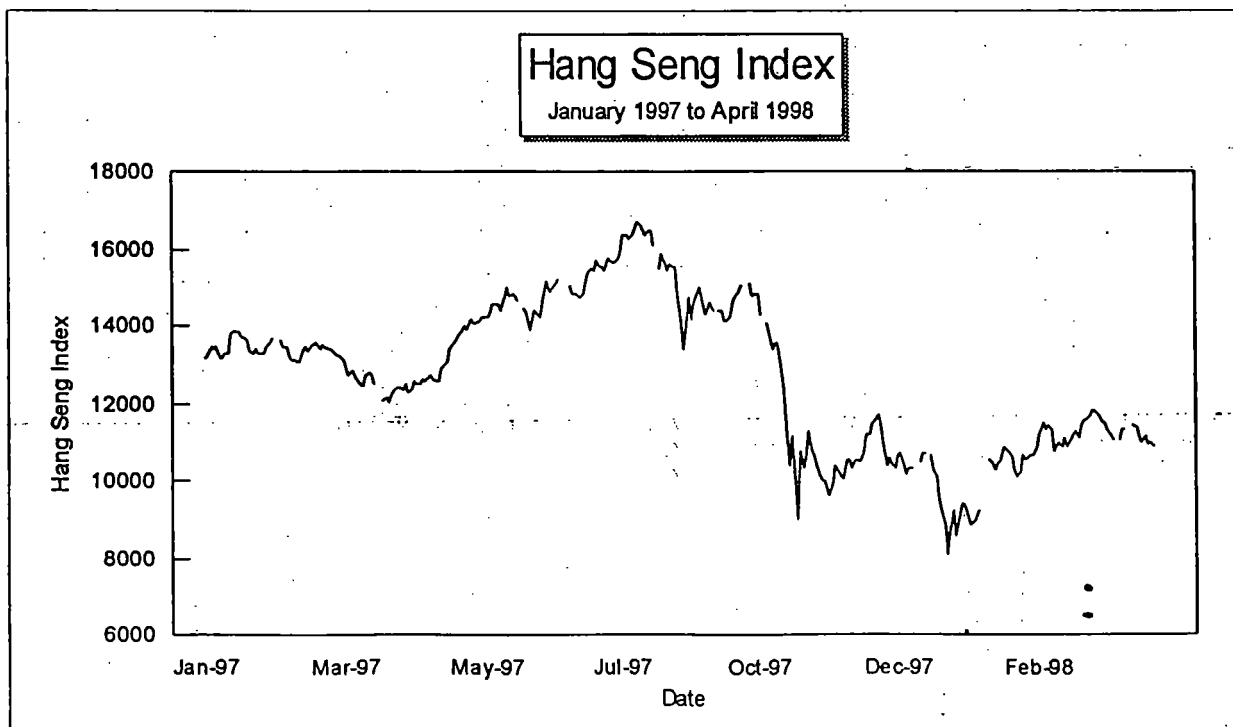
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Hong Kong and the Asian Crisis

Hong Kong is the only remaining economy in the region with a fixed exchange rate. During the fall of 1997, as the contagion of the financial crisis spread throughout the region, the Hong Kong Monetary Authority (HKMA) was forced to defend against a number of speculative attacks. Prior to and throughout the crisis, officials of the HKMA pledged repeatedly that they would defend the peg of the Hong Kong dollar to the U.S. dollar, which is maintained under a currency board arrangement.

In each case, they demonstrated the willingness to back their pledge, using an arsenal of more than \$90 billion in foreign exchange reserves, and sharply increasing overnight rates. Even as the Indonesian and Korean currencies began their freefall, a growing consensus was emerging that the Hong Kong peg would most likely be maintained. This was for two reasons. First, the very open Hong Kong economy, which relies principally on re-exporting, banking and other financial transactions, would stand to lose much from exchange rate instability but gain little. Second, the Chinese government pledged their \$130 billion in foreign exchange reserves, the largest in the world, to assist in the support of the Hong Kong dollar. This—as well as the currency board arrangement—lent the peg the credibility needed to dissuade consistent speculation.

Thus, the nominal exchange rate was maintained, even under growing pressure from a real appreciation that has occurred over the past few years (largely from the strengthening U.S. dollar) and intensified under the current situation of competitive devaluations within the region. The cost of defending the exchange rate against speculation was the need to raise interest rates. This put pressure on mortgages and property demand, and triggered a fall in property prices. The correction in real estate prices, together with the high interest rates, triggered several stock market crashes. Currently, the Hang Seng index is around 11,000, only 83 percent of its value at the beginning of the year.



A Chronology of Events Affecting Hong Kong, Fall 1997:

HINTS OF THE CRISIS:

May 14-15 - The Thai baht is hit by a massive attack by speculators; Thailand and Singapore jointly intervene.

June 30 - Thai PM assures the nation in televised address that there will be no devaluation

THE ASIAN CRISIS BEGINS:

July 2 - The Bank of Thailand announces a managed float of the baht, effectively devaluing the baht by about 15-20 percent to a record low. This is a **trigger for the Asian crisis**.

July 24 - As the Malaysian ringgit hits a 38 month low, and PM Mahathir attacks the "rogue speculators". The Hong Kong dollar remains steady, but territory officials later reveal that **US\$1 billion was spent on intervention** during a period of two hours on an unspecified day in July.

August 15 - **Speculators attack the HK dollar**; overnight interest rates rise 150 basis points from the previous day to 8 percent. Stock market sharply lower.

ASIAN CONTAGION SPREADS:

October 14 - Taiwan announces a devaluation of the Taiwan dollar.

October 20-23 (Mon-Thurs) - The Hong Kong stock market suffers its heaviest hit ever, losing nearly a quarter of its value in four days on fears over interest rates and pressures on the Hong Kong dollar. More severe than the 1987 crash, the **Hang Seng index falls 23 percent** to 10,426 at Thursday's close, after closing at 13,601 the previous Friday.

The Taiwanese devaluation the week before, the latest in the series of SE Asian currency devaluations, created doubt about Hong Kong changing its long-standing peg to the US dollar. (Although Hong Kong's significant reserves and currency board arrangement provided significant credibility to the peg, Taiwan also had substantial foreign exchange reserves and was similar in many ways to Hong Kong, yet was unable to maintain the value of its currency. In the week since the devaluation, the Taiwan dollar has continued to fall--about 5 percent).

October 27 (Monday) - After regaining 718 points on Friday (Oct. 24), the Hang Seng loses another 646 points (5 percent) to 10,498. The loss ripples through global markets: the Dow Jones records its single-biggest loss ever, falling 554 points (over 7 percent), and twice triggering the circuit-breaker mechanism. Stock prices in Brazil, Argentina and Mexico record their biggest single-day loss, and continue to fall during the week.

October 31 (Friday) - IMF offers Indonesia a \$23 billion support package (with additional support from the the US [\$3 billion] and other countries). World markets rise, led by a 2.5 percent gain in Hong Kong (our Thursday night) and 2.9 percent gain in Singapore.



November 3 (Monday) - Asian stock markets rally, with the Hang Seng registering some of the most dramatic gains (2.6 percent at the opening, and rising from there). The DJIA rises 3 percent on the confidence of Asian markets.

November 4 (Tuesday) - Asian stock markets get an early boost from the Wall Street rally, but then fall as a big retreat in Hong Kong spills over to other markets. Market sentiment seems to be divided between new optimism that calm is returning to Asia after the Indonesian IMF program, and pessimism about whether current gains can be sustained.

November 7 (Friday) - Asian stocks fall as the South Korean won faces pressure and **high interest rates and falling property prices rattle Hong Kong**. Hong Kong stocks fall 4 percent, through the 10,000 point marker, before recovering slightly and closing just under 3 percent down. One banker is quoted as saying "However good the monetary authorities in Hong Kong are at defending the peg, interest rates will stay high here because of the problems in Korea, Thailand, and Indonesia."

November 11 (Tuesday) - Rumors are circulated that some Hong Kong banks may have **financial problems**, but local authorities quickly make assurances to the contrary. Despite, 3 percent swings during the day, the Hang Seng registers little change from the day before at close (up 0.11 percent).

November 12 (Wednesday) - Hang Seng falls 4 percent by close, Nikkei falls 2.7 percent, leading to losses in other Asian markets and in early trading in Europe.

November 13 (Thursday) - Continued volatility in Hong Kong registers concern but no losses. IMF Managing Director Camdessus dismisses the likelihood of a banking crisis in Hong Kong.

November 14 (Friday) - The Hang Seng rises 2.4 percent to 9,957. Wall Street gains 1.1 percent on good domestic news, while the Nikkei falls 2.2 percent on concerns over the health of the financial system.

November 19 (Wednesday) - IMF announces plans for a special facility to deal with Asia crisis, South Korea announces plans for tackling the deepening financial crisis, determined to save its economy without recourse to the IMF. The Nikkei average in Japan falls over 5 percent, the biggest drop of the year. **Hong Kong stocks fall 300 points in the morning on worries about the won's depreciation** and concern for the Hong Kong peg, the last fixed exchange rate among the region's open economies. However stocks later recover due to a successful land auction: at close, the Hang Seng is down 1 percent.

HONG KONG COMES OUT OF THE WOODS AND THEN GOES BACK IN:

December 1 (Monday) - The Hang Seng rises 2 percent after a series of small declines the week before.

December 2 (Tuesday) - The Hang Seng closes up 4.3 percent, at 11,216, despite record lows in the Korean stock and currency markets and a rise in the dollar against several currencies, triggered by capital flight to a secure currency.

December 3 (Wednesday) - The won, rupiah, baht and ringgit each crash to all time lows against the dollar.

December 4 (Thursday) - The Hang Seng rises 2.4 percent, to 11,475.

December 9 (Tuesday)-- Won hits a new record low, Asian markets become cautious. The Hang Seng ends a 3 day winning streak to fall 2 percent to 11,490.

December 10 (Wednesday) - Hong Kong stocks lead a day of selling in major Asian markets, with shares tumbling in the last half hour of trade to close 4 percent lower at 11,022. Brokers blame a lack of institutional interest.

December 11 (Thursday) - Hong Kong's exchange rate weakens and its interbank rates surge as the Korean won sinks to a new low. The Hang Seng falls 5.5 percent to 10,420 (and thus 11 percent over three days). "Currencies are falling about our ears" said one trader, voicing fear that the won's rapid plunge might spark another round of competitive depreciations throughout Asia. Until two days before, stocks had rallied nearly 30 percent since their October lows, buoyed by interest rates which had touched their lowest level in months earlier in the week. However, Korea's woes had led investors to buy US dollars, putting pressure on the HK dollar and sending interest rates up sharply. (HK's 3-mo. interbank rate jumped from 10 to 11 percent). Poor results from a government land auction also contributed to the poor sentiment. Nevertheless, there seems little concern that the HK-dollar peg will collapse.

December 12 (Friday) - The Hang Seng recovers nearly 2 percent.

December 24 - Hang Seng at 10,342.

January 5, 1998 (Monday) - Hang Seng falls 3.5 percent in HK\$5 billion worth of trading, amid continued worries about the regional currency markets and domestic economic prospects.

January 8 (Wednesday) - Hang Sen falls 5.9 percent.

January 9 (Thursday) - A meltdown in Indonesia heightens gloom in the region and raises the spectre of civil unrest. Indonesian stocks fall 18.5 percent in the mid-afternoon, before closing 12 percent down. The rupiah falls through the 10,000/\$US barrier and closes the day at 9,500, a plunge of 26 percent in one session and leaving the rupiah down more than 70 percent since July.

January 12 (Monday) - Asian stock markets plunge, led by an 8.7 percent drop in the Hang Seng to 8121. The failure of Peregrine Investments Holdings Ltd., a big Hong Kong investment bank, helped to topple stocks in the territory. Once Asia's most powerful home-grown investment-

banking house, Peregrine says on Monday it moved toward a liquidation, its capital depleted in large part by investments it made in Indonesia.

January 13 (Tuesday) - Hong markets rally, closing the 774 point loss the day previous with a 600 point gain. As on Monday, the Hong Kong dollar proved impervious to concerns that shook other markets.

January 14 (Wednesday) - Hong Kong shares rise 5.8 percent boosted by Wall Street gains, and expectations of a resolution to the Indonesian crisis.

January 15 (Thursday) - Suharto announces wide-ranging economic reforms, but Jakarta stock exchange falls 4 percent. The Hang Seng falls 7 percent to 8,578 reflecting the high interest rates to support the dollar peg and the effects of other markets. "Hong Kong, because it is so liquid, continues to be the most sensitive market in Asia," one analyst stated. "Hong Kong is reacting to all these bad things, but it has enough bad news in it's own front yard right now."

January 16 (Friday) - Hang Seng rises 3.7 percent.

Since the January 12 crash, the Hang Seng has recovered slightly, although it continues to be volatile. In recent weeks, it seems to be trending down slightly, from the mid-11,000s in March and mid-April to just under 11,000 on April 23.

27. SOCIAL SECURITY

Pension Reform in China

"The Reform of Social Welfare in China," Mark Selden, World Development, 1997.

"Employment, Social Security, And Enterprise Reforms in China," Lin Lean Lim.

"Employment and Social Protection Policies in China: Big Reforms and Limited Outcome," Barry Friedman.

"The Past—And Future—of Labor Law in China," James Feinerman.

Charts and Tables

Pension Reform in China

Overview

China's pension system has two problems: the long-term problem of a rapidly aging population and the short-term problem of funding pensions for employees of state-owned enterprises.

The long-run problem. China's population is aging rapidly, a process accelerated by the one-child policy of the late 1970s and 1980s, and increased life expectancy. By 2030 the absolute size of the labor force in China will begin to decline, and by 2050 the ratio of workers to pensioners (those 65+), which was 10:1 in 1995, is projected to decline to about 3:1. While it took most OECD countries as much as a century to double the proportion of their old people (60+) to 18 percent (their current average share), China will do it in just 34 years (1990 to 2024). In short, in 2030 China will be facing the problems of a mature economy like Japan while its per-capita income will most likely be about one-fifth that of the industrial countries today. Although China's current rapid growth rates make it relatively easier to implement pension reform now, it is likely that growth rates will be slowing just as China's old age burden increases, which suggests that even "long-term" reform should not be delayed.

The short-run problem. A more urgent and immediate problem, however, is the pension crisis in the state-owned enterprise (SOE) sector. State enterprises inherited heavy pension obligations from the central planning era. With the transition to a market economy, employment in the state enterprise sector is declining, while the number of pensioners is rising rapidly. In some cases the ratio of pensioners to workers is over 100%. An associated problem is the slowing of restructuring. The bankruptcy or sale of a SOE raises the difficult issue of how the commitment to pensioners (along with other social welfare obligations of the enterprise) will be honored. When alternative arrangements for pensions and other social services are not available, enterprise reform is delayed since liquidations, joint ventures, or mergers cannot proceed smoothly until the social obligations of SOEs are assigned elsewhere.

Under the old central planning system, when the profits of SOEs were pooled and resources were allocated according to plan, pensions were not a consideration for managers. Today, individual enterprises are responsible for their profits and losses, and many are unable to manage the burden of their pensions. Even when the core business is profitable, an enterprise may show a loss because it has a large pool of pensioners, and this may affect its capacity to operate, borrow, and expand. Alternatively, some pensioners may not receive adequate payments because they are tied to enterprises that are now doing poorly financially. Thus, the current system has several problems entailing both inequity and inefficiency.

The Current System: Key Features and Problems

The formal pension system in China is a largely urban-based, pay as you go, defined benefit system that covers mainly the state sector in urban areas. Though localities are trying to bring the non-state sector (which often accounts for more than half of employment) under the formal

pension system, most nonstate firms are resisting because contribution rates are high and benefits uncertain. In rural areas, extended families are the chief means of support for the elderly, which often comes into conflict with the government's "one-child" policy. Moreover, contribution rates are high and variable: in 1994 the contribution rate among the provinces ranged between 19% and 28%, with a simple average was 23.5%, well above the international norm of 20% (see attached table). With contribution rates high and rising, compliance rates are falling.

The current system also suffers from a high degree of fragmentation due to the wide dispersion of authority over pension policy and administration. Several national-level ministries oversee different aspects of the pension system, or have contributed to policy design and implementation. There is also a great deal of authority at lower levels of government, where provincial and local governments can modify plans and policy parameters. This is often done intentionally to differentiate their schemes and introduce nontransparency to retain authority over their own program and the surplus funds that are emerging in the short-run. As a result there are now hundreds of separate pension schemes in China. One result is that most pension pooling is conducted at the county or municipal level. Many localities also have separate pools for state enterprises and other population groups. Some provinces have experimented with some form of pooling, but the scope for pooling to ensure uniformity and reduce risk over regions with different demographics remains low. Fragmentation has also made the portability of benefits across groups difficult, requiring separate negotiations between the old and new employers or pools.

The Chinese official team analyzing the pension burden over the long term (1995-2050) came to the following conclusions:

- By 2033, if the pay as you go system is not reformed, it will require a contribution rate of 39.27 percent.
- a fully funded system with an additional contribution rate to meet the needs of transition cohorts will require a 34 percent contribution rate from 2004 to 2031.
- a combination of social pool and individual accounts can smooth the rise in contribution rates, but it will still require a 28 percent contribution rate for 2001-2050 if borrowing (from future generations or other sources) is not used.

Principles of Pension Reform

The problems of the current system of pensions in China are deep-seated and widely recognized. The broad directions of reform are becoming clear, including the four changes outlined below. But implementation has proven difficult, hampered by misperceptions about the costs of transition and by the political implications of change.

- *Unifying the system.* Enterprises and workers covered under separate plans or not covered at all would be brought into a single system with common standards. Management of the program would be transferred from enterprises to government agencies, and administrative management and fund management would be separated.

- *Reducing the pension burden*, which can be achieved through three policies. The retirement age (60 for men, 55 for women) can be raised in accord with longer life expectancy to allow lower contribution rates. The wage replacement rate (which at 80-90 percent of total compensation is high by international standards) can be lowered (e.g., to about 60 percent of net wages). Finally, pensions, which are currently indexed to nominal wages, should be indexed to prices to ensure a more certain real level of transfers.
- *Introducing funded individual accounts* is more appropriate than the pay as you go system in dealing with China's rapidly aging population, and would take advantage of the country's current rapid economic growth in achieving a maximal rate of return.
- *Ensuring an adequate real rate of return on pension funds*. Individual accounts cannot provide a reasonable level of security unless interest rates are close to the growth in real wages. The rate of return on pensions can be high only if the general interest rate structure is rationalized, a reform that will increase the financial costs of state enterprises and the government. One short-run solution is raising interest rates on longer-maturity loans, which borrowers for long-term investments can afford to pay, given the high productivity of capital in infrastructure and other long term assets in China.

The best solution for China seems to be a system that combines social pooling and fully funded individual accounts. The approach preferred by the World Bank is a *three pillar system* based on the directions of reform identified above (see attached figure). It provides a basic pension component to keep retirees above the poverty line (pillar 1) and for large mandatory individual accounts (pillar 2) to obtain the advantages of funding. These would be supplemented by voluntary accounts (pillar 3) as desired.

There is no consensus on how to finance the transition to a multipillar system. With funding, much of the current contributions would go to individual accounts. Other financial resources will be needed to pay the current pensioners and the accrued pension rights of workers who contributed under the old system. The problem is how to make these "double" payments. Rough calculations by Chinese analysts suggest that the implicit pension debt could be 3 to 4 times GDP, which has discouraged authorities from reforming the system. However, World Bank estimates suggest that the debt is actually less than half of current GDP (and foreseeably less, given China's anticipated growth rate), but pension debt can be expected to rise with time and as coverage expands, if the country maintains a pay as you go system.

TABLE 1.3

Features of pension schemes of selected provinces, municipalities, and sectors, 1994

(percent)

Locality	Covered pensioners/ Covered contributors	Average pension contribution rate			Wage replacement rate	Gross pension/ gross wage
		Employer	Worker	Combined		
<i>Provinces</i>						
Liaoning	27.2	21.9	3.0	24.9	—	21.9
Jilin	23.2	23.0	2.0	25.0	—	15.4
Heilongjiang	22.6	23.0	2.0	25.0	90	—
Jiangsu	21.7	20.0	3.0	23.0	65	14.0
Zhejiang	20.4	22.5	3.0	25.5	80	—
Fujian	22.7	20.0	4.0	24.0	81	13.5
Henan	16.3	25.0	3.0	28.0	75	17.5
Hubei	18.4	20.0	2.0	22.0	85	17.9
Guangdong	23.2	17.0	2.0	19.0	70	—
Hainan	26.9	18.0	3.0	21.0	65	9.9
Sichuan	25.4	19.5	3.0	22.5	95	22.3
Yunnan	26.9	21.0	3.0	24.0	71	22.3
Shanxi	—	20.0	2.0	22.0	95	—
<i>Simple average</i>	22.9	20.8	2.7	23.5	79	17.2
<i>Municipalities</i>						
Beijing	36.0	22.0	5.0	27.0	75	18.0
Tianjin	32.5	25.0	4.0	29.0	—	—
Shanghai	40.5	21.0	4.0	25.0	—	—
Harbin	26.2	22.0	2.0	24.0	102	21.3
Changchun	27.7	22.0	2.0	24.0	75	—
Shenyang	38.5	22.0	3.0	25.0	83	—
Taiyuan	24.5	20.0	3.0	23.0	100	—
Wuhan	36.9	26.0	3.0	29.0	90	—
Chengdu	14.0	22.0	5.5	27.5	83	—
Chongqing	33.1	27.0	3.0	30.0	60	—
Guangzhou	—	24.0	2.0	26.0	—	—
Shenzhen	3.3	13.5	7.5	21.0	61	—
<i>Simple average</i>	28.5	22.2	3.7	25.9	81	—
<i>Sectors</i>						
Civil aviation	5.9	8.0	2.0	10.0	—	—
Coal mining	28.7	21.5	3.0	24.5	88	25.0
Communication	—	—	—	—	—	—
Construction	19.7	10.0	3.0	13.0	83	—
Banking	10.7	12.0	2.0	14.0	—	—
Electrical Power	—	13.0	2.0	15.0	80	—
Hydropower	—	18.0	1.0	19.0	—	—
Nonferrous metal	29.3	—	—	—	—	26.8
Petroleum & natural gas	13.9	12.0	3.0	15.0	85	—
Railway	29.4	—	—	17.0	—	—
Transportation	—	—	2.0	—	80	—
<i>Simple average</i>	19.7	13.5	2.3	15.9	83	—

— Not available.

Source: Background materials provided by the provinces, municipalities, and relevant ministries.

FIGURE 2

Objectives, management, and funding of the proposed three pillars

	Mandatory basic benefit, pillar 1	Mandatory fully funded individual account, pillar 2	Supplementary individual account, pillar 3	Transition mechanism
Objectives	• Redistribution plus social insurance	• Savings plus social insurance	• Savings plus private coinsurance	• Pay off the implicit pension debt to existing pensioners and current workers
Role of government	• Implicit guarantor of last resort • Administration • Tax benefit	• Guarantor of a minimum rate of return on pension funds • Supervision • Tax benefit	• Supervision (by the central bank) • Tax benefit (subject to a maximum)	• Implicit guarantor of last resort • Administration
Management agency	• Social insurance companies (affiliated with social insurance agency or ministry)	• Pension fund management companies (autonomous public companies or private companies)	• Private and public insurance companies • Employer-sponsored pension funds	• Social Insurance Bureau at municipal level
Payments	• 24% of average provincial wages paid to new retirees • Surplus invested in government bonds (for both transition and investment purposes) and other approved instruments • Disability and survivor benefits	• Annuities • Surplus invested in government bonds and other approved instruments • Disability and survivor benefits	• Annuities • Investment in financial instruments	• Payment to existing pensioners • Accrued rights of existing workers when they retire
Source of funds	• Contribution: 9% of wage bill contributed by employers • Pooling at provincial level and fund adjustment at national level • Income from investment of surpluses	• Contributions: 8% of workers' wages contributed by employers and workers on a 50:50 basis • Investment income	• Contributions from enterprises • Investment income • Contributions from informal sector workers to their individual accounts opened at a licensed pension fund management company • Premium paid to life insurance companies by informal sector workers (including farmers)	• Receipts from additional contribution rates (1.1%) from workers • Borrowings from pillars 1 and 2 • Issuance of bonds collateralized by housing assets and land use rights



The Reform of Social Welfare in China

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Summary. — This article surveys and offers comparative reflections on the contours and achievements of China's pension system in light of its imminent collapse and the reassessment of development priorities associated with privatization, market transition and fiscal crisis since the late 1970s. It assesses various reform options including proposals for the formation of a three-pillar system, the pooling of funds at the provincial level, and the expansion of coverage, from the perspective of comprehensive development and the overcoming of China's pervasive urban-rural divide. © 1997 Elsevier Science Ltd

Key words — Asia, China, welfare, pensions, reform, workers

1. INTRODUCTION

From the United States to the former countries of Eastern Europe and the welfare states of West Europe to Asia, Africa and Latin America, since the 1970s privatization, market transition, fiscal crisis and shrinking state budgets have challenged welfare institutions (Lapidus, 1988; Jones, 1993; Madison, 1988; Davis, 1993; Getubig and Schmidt, 1992). This article assesses and offers comparative perspectives on China's changing welfare priorities and praxis, focusing on pension reform in the context of growing fiscal, demographic and social pressures and shifting developmental priorities.

In the early 1950s China, like many predominantly agrarian newly independent nations, initiated a state welfare program. In contrast to systems that emerged in the industrial societies of Europe and North America in the 1920s and 1930s out of the clashes among labor, capital and the state, China's welfare system was essentially the creation of a socialist state preparatory to far-reaching industrialization and working class formation. Its original beneficiaries received comprehensive, work-based social welfare coverage including generous retirement pensions, free health care, and support for the sick and disabled. A presumption of the program was universal lifetime employment among urban industrial and other state sector workers.

In China social welfare primarily took the form

of occupational welfare and pensions. Benefits provided by and through the work unit were predicated on and linked to employment (Ahmad and Hussain, 1991, p. 279). This contrasts with North American and West European welfare programs in which a significant component is the provision of unemployment and welfare benefits for the jobless and public provision of health care for the indigent. But it shares with them the restriction of pensions to wage earners, notably industrial workers and government employees. The policy of guaranteeing lifetime employment with attendant welfare benefits to workers and employees with urban registration — that is, excluding the 80-90% of rural working people — provided the foundation for a degree of economic and social security for urban and state sector workers rarely found in developing countries. Leung and Nann (1995, p. 61) overstate the case when they suggest that "The work-based welfare system provides a level of coverage that would be considered comprehensive and generous in comparison with the most advanced welfare states in the west." But the benefit package enjoyed by urban workers in general and state employees in

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particular, notably its pension plan, was and is costly and comprehensive for a society as poor as China.

China's ability to mount ambitious urban social welfare programs since the 1950s was predicated both on the demographics of a youthful population and on rigorous state policing of the divide between city and countryside through enforcement of the household registration (*hukou*) system and the exclusive provision of health insurance, pensions, housing and food subsidies to urban people (Cheng and Selden, 1994; Selden, 1993). Rural welfare programs, by contrast, were financed and administered by local communities with widely varying resource endowments and provided benefits that were a fraction of those available in the state sector.

Egalitarian land reform during 1947-53 eliminated property-based income inequality within each rural community, and collectives, in place from 1955, guaranteed full employment and subsistence. In contrast to state-financed urban welfare programs and subsidies for housing and food, rural welfare was premised on community self-reliance based on the differential resources of millions of local units, the teams and brigades that constituted the base of the collective system. Where urban social welfare programs guaranteed workers and their families entitlements based on lifetime labor contributions, village-based social welfare provided grain, clothing and housing only to those who lacked familial networks to provide them. "Five guarantee households" were heavily dependent on the resources and good will of rural communities, and obtaining this status frequently entailed humiliating requests for support.¹ In short, "five guarantee households" bore much of the onus of families on the dole in the contemporary United States. In Titmuss's formulation, China's dual track welfare structure initially adhered to an institutional approach with respect to the state sector and the cities and a residual approach for the countryside. Whereas the institutional approach assumes the entitlement of citizens to welfare resources such as pensions, the residual approach assumes that social resources are allocated only when the family and the market fail (Titmuss, 1958).

The presumption of full employment for all except the sick and the disabled lay behind both urban and rural welfare conceptions that were among the proudest claims of socialism to overcoming the misery and insecurity of life that had prevailed in Republican China. But workers in urban state enterprises were assured a comprehensive and relatively uniform welfare package while wide variations existed in rural welfare support contingent on local resources and practices within each rural community.

2. THE ORIGINS AND CONSEQUENCES OF SOCIAL WELFARE POLICY IN THE PEOPLE'S REPUBLIC

Several factors explain China's decision to adopt such a costly and skewed welfare and pension structure in the 1950s and to maintain it over three decades. The system was transplanted to China directly from the Soviet Union. The restriction of social welfare benefits to urban and state employees was and is, however, presuppositional not only in socialist societies but also among agrarian and newly independent nations. Hirtz (1992) finds that social security programs in Indonesia cover approximately 5% of the population, while Thailand's abortive effort to implement a social security program in 1954 left that country with no operable system until the 1990s, and even then benefits have been restricted to workers in large enterprises. World Bank global data confirm this point (World Bank, 1994, pp. 50-65).

In 1949, at the founding of the People's Republic, China's cities were swollen by refugees, industrial production and most other economic activities were far below their 1930s peaks; and rampant unemployment, inflation and food shortages undermined income and security. Employment in modern industry accounted for about one million persons, probably less than 5% of total urban employment (Howe, 1971, p. 9). In October 1950, the Government Administrative Council announced the Labor Insurance Regulations (LIR), the centerpiece of a nationwide welfare system that covered benefits for sick and disabled workers as well as providing retirement benefits. The LIR, promulgated nationally in February 1951 and in revised form in January 1953, initially covered employees in state-operated, joint state-private, cooperative and private factories and mines with 100 or more workers and staff (Art. 2, 1953, LIR; 1961, p. 11). This was well under 10% of the industrial labor force. By 1953 coverage included workers in capital construction units of factories, mines and transport enterprises, communication services, and state-operated construction enterprises. The costs were borne in their entirety by management, whether the state or private owners of enterprises (Art. 7), a principle that Lenin had insisted upon as early as 1912 and that was subsequently incorporated in Soviet and Chinese welfare practices (Madison, 1988, pp. 163-164).

The 1953 LIR (Art. 12) guaranteed a male worker reaching age 60 who had worked for 25 years, or a female worker reaching age 50 who had worked for 20 years, a pension paying 50-70% of his or her wage at retirement (Art. 15). China, like many newly independent countries established early retirement with generous pensions and with particularly early retirement for women, all factors made possible by the youthfulness of the labor force at the time of

implementation.² The real costs were invisible and deferred until the 1980s and 1990s.

Participating enterprises contributed 3% of their monthly payroll to a labor insurance fund jointly managed by the enterprise and the trade union. Seventy percent of the monthly contribution was deposited into the account of the enterprise trade union to pay for pensions, disability allowances and subsidies to dependents. The remaining 30% was deposited in the account of the All China Federation of Trade Unions (ACFTU) as a general labor insurance fund for redistribution among enterprises of varying financial strength and current liabilities (Art. 9).

By 1966 enterprises had paid in 400 million yuan to the labor insurance fund administered by the ACFTU (Liu, 1995). With the outbreak of the Cultural Revolution that year, however, the Federation was abolished and the system disintegrated (Dixon, 1981, pp. 44–51, 60–79).³ A 1969 Ministry of Finance directive ordered enterprises to pay "labor insurance expenses" directly to eligible workers (Chow, 1988, p. 24).

Large state enterprises maintained comprehensive welfare systems involving housing, canteens, health care, retirement and disability pensions, day care, recreation, education and death benefits for workers and their families. With virtually no interenterprise or intercity mobility among state and collective workers for three decades after 1949, the system provided regular workers in well-endowed enterprises with cradle-to-grave security and a range of benefits supplementing low wages. These costly systems, once the pride of socialist planners, would become the target of critics decrying the inefficiency of state enterprises in the 1980s and 1990s.

From very narrow scope in the early 1950s, labor insurance coverage was extended to ever larger numbers of urban industrial workers. In November 1952, 3,816 enterprises participated in the labor insurance program serving 3.2 million state workers and staff members. In addition, 4,300 collective welfare contracts covered over 400,000 longshoremen and porters and over 700,000 employees in transport, banking, cooperatives, state farms, stores, and small work units. By 1956, when the nationalization of industry was basically completed, 11.5 million state workers and staff enjoyed labor insurance benefits. In addition, 7 million urban workers were covered by collective-labor-insurance agreements (CECCS, 1987, p. 307).

While studies of Chinese social welfare rightly emphasize the influence of Soviet practice on urban and industrial policies in the 1950s, certain distinctively Chinese features have frequently been overlooked. For example, Article 14 of the 1953 LIR provided for generous death benefits. Not only did the state pay funeral expenses but the family of a

worker who died on the job received three months' wages and lineal descendants received 25–50% of the final wages until reaching maturity. Funeral and relief expenses were paid for retired workers and even in the case of death of a lineal dependent. The state assumed obligations not only to the living but to the deceased, thus materially and symbolically binding the generations to the party and its policies (Friedman *et al.*, 1991, p. 193).

In the course of the 1950s and 1960s, the Chinese state and the core of the industrial working class, notably permanent workers in state enterprises and government offices, forged a social compact in which workers received lifetime-job security, status gains, and welfare benefits at low but stable levels of income and the urban working class emerged as a bulwark of regime support.

In the 1960s, this social compact partially unraveled. The state was unable to keep pace in job creation or welfare benefits for an expanding population in the wake of the Great Leap Forward economic disaster. During 1961–62 the state broke its compact with 20 million laid off workers who were "temporarily" sent to the countryside and deprived of state welfare benefits (Selden, 1993, pp. 151–152, 166; Kirkby, 1985, pp. 107, 114). This forced rural migration transferred the burden of welfare for the displaced to the countryside, probably exacerbating the high rural death toll from famine of the early 1960s. The exiles, with few exceptions, never returned to the cities or reclaimed state jobs. From 1960 forward, urban families faced intergenerational downward mobility, a fact poignantly highlighted by the downward transfer (*xiafang*) of significant numbers of their children, some 17 million of whom were permanently dispatched to the countryside during 1964–78 (Unger, 1982; Parish, 1984; Davis, 1988).

3. CRISIS AND THE TRANSFORMATION OF SOCIAL WELFARE

By the late 1970s social welfare had expanded to cover 78% of urban wage earners, an unusually high percentage of the urban labor force compared with most other developing nations but only 19% of China's total labor force. The availability and scope of benefits for urban workers and staff varied along four primary axes with substantially different benefit structures:

- state units — collective units
 - large units — medium and small units
 - cadre rank — workers and apprentices
 - regular workers — temporary and contract workers
- An employee's benefit package was determined by one's position on each axis adjusted for years of service and wage level. For example, while all

permanent state workers had social insurance, in the early 1990s only two-thirds of employees in urban collective units enjoyed these benefits (Ahmad and Hussain, 1991, p. 280). Temporary and contract workers, including some employed over many years in state enterprises where they performed the most arduous, dirtiest and dangerous tasks, typically had no security, no pension or health benefits, and worked for a fraction of the wages of regular workers.

In 1978 74.5 million state sector workers and 20.5 million urban collective workers were eligible for pension benefits. Of the 95 million, 60 million worked in industrial enterprises; 11 million were teachers or cultural workers, five million served in party and government agencies, and nearly four million were health providers (SSB, 1993, pp. 75-79; ZGLDGZTJZL, 1987, p. 6). In 1978 3.1 million retired workers and staff received pensions, 2.8 million from the state sector and 0.3 million from urban collectives.⁴

China subsequently restructured and created new forms of enterprise and transformed welfare and pension systems. The aging of the workforce, large-scale labor migration, the dismantling of collective farming and the growth of private and non-state enterprise and market transition all contributed to rethinking welfare. The present hierarchy of entitlement to labor insurance and retirement benefits, however, continues to hinder labor mobility among enterprises, and especially among different categories of enterprise, since pensions are not transferable. These factors, together with mounting pressure on state enterprises to compete with rapidly growing township and village enterprises and diverse private and joint ventures, spur efforts to reinvent welfare.

Among the most critical problems confronting the Deng Xiaoping administration as it sought to consolidate power in the late 1970s was urban unemployment exacerbated by the return to the cities of approximately 10 million of the 17 million urban youth who had been sent to the countryside to work in the years after 1964. To reduce urban unemployment, the state promoted retirement from June 1978 by relaxing eligibility requirements and offering more generous benefits. Retirement became mandatory at age 60 for men and 55 for women (50 for female blue-collar workers). The continuous service requirement was reduced from 20 to 10 years and pension benefits increased from 70 to 75% of final wages. Finally, the pension minimum was set at the high level of 25 yuan per month which in 1978 was 90% of average per capita urban income (Davis, 1988, 1993).

Most important, the state agreed to hire one unemployed child for each retiring worker. An eligible retiree could designate one child to substitute (*dingti*) as a permanent employee in the parent's

work unit. This enabled many families to bring a child back from the countryside with a secure job or to end a period of unemployment for a child in the city. The expediency of hereditary hiring regardless of training or qualification undermined both efficiency and equity goals proclaimed by modernizers and further privileged the most secure strata of the population by guaranteeing jobs to the children of pensioned employees. The incentive policies also multiplied fiscal pressures on the system by accelerating retirements and substantially increasing their cost to the state as well as by exacerbating overstaffing in many units.

Numerous women retired in response to the *dingti* program prior to its elimination in 1986, both because women were eligible to retire 10 years earlier than men and because their wages were generally lower than those of their husbands so that family income-maximizing strategies would keep the husband at work earning full income (CECCS, 1987, pp. 326-327; Davis, 1988, pp. 227-237; Davis, 1993, pp. 184-185, 191). This gendered pattern conducive to early female retirement was offset in part by the fact that 68% of the state sector labor force was male compared with only 43% of the collective labor force, meaning that a higher percentage of women lacked pensions and those who had them received lower benefits (Walder, 1986, p. 43).

Other developments in the 1980s increased retirements and heightened fiscal pressures on the pension system and the state budget. Many provincial, city, and county governments took advantage of relaxed central control to boost benefits for retirees in their respective jurisdictions above and beyond the national guidelines. By 1988 retirement benefits for workers with 20 years' service ranged from 80-95% of the preretirement basic wage, well above the 75% stipulated in the 1978 retirement regulations (Wei, 1988). Many enterprises followed suit in sweetening incentives to retire. Moreover, from 1978, opportunities to earn extra income by working in the private sector made early retirement more attractive, particularly for those with technical or entrepreneurial skills. Pensioners could receive full retirement benefits, complete with free medical care and continued access to subsidized housing, while holding jobs outside the state sector. A 1988 survey found that 3.6 million out of 22 million state-sector pensioners were earning wages (ZGLDKX, 1990, April, p. 10). The actual number was surely many times higher. For these and other reasons, the financial position of the urban elderly, including retirees, has long been and remains superior to that of young workers.

A contentious retirement issue surfacing since the early 1980s concerns senior cadres. The new policy sought simultaneously to solve the problem and to

improve efficiency of work by encouraging general technical training and forcing to retire those who had joined the ranks of the People's Republic of China (lizi) to recuperate."

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improve efficiency by replacing aging leaders, many of whom were villagers of the revolutionary generation, with younger better educated and technically qualified people. Rather than being forced to retire, however, senior cadres who had joined the revolution prior to the founding of the People's Republic won special benefits known as *lixiu* (*lizhi-xiuyang*) meaning "leaving a job to recuperate." *Lixiu*, which is tantamount to a permanent leave without work rather than retirement, assured continued political clout and preferential benefits (State Council, 1982, p. 313). Special funds were even allocated to improve housing or to construct new housing for *lixiu* cadres. This was a lucrative benefit as powerful cadres frequently were able to transfer the right to these homes to their children (Ch'i, 1991, p. 58). *Lixiu* pensions often provided income and benefits exceeding the regular salaries of ranking cadres (State Council, 1982; MLP, 1982). In sum, *lixiu* entrenched the privileges of ranking cadres, allowing them to keep their bureaucratic rank, status, income and privilege for life at substantial cost to the state (Lee, 1991; Manion, 1993).

Since the 1980s, a situation has arisen in China that invites comparison with recent trends in the United States: in both countries, in the course of a generation, the elderly have strengthened their position in terms of income and benefits while the relative position and income of younger working people in both countries has declined. In the United States, the elderly also control substantial wealth (Thurow, 1996; Parish, 1984). In both China and the United States the consequences of these generational shifts include heavy pressures on the welfare system which will be unable to finance pensions for the next generation in the absence of fundamental changes. In both societies, the growing power of the aged narrows reform options in fields as diverse as health care, pensions and education, a phenomenon that is evident in the paralysis over social security reform in the United States and elimination of the *lixiu* system in China.

The rapid growth in the number of Chinese retirees since the 1980s encumbered older state and

collective enterprises at the very moment that they were under attack for accumulating heavy losses and were pressed to compete for profits with new private, foreign-funded firms and township and village enterprises that had the advantage of a youthful work force and no responsibility to provide employees comprehensive benefit packages.

The number of retirees increased tenfold from 3.1 million in 1978 to 30.9 million in 1995, including 24.0 million state sector and 6.2 million collective sector employees. The cost of retirement benefits in 1995 increased by 19.7 billion yuan to reach 154.2 billion yuan, 129.6 billion for state retirees and 20.8 billion for collective retirees (Table 1 and SSB, 1996, pp. 688, 690). Total insurance and welfare costs rose from 7.8 billion yuan in 1978 to 236 billion yuan in 1995, increasing from 13.7 to 29.2% of the total wage bill in state enterprises (SSB, 1996, p. 733).

During 1978-95, the ratio of employed to retired workers in state enterprises fell from 26.2:1 to 4.7:1 while that in urban collective enterprises fell even faster, from 68.3:1 to 5.0:1. That is, by 1995 fewer than five workers supported each retiree. The declining ratio of employed to retired workers is a product not only of the aging of China's urban labor force but also of a growing life expectancy that reached 71 in the early 1990s. During 1990-2030 the percentage of China's population that is over age 60 is projected — in the absence of major war or famine — to grow from nine to 22% while the number of workers supporting each elder will fall to just 2.3 (World Bank, 1994, pp. 24-27, 81-83).

The burden of financing labor insurance in the face of spiraling pension and medical costs has been central to the twin demands to reform (or abolish) state enterprise and to transform social welfare programs in general and the pension system in particular. On October 1, 1986, China terminated lifetime employment in state enterprises for new employees, immediately creating a new two-track system in these enterprises. Subsequently, rather than obtaining lifetime tenure, employees received renewable contracts, usually of up to five years. These employees are ineligible for lifetime tenure

Table 1. State workers and pension costs, 1978-1995 (selected years)

Year	State workers (millions)	Retired state workers (millions)	Ratio of active to retired workers	Total Wage bill (billion yuan)	Total cost of pensions (billion yuan)	Pension cost as % of wage bill
1978	74.5	2.8	26.2	46.9	1.6	3.4
1982	86.3	8.7	9.9	70.9	6.2	8.4
1987	96.5	14.2	6.8	145.9	20.1	13.8
1991	106.6	18.3	5.8	259.5	46.0	17.7
1995	112.6	24.0	4.7	608.0	129.0	21.3

Source: SSB (1996) pp. 90, 115, 736, 737.

and the security and pensions that have been hallmarks of the system since the 1950s. In addition, with significant numbers of state enterprises going bankrupt, even workers with ostensibly iron-clad protection have become vulnerable. Enterprise contracts may be considered the urban/state sector equivalent of the household contract system that replaced the collectives in the countryside. Urban workers in state and large collective enterprises confront the possible loss of pension advantages they won in the early years of the People's Republic in the name of establishing a social welfare system "with Chinese characteristics."

At the heart of current difficulties confronting the pension system is an approach to finance in which enterprises pay most or all pension and benefit costs out of the current year's wage bill. As older state and collective enterprises face spiraling pension costs, they have no accumulated enterprise fund or national fund to turn to. Already by the mid-1980s, in some older factories the number of retirees exceeded the number of active workers (*People's Daily* August 6, 1985). The proportion of total welfare expenditures devoted to pensions in state enterprises rose from 57% in 1992 to 72% in 1994 (SSB, 1995, p. 688).

Ultimately, if equity, labor mobility and development goals are to be advanced, labor insurance must be delinked from the performance of particular enterprises utilizing pay-as-you-go financing and replaced by a regional or national labor insurance fund that assures pension payments for state, collective, and private sector workers and eventually expands to include the rural population. Since 1984 the Ministry of Labor has encouraged the pooling of pension liabilities by means of *tongchou* or unified financing. Reform of pension systems has been and remains at the center of the conflict over the nature of China's emerging "socialist market economy."

(a) *The unification of pension finance*

Pension reform proponents seek to require worker contributions and to promote the pooling of resources to diversify the burden among enterprises. Unified pension finance began in some cities and counties in coastal Guangdong, Jiangsu, and Liaoning provinces. Participating enterprises contributed a uniform percentage of their payroll to a pension fund which deposited them in a special reserve bank account. These contributions covered the cost of pensions for all insured workers in the enterprises. This resembled the labor insurance funds that were established in the 1950s only to be disbanded during the Cultural Revolution. But unlike the earlier national pension system, the new plans typically pool funds at the city or county level, as a function of, and response to, the decentralization of admin-

istrative power that has been a feature of China's economic reform. Frequently the fund pays only a percentage of pensions to employees with the balance paid directly by the enterprise.

With localities establishing their own guidelines, myriad approaches to finance and distribution emerged. In Shenyang city, each participating enterprise paid 20% of its wage bill to the local insurance company under the Bureau of Labor with separate funds for state and collective enterprises. The fund pays 60% of pension liabilities, leaving each enterprise to pay the remaining 40% (MGSY, 1986).

In Wuhan each state enterprise contributed 22.5% of its wage bill to cover pensions, inflation allowances, medical care and other welfare benefits. Contributory rates were 17.5% and 18% of the wage bill respectively in experiments in Fujian and Jiangxi provinces. Beijing state enterprises contributed 16% of wages; in Shanghai, with the highest percentage of retirees, it was 25%. While Beijing, Shanghai and Tianjin all pooled at the municipal level for regular employees, by 1989 Shanghai alone had established a single pool for the financing and provisioning both of permanent employees and contract workers. Shanghai's recently-built Baoshan Iron and Steel Complex, with its youthful labor force, contributed 25% of salaries into the fund and received only 1% back in pension payments while older companies, with large numbers of retirees, were supported by others (N. Li, 1991a, pp. 24-25; Wang, 1995, p. 9).

By the end of 1989, unified retirement plans had expanded to enterprises in 2,200 cities and counties, 93% of all cities and counties throughout the country. They encompassed 50 million employees and nine million retirees with collected pension funds amounting to more than 10 billion yuan (P. Li, 1991b).

On June 26, 1991 the State Council proposed a three-tier retirement insurance system for employees in urban enterprises, with the basic retirement program managed by the state, supplementary retirement programs funded by enterprises, and individual savings retirement programs chosen by each employee (ZLB, 1991). This three tier, or three pillar, conception with funding coming from the state, the enterprise, and the individual worker, has long been favored by World Bank planners as a means to diversify pension finance and enhance both stability and savings (World Bank, 1989, 1994, pp. 233-251 for critique of the Bank's program see Beattie and McGillivray, 1995; for rejoinder see James, 1996).

The 1991 program extends pension coverage to a larger group of workers while reducing benefit levels. In addition to the basic pension, enterprise supplementary retirement insurance programs, including bonus incentive features, offer additional

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benefits. Finally, retirees may receive the accumulated funds from their personal retirement accounts with a ceiling set at 3% of wages. The scale of supplementary benefits depends on the financial capacity of the enterprise and personal contributions.

The 1991 Decision called for changing unified financing programs from the city and county to the provincial level. It also included enterprises with different forms of ownership — state, collective, private, individual and foreign-owned enterprises — to provide pension coverage for all urban employees (Han, 1991b; Qiu, 1991; Zhang, 1992; and Yin *et al.*, 1993). It continued to exclude, however, those enterprises classified as rural, such as township and village enterprises, regardless of their size or sophistication.

By 1991 industrial cities including Beijing, Shanghai, Tianjin, Guangzhou, Wuhan, Shenyang, Dalian, Qingdao, and Wuxi had introduced unified pension finance (Han, 1991a). A report on prosperous Wuxi City and Beijing highlights the dilemmas faced by older enterprises with heavy pension costs.

Pensions for retired workers in the silk and textile industry in Wuxi accounted for more than 40% of total salaries of the active workers.... After 1984, enterprises under the tongchou scheme in Wuxi city contributed 23% of their active workers' wage-bill to the retirement pension fund.... In the case of the Beijing Western District Coal Company, which has 897 active workers and 906 retired workers, before joining the city tongchou scheme, each active worker had to support one retired worker. After joining the city tongchou scheme, of 1.3 million yuan in retirement pensions paid to 895 retired workers, the company paid only 504,000 yuan or 39%; the remaining 812,400 yuan or 61% was covered by the tongchou retirement fund (Li, 1991a, pp. 24-25).

In 1992 Hainan, a recently created province with little older state enterprise and hence light pension burdens, became the first to establish provincial-level pooling (*Hainan Daily*, December 18, 20, 21, 1991). With a population of seven million, it is much smaller than the three municipalities of Beijing, Shanghai and Tianjin and a fraction of the size of most provinces. Hainan established compulsory pooled pension payments at the provincial level for all enterprises regardless of ownership and for all employees including permanent and contract workers. All city and county pools were integrated into the provincial pool for unified administration (Krieg, 1994; Zhou, 1994). Shenzhen city and Shanghai municipality followed in May 1992. Shanghai initiated a comprehensive plan for reform of labor, wage, and social security using a single pool for all categories of labor (*People's Daily*, May 5 and 7, 1992; *The China Press* (*Zhongguo xinwen*), May 7, 1992).

The shift from county to city to province is designed to make possible the creation of a pool of sufficient size to stabilize pensions over the long haul. Pension funds and individual pension accounts can, moreover, be transferred throughout the province as workers change jobs. This approach could succeed... if the state is able to force recalcitrant enterprises to contribute, if the funds are managed prudently and not siphoned away into the hands of officials, used as working capital by local governments, or invested poorly or consumed by inflation so that their value shrivels, and if employee pensions are protected in the event of enterprise bankruptcy. Resolution of these issues is essential if China is to move toward a universal pension system that guarantees reasonable and equitable retirement.

(b) *Toward a multitier social welfare system*

The November 1993 Central Committee "Decision on Issues Concerning the Establishment of a Socialist Market Economic Structure" called for a multitier social welfare system to provide both urban and rural people with a degree of security commensurate with China's reality so as to promote economic development and social stability (*People's Daily*, November 17, 1993). By the end of 1993, 85 million urban employees, 49% of the total, participated in unified pension plans in 1,400 cities and counties in 13 provinces accounting for 60% of the urban labor force. By 1994 41 million employees, 48% of total employees in 18 provinces, reportedly made individual contributions (*People's Daily*, March 24, 1994). Hussain hints at the difficulties of achieving consensus and compliance when he observes that "such a transaction may be mutually acceptable when the pension system is settled and planned on a long-term basis, but not when it is undergoing a radical change." What is certain is that newer enterprises, which will receive few benefits for decades, will continue to fiercely resist payment (Hussain, 1994, p. 51).

The viability of the pension structure is threatened by escalating costs, above all as a result of rapid increases in the number of retirees collecting approximately 60 to 80% of their final salaries in pensions. Other problems of equity and fiscal sustainability relate to the calculation of contributions to the pension pool. As a result of the 1991 Decision to set personal contributions at 3% of the standard wage rather than the total wage, enterprises increased bonuses and various nonwage subsidies while holding the line on standard wages. The weight of wages in state enterprises nationwide then declined from 86% in 1978 to 54% in 1990, while bonuses, allowances, and subsidies increased from 5.6% in 1978 to 44% in 1990 (Qiu, 1991, p. 11;

Zhang, 1992, p. 88; Yin *et al.*, 1993). In short, the standard wage ceased to reflect the real income of employees, nor is it an appropriate base for calculating individual contributions and benefits.

The system has been undermined by other forms of resistance to payment of pension funds. According to the State Audit Bureau, the collection rate declined from 96.3% of required payments in 1992 to 86.0% in 1994 to 84.3% in the first half of 1995 (*China Commercial Times* (Zhonghua gongshang shibao) November 6, 1996). By the end of 1994, 5,000 enterprises owed five billion yuan in pension funds. In Jiangxi, 11 cities owed 450 million yuan, topped by the Xinyu Steel Works with 50 million yuan in arrears (Quan, 1995). As a result, by August 1996 1,388,000 pensioners in north and northwest provinces alone either had received nothing or been paid only part of their pensions (*China Commercial Times*, November 6, 1996).

Inefficient, costly and sometimes corrupt pension management further increased pressure on the system, a problem shared with many developing countries. By the end of 1994, the accumulated pension funds had reached 30.5 billion yuan, but interest on the funds was only 2.17 billion yuan. This was an interest rate of only 7.9%, far below the Bank of China's one year savings rate of 11.0% and a fraction of the 24.1% inflation rate in 1994. In addition, provincial and local governments frequently siphoned off pension funds for other purposes: 5.1 billion yuan in 1993 and 6.4 billion in 1994 (Quan, 1995). In Heilongjiang province in 1994 local governments borrowed 300 million yuan of pension and unemployment funds to finance capital construction and operate local enterprises. Jiangxi used 75.7 million yuan of pension funds for housing construction, to build a TV network, and to finance enterprise reform.

Problems in implementation of the 1991 Decision clearly reveal that labor insurance reform encroached on powerful interests in contradictory ways. The central government has favored unified contribution rates and provincial level resource management are essential to achieve equity, promote enterprise efficiency, and protect worker interests. Local governments, however, stress flexibility in implementation and management of social security. Rapidly growing coastal regions such as Guangdong, Shanghai, Jiangsu, and Shandong have been especially vigorous in promoting local autonomy. Regional and local officials seek to maximize control over welfare funds that could be invested so as to expand employment opportunities and create profitable investments that will enable them simultaneously to advance their careers and boost their own incomes. Local officials see nothing but loss in paying into pension plans in which resources are controlled by higher levels (Wang, 1994, p. 101).

Fiscally pressed state enterprises no less than private enterprises strive to minimize their financial contributions and urge the state to assume financial responsibility for retirees. Because enterprise profits went entirely to the state in the decades after 1949, they argue with considerable cogency, the state is now obligated to care for retirees. The state, however, insists that state enterprises must increase their financial contributions to support growing numbers of retirees. Much of the reflexive discussion in China and abroad criticizing the "inefficiency" of state enterprises and hailing the "efficiency" of the private sector glosses over the fact that older state enterprises have uniquely heavy state-mandated encumbrances of which pensions are the most important. Until China succeeds in establishing pension systems that transcend the problem through equitable pooling, older (therefore, mainly state) enterprises will not be competing on a level playing field with newer non-state enterprises which have no such encumbrances. Nor will workers receive adequate welfare guarantees in the form of pensions that can migrate with them to new jobs.

The determination to move ahead with pension reform — and the deep divisions among policy-makers with conflicting interests — are well illustrated by State Council Circular No. 6 of March 1995 (State Council, 1995) which outlines broad directions for a national program. The Circular establishes a three pillar system comprised of a national basic insurance program supplemented by occupational pensions and personal savings with contributions provided by enterprises and individuals. Far from promoting a unified national system, however, these proposals seem likely to exacerbate administrative chaos, further jeopardizing the pensions and welfare of workers.

The State Council offers each province the option to increase gradually contributions from individual workers and to reduce enterprise contributions. The actual amounts to be contributed by individuals and by enterprises, and the extent to which pensions would assure subsistence, is to be determined not at the national or even the provincial level but by prefectural authorities. The plan reflects the inability to resolve intrabureaucratic conflicts with the State Reform Commission advocating a market approach emphasizing individual accounts while the Ministry of Labor calls for social pooling to guarantee subsistence for all pension holders. Workers seem likely to bear the brunt of this intrabureaucratic conflict to which they are not a party.

Other tendencies are at work. Shanghai, whose powerful government has led in developing municipality-wide pension pools and unified policies, is the leader in promoting unified pension funding. In 1995 Shanghai taxed employers in order to provide all

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retired workers a pension paid by the city that assures 50% of the average final wage or 300 yuan per month (Deborah Davis, personal communication September 3, 1995). Many other cities, however, appear to be choosing the provident fund approach which eliminates pension fund obligations for enterprises and places the responsibility for savings entirely on workers. This approach threatens to leave substantial numbers of formerly insured workers without pensions.

The 1995 State Council plan designated the prefecture as the pooling unit and the locus for determining contribution rates while leaving open the choice of provident fund or social pooling and the minimum pension level. While the prefecture is superior to the former county and city level pooling from the perspective of expanding the size of the pool, in less industrialized prefectures the small size of the worker population poses severe problems to the creation of a viable system. These problems are compounded by the historical weakness of prefectures, intermediaries between the county and the province, as administrative units that have been heavily dependent on the province and have relatively small administrative staffs. Prefectural administrations are likely to be particularly vulnerable to pressures from powerful local enterprises.

As Shaoguang Wang observed in his powerful critique of the anachronistic 1995 program proposed, no country in the world has ever established its pension fund on two fundamentally different models of individual equity and social adequacy (Wang, 1995, pp. 10-12). Moreover, few, if any, have chosen an income-pooling unit as small as the prefecture. In this and other ways, the plan appears to be a formula for chaos that threatens the pension funds of workers and the credibility of the state. Thus the Ministry of Labor reported so much fraud in implementation of State Council Circular No. 6 that in 1996 the State Council terminated the dual system and stipulated that a unified pension system at the provincial level will be functioning by the end of this century (*China Commercial Times*, November 18, 1996).

The fundamental clash of interests between older state and collective enterprises and newer private, joint venture and township and village enterprises, and between central and local administrations, continues to defy reform efforts to frame a national pension system pooling pensions at the provincial level. The fragmentation of China's pension system, illustrated by the inability to move effectively to provincial or national-level pooling and by the refusal or inability of the state to require enterprises to participate, simultaneously deal a blow to workers and undermine the reform goal of fostering worker mobility and initiative.

4. CONCLUSION

This study impels us to rethink the relationship between welfare policies and broader sociopolitical and developmental trajectories. On the eve of the founding of the People's Republic, China lacked a concept of universal citizenship and the definition of rights and entitlements that were achieved in developed capitalist societies, particularly the welfare states of Western Europe and North America. In the West, the acquisition of civil and political rights paved the way for social and economic rights (Marshall, 1981). Instead of a progression from civil to political rights, and then to social rights, as Marshall conceived, Chinese urban workers, particularly those in the state sector, secured broad social rights prior to political rights (Hopkins and Selden, 1989). The clearest expression of these gains was the state-financed welfare system that protected urban workers in the form of lifetime job guarantees, comprehensive labor insurance subsidies and generous pensions. In China as in the Soviet Union and many socialist or former socialist societies, social rights for the urban working classes preceded political and civil rights. Despite the agrarian character of China's revolutionary movement, it was urban workers and not farmers who reaped major welfare gains in the decades after 1949. Yet the very weakness of workers' political rights has made it difficult to sustain earlier social gains in the face of attack from free-wheeling private enterprises and fiscally strapped officials at local, regional and national levels. The intrabureaucratic policy debates that have driven the transformation of pension systems in recent decades seem remarkable for the absence of the voice of labor in shaping outcomes.

Chinese welfare policies similarly defy Harold Wilensky's observation that "Social security growth begins as a natural accompaniment of economic growth and its demographic outcomes (Wilensky, 1975, p. 47). In China, as in many newly independent and socialist societies, workers achieved welfare entitlements prior to industrialization and economic growth and prior to a demographic transition associated with urbanization. But this "advanced" system of costly pensions for a small minority of the labor force could not be sustained on the foundations of China's economy, nor could it adequately serve the interests of the broader working classes in longer range perspective.

This study has shown that while social rights have expanded, their distribution was and remains strikingly unequal, a pattern notable in many newly independent countries whose welfare and pension systems likewise cover only a small fraction of working people. China's urban-rural gap widened over the early decades of the People's Republic. For ideological reasons, but also in order to secure an

3. EMPLOYMENT, SOCIAL SECURITY, AND ENTERPRISE REFORMS IN CHINA

Lin Lean Lim and Gyorgy Sziraczki

Under China's centrally-planned economic system, the distribution and placement of the labor force was carried out by administrative means, according to labor quota plans worked out by the state; and workers were guaranteed lifetime employment. This labor allocation system was supplemented by enterprise-based social welfare and social insurance provisions. Enterprises were mainly state-owned and controlled, with little room for autonomous managerial decision-making concerning production or employment. These structures resulted in rigid labor markets and low industrial efficiency.

Reforms of the employment, social security, and enterprise systems have been key building blocks of China's transition from planned to market economy and its opening up to the outside world. Since the mid-1980s, the central and local authorities have introduced a number of labor market regulations to promote employment reforms and a more market-based operation of the labor market. Many of the measures, however, have had been of a make-shift, experimental nature. The government is in the process of formulating a comprehensive Employment Promotion Law, which is expected to create a unified regulatory framework for the development and smooth operation of labor market institutions, policies, and processes.

Reform of the social welfare system has focused principally on reducing the "social burden" of enterprises by shifting the responsibility of providing social facilities and services for workers from enterprises to the state, community, and individuals. The danger of reducing the social burden of enterprises in the interests of economic efficiency is, however, that it could lower the welfare of workers, particularly the more vulnerable ones. And workers have certainly become vulnerable, not only because of the loss of non-wage benefits but also because their "iron rice bowls" have been broken. As open unemployment and labor surplus have increased, concerns over worker insecurity and social instability have grown. Reform of the social insurance system is intended to complement employment and enterprise reforms and to provide at least a safety net for those adversely affected by the reforms.¹

The establishment of a modern enterprise system has been an integral aspect of economic structural transformation. Reforms have been introduced to encourage the growth of modern enterprises with clearly defined property

rights and management responsibilities that are able to compete in free markets. The reforms have concentrated on the state-owned enterprises (SOEs) because they have been the mainstay of the economy; they aim to define the status of the SOEs as independent legal entities, responsible for their own internal operations and economic performance.

Given this background, the International Labor Office (ILO) has been providing technical assistance to the Chinese Ministry of Labor in the form of two major activities, a project on Active Labor Market Policies and another on Support for Social Insurance Legislation. ILO involvement in the two projects is meant to help ensure that the proposed Employment Promotion Law and the Social Insurance Legislation take account of international practices and experiences and incorporate international labor standards. This paper is based on information accumulated by the two projects, including specially commissioned studies, seminar papers presented by international experts and senior government officials, reports of assessment missions, and very recent data from an ILO/Ministry of Labor survey of 300 enterprises in five cities.

The paper provides the context for the various reforms in China by highlighting the main labor market challenges in the process of transition, in particular the need to deal with immense and growing unemployment and labor surplus. It then describes the main employment, social insurance, and enterprise reform measures and regulations. The final part of the paper examines actual implementation and effectiveness of these reforms and the outstanding problems, based mainly on the results of the enterprise survey. It should be pointed out that the paper deals mainly with what has been happening in urban areas; rural areas have been relatively neglected in the reform process.

THE LABOR MARKET CONTEXT²

China faces immense employment problems because of continuous and severe labor market supply pressures in the form of large-scale rural underemployment, rising urban unemployment and labor redundancy; and growing income and social inequalities between different segments of the population.

Between 1950 and the early 1990s, the population doubled, while the labor force almost trebled. Labor force growth has been due mainly to the rapid growth of the working age population, rather than to an increase in the participation rate. At the end of 1994, China's labor force was 614.7 million, out of a total working age population of about 740 million, resulting in a labor force participation rate of 83 percent (Table 3.1). With

Table 3.1 China: Total Population, Working-age Population, Labor Force, and Participation Rate, 1952-1994

Year	Total Population (millions)	Working-age Population (millions)	Labor Force ^(a) (millions)	Working-age Population as % of Total Population	Labor Force as % of Working-age Population
1952	574.8	267.1	211.1	46.5	79.0
1962	673.0	305.3	243.6	45.4	n.a.
1982	1,016.5	566.8	456.7	55.8	0.6
1983	1,030.1	583.4	467.1	56.8	80.1
1984	1,043.6	601.6	484.3	57.9	80.5
1985	1,058.5	621.1	501.1	59.1	80.7
1986	1,075.1	640.7	515.5	60.1	80.5
1987	1,093.0	656.1	530.6	60.7	80.9
1988	1,110.3	669.6	546.3	61.1	81.6
1989	1,127.0	683.6	557.1	61.5	81.5
1990	1,143.3	697.3	571.2	61.0	81.9
1991	1,158.2	709.8	587.2	61.3	82.7
1992	1,171.7	721.2	597.9	61.5	82.9
1993	1,185.2	n.a.	605.9	n.a.	n.a.
1994	1,198.5	n.a.	614.7	n.a.	n.a.

Notes: (a) Data include the social labor force plus the urban unemployed. n.a. = not available.

Sources: SSB (1992; 1993) and Ministry of Labor, People's Republic of China.

the working age population growing by about 11 million a year over the past four decades, the job creation challenge has been phenomenal. And it will continue to be so, at least up to the turn of the century. Although the effects of the "one-child" family planning policy will be felt increasingly after the mid-1990s, it is projected that there will still be about 11.6 million new entrants to the labor force annually during the Ninth Five-Year Plan period 1996-2000. The majority of these new job seekers will be in rural areas.

Without a doubt, job creation is one of the main challenges for China. So far, the results have been impressive. Between 1980 and 1993, 95 million new jobs were created in urban areas, so that the total number of urban employed stood at 160 million in 1993, a 53 percent increase over 1980. In rural areas, the employed totalled 444 million in 1993, of which more than 100 million were engaged in non-agricultural sectors. The proportion of the rural employed in non-agriculture was more than double that in 1980.

There have also been remarkable changes in employment structure. Between 1980 and 1993, the share of the primary sector (mainly agriculture) in total employment declined from 68.7 percent to 57.4 percent, while that of the secondary sector (industry, mining, energy, and construction) increased from 18.3 percent to 22.4 percent. The number employed in the tertiary sector increased by more than 120 percent over the thirteen year period to over 122 million in 1993, and the share of the tertiary sector in total employment rose from 13 percent to 20 percent.

These changes in employment by sector have been paralleled by changes from a state-owned to non-state owned economy. Some 45 percent of the newly employed in urban areas were absorbed in non-state owned enterprises; individually owned (self-employment) and other private enterprises accounted for about 14.6 million workers in 1993. Employment in foreign and joint venture enterprises, non-existent prior to 1984, reached 1.4 million in 1993 and is expected to continue to expand significantly. Employment in the township and village enterprises (TVEs) has almost doubled since 1980; by 1993, they employed over 113 million people or about quarter of the rural workforce.

In spite of these significant changes, labor supply has continued to exceed labor demand. The very large absolute numbers and the still growing labor force have resulted in an increasingly serious unemployment problem, certainly the most serious in the world in terms of the absolute numbers involved. Reform of the employment system to break the "iron rice bowl" also means that growing numbers in urban areas cannot automatically expect to be placed in jobs and to have job security for life. In 1993, 4.2 million were recorded as openly unemployed, an increase of almost 600 thousand over 1992 and the highest figure since 1982. The official estimate is that the

share of the total number of workers without jobs in urban areas reached 2.8 percent (or about 4.8 million) by the end of 1994. The average length of unemployment increased from 4 months to 7 months, and the rate of reemployment dropped from 70 percent in 1989 to 57 percent in 1994. The problem of long-term unemployment has been exacerbated. The proportion of those unemployed for more than six months increased from 20 percent to 50 percent over this period.

By the year 2000, the open unemployment rate is expected to increase to 8 percent, although the target set by the government is 5 percent. For 1996, the open unemployment rate is projected at 3.8 percent, higher than the official target of 3.5 percent.³ The forecast is that for the Ninth Five-Year Plan period 1996-2000, the total number of registered unemployed will reach some 17.8 million. This number will comprise those who lose their jobs in bankrupt enterprises, those whose employment contracts are not renewed, and also redundant workers who are "released into society" (i.e., the state-owned enterprises terminate their employment relationship with them, so that they are no longer responsible for these workers).

The level of registered urban unemployment does not, however, reflect the actual unemployment situation. First, only those with a permanent residence permit in a city are officially registered as unemployed. Second, a very large section of the workforce is on forced (paid or unpaid) leave, are "waiting for jobs within the enterprise," or are unregistered unemployed. The real unemployment level might already well be between 7 and 8 percent.

In addition to open unemployment, there is a huge labor surplus in both rural and urban areas. In rural areas, the labor surplus is estimated at about 120 million, and is expected to reach 130 million over the Ninth Five-Year Plan period 1996-2000. Given the extraordinary size, rural to urban labor mobility is understandably a sensitive issue in China. This paper will not, however, deal with the rural-urban migration issues.⁴

Although the estimates vary, there is general agreement that the problem of redundancy among the urban labor force is increasingly serious. The State Economic and Trade Commission, which is responsible for the enterprise reform program, estimates labor surplus conservatively at 15-20 percent and less conservatively at one-third of the currently employed workforce. The Ministry of Labor (based on a survey of several thousand enterprises in 30 provinces, although the procedures and criteria for identifying redundant workers were not standardized) has an estimate of 10-12 percent of urban SOE employees, while other research institutions place the figure higher at 20-25 percent. The State Statistical Bureau, based on a survey conducted among state-owned enterprises in December 1994, estimates that 20 percent of SOE employees are redundant.⁵ Over the Ninth Five-Year Plan period,

the number of surplus workers in SOEs is expected to reach 15 million. Although labor surplus has normally been regarded as a phenomenon of the state sector, the 1995 ILO/Ministry of Labor survey revealed that labor surplus is prevalent among other property forms too (Lim, Sziraczki, and Zhang 1995).

Among the unemployed and underemployed, there are certain subgroups that are particularly disadvantaged or vulnerable. They are also the ones most in need of social safety nets. Of the 4.8 million registered unemployed in 1994, 79 percent were young people between the ages of 16 and 25 years. In some regions, they represent more than 90 percent of the jobless. While school leavers and young people are finding it increasingly difficult to enter suitable employment, older workers are most likely to be redundant or to be laid off work. The problems of older workers are serious because of their generally lower levels of education and skills and the greater difficulties they face in redeployment. Other disadvantaged groups include women, the disabled, and ethnic minorities. Of the total unemployed, 60 percent have been female; the proportion of females among surplus workers is also high; and older women are especially vulnerable. In 1990, there were 50 million disabled persons in China. As hiring practices have been relaxed in the employment reform process, enterprises have been refusing to accept disabled workers. In 1990, the labor force of ethnic minorities was 48.7 million or about 7.5 percent of the national labor force. Since they live mainly in rural areas, they are concentrated in agriculture where they account for a large share of the surplus workers. Partly because their educational level is below the national average, they face difficulties in making inroads into other sectors, especially into industry.

EMPLOYMENT REFORMS

The Chinese government has introduced the Regulation on Labor Contracts (to reform the employment system from permanent status to a contract system); the Regulation on the Employment of Staff and Workers (to reform the recruitment system from one of administrative allocation of labor to give enterprises greater freedom and flexibility to select workers based on objective criteria), and the Regulation on Discharging Employees (to grant enterprises the power to dismiss workers).

The Labor Contract System

While the labor contract system under central planning guaranteed job and lifetime "iron rice bowl" to workers, it was often

unrelated to economic requirements, restricted mobility and stifled competition and efficiency among workers, and limited the autonomy of enterprises to hire or fire the numbers and types of workers required to enhance productive capacity. To do away with the "iron rice bowl" and to enhance the labor flexibility of enterprises, the government introduced a labor contract system in 1986. The introduction of labor contracting was accompanied by a somewhat greater scope for employee discharge and by the introduction of "waiting-for-employment" or unemployment insurance. These measures constituted a package representing a significant step away from the provision of lifetime employment security.

Under the labor contract system, new workers hired by state enterprises sign a contract for a specific period of time, and at the end of the contract there is no guarantee for reemployment. The provisions in the contract cover production tasks, probation, working conditions, remuneration, labor discipline, and penalties. The length of the contract varies between one to ten years, depending on the worker's skill level and training. The contract includes a probationary period of up to six months, during which it can be terminated by the employer. There are further provisions for termination, including violation of disciplinary standards by an employee, or enterprise reorganization or bankruptcy.

When the contract system was first introduced, it applied only to new recruits in the state sector. Those previously hired as permanent workers continue to enjoy lifetime employment. Since the early 1990s, the labor contract system has been extended to those termed "temporary" workers under the old system.⁶ The Regulation on the Recruitment of Peasant Workers Under the Contract System stipulates that peasants recruited for a period of more than one year should be covered by the contract system.

Since the new Labor Law came into force in January 1995, the contract system has been extended to all enterprises. The Labor Law provides guidelines for the contents of contracts, allows the termination of contracts, and regulates the period of notice. The new provisions also include the possibility of permanent contracts after ten years of service with an enterprise and negotiations between employers and unions on collective agreements.

Improving Inter-Enterprise Labor Mobility

To change the rigid labor allocation system under central planning, the government has given enterprises and job seekers more freedom in recruitment and job search. Under the previous system, enterprises were assigned workers by the authorities and they had little freedom to select, recruit, or get rid of workers according to their production needs or

conomic-efficiency criteria.⁷ The Regulation on Discharging Employees now gives enterprises the power to dismiss workers. According to the regulation, there are five justified bases for dismissing an employee: breach of labor discipline, bankruptcy of the firm, unsuitability of the worker for the job after a trial period, inability of the worker to resume duties even after medical treatment following a non-work related illness or accident, and the worker's imprisonment or conviction for a crime (Korzec 1992).

Once assigned to an enterprise, Chinese workers previously remained at that workplace for decades, unless transferred by administrative decision to another job. With the reforms, there are now essentially three main channels of employment: workers can be assigned to an enterprise by the authorities; they can seek placement through employment services; or they can apply on their own for jobs in the state or private sectors or even go into self-employment.

Another major obstacle to labor mobility has been the system of enterprise-based social support, particularly for housing. Housing has always been a critical element of workers' compensation in China. Workers are reluctant to change jobs because alternative housing is difficult to obtain. They are particularly reluctant to move from the state to non-state sector because private firms are not compelled to provide housing for workers. The non-wage benefits workers enjoy also include a range of social facilities, including hospitals, nurseries and schools,⁸ health care, unemployment insurance, and pensions,⁹ as well as community services such as police protection, savings banks, and tax collection offices. While these enterprise-based social benefits are a financial burden to employers, they serve, on the one hand, as incentives to workers to perform better and improve productivity and, on the other hand, as disincentives to leave a job. A major factor underlying labor market inflexibility in China is that a worker who leaves a job stands to lose housing, pension, medical, and other social security benefits.

To improve inter-enterprise labor mobility and reduce the "social burden" of enterprises, reforms are being introduced to separate social benefits from the workplace by encouraging enterprises to divest themselves of the social facilities they currently operate and to separate the auxiliary units responsible for the social service functions from the enterprise. This is one of the main objectives of a recent enterprise reform experiment, initiated by the State Commission for the Restructuring of the Economy in late 1994.

Labor Surplus and Redeployment Policies

A priority concern of the employment reforms has been to deal with the increasingly serious problem of labor surplus. Up to very recently, the government approach and the enterprise practice in coping with surplus labor was based on the concern for preserving social stability. Laying off redundant workers was restricted, while the responsibility for handling the problem without layoffs rested almost entirely with enterprises.

The responsibility of enterprises for dealing with surplus labor was spelled out in the Provisions for Settlement of Surplus Labor, issued by the State Council in 1993. The guidelines recommended a menu of measures to employers, from which they could choose according to the needs of local circumstances. The recommended measures included: (a) finding suitable vacancies or creating new, preferably service-oriented or tertiary sector, jobs for surplus labor within the enterprise; (b) redeploying redundant workers in enterprises newly set-up by the parent company; (c) training surplus workers; (d) encouraging women to take maternity leave up to a period of two years; (e) offering early retirement for those who are within five years of normal retirement age; (f) encouraging the resignation of workers; (g) terminating employment relationships before the expiration of contract; and (h) keeping remaining workers as "waiting-for-job unemployed" with reduced pay until they find a job in their current enterprise or elsewhere.

The government further specified that: (a) surplus veteran employees with less than five years before retirement may either opt for early retirement with pension benefits and living allowance or they may resign and enjoy unemployment relief up to their normal retirement age, when they will switch to their pension entitlement; (b) those enterprises in the tertiary sector which absorb surplus workers may be granted a loan from the unemployment insurance fund, which could serve as start-up capital or be used to pay interest on commercial bank loans; and (c) those individual surplus workers who manage on their own to get redeployed may be awarded a one-time settlement allowance by their enterprise.

In addition to the above methods, enterprises have resorted to other measures (Sziraczki and Twigger 1995: 15). For example, some enterprises contract out redundant workers to other firms; some offer unpaid leave to workers who want to take up temporary employment elsewhere; and others provide incentives for their redundant permanent staff to leave and set up their own businesses. At another level, local governments, to facilitate the redeployment of surplus labor, often restrict recruitment from outside the city and sometimes instruct the enterprises to hire local redundant workers. To avoid closure of one loss-making enterprise and the associated redundancies,

local governments often order another thriving firm to merge with it, a practice that can unnecessarily burden or even ruin a successful firm. • •

Among the most popular methods has been the redeployment of surplus labor to newly established labor service enterprises (LSEs). The LSEs were first introduced in 1979 when China was facing massive unemployment pressures with the return of tens of millions of workers from the rural areas. Various ownership forms of the LSEs have evolved. Typically, the enterprises with labor surplus problems initially establish a labor service company (LSC), which then creates new firms and redeploys the redundant workers. The "mother" companies or sponsoring agencies that established the LSEs could be state-owned enterprises or collectives based on street organizations, party or government organizations, institutions, schools or military personnel, or groups of unemployed workers. The labor bureaus have also established LSEs; about 10 percent of all LSEs have been set up by labor market authorities. In addition to taking over surplus workers or providing employment for the children of existing staff of the sponsoring agency, the LSEs receive from their sponsoring agencies start-up capital, operating funds, and technical and managerial staff. They could also receive start-up capital from their initial workers, who are gradually reimbursed as the enterprise earns profits. The LSEs may also receive bank loans, guaranteed by their sponsoring agency. Newly created LSEs enjoy preferential tax treatment.

The government has introduced legislation¹⁰ to encourage the LSEs to: (a) focus on new tertiary sector activities, especially those combining improved technologies with the intensive use of labor; (b) shift to a shareholding system of ownership and distribute incomes according to the individual worker's contributions to work and finance; (c) place all workers on a contract basis; (d) restructure their management and operating systems to make them more independent from their sponsoring agencies and to improve efficiency; and (e) exploit joint ventures and international linkages. Measures are also in the pipeline to further promote the sound development of the LSEs through making available funds from unemployment insurance, tax deductions, and preferential bank loans.¹¹

Since April 1995, the responsibility of enterprises for redeployment of surplus workers has been drastically reduced. The State Council issued a new directive concerning the implementation of the Reemployment Program, which emphasizes "mobilizing the initiative of the government, enterprises, and individuals" and which states that "the method of relying on enterprises to rearrange redundant employees will gradually be replaced by the regulator of the labor market in order to achieve employment through competition, with the state providing guidance and assistance" (Wu

1995: 12). The State Economic and Trade Commission, which is the agency responsible for enterprise reforms, has further spelled out that "the SOEs will no longer bear unlimited responsibility for lifetime employment of their workforce under the circumstances of a market economy. It must be made clear to workers that employment is the result of their own efforts, to which help from the government and enterprises are only complementary. Otherwise, it is hard to introduce a competitive employment mechanism. Meanwhile, enterprises should be allowed to lay off some of the redundant labor force into the labor market" (Deng 1995: 15).

Labor Market Policies

Efforts have also been made to improve labor market policies to mitigate the social cost of reforms and to facilitate efficient employment adjustment. The labor market policies include job creation schemes, training programs, measures for vulnerable groups, efforts to reduce labor supply, and measures to improve employment services.¹²

The Chinese labor market authorities have also experimented with other types of bridging policies, such as wage subsidies to enterprises in economic difficulties to prevent layoffs and subsidized employment programs to create temporary employment for the jobless. In a few cities and provinces, some insolvent firms in the process of restructuring receive employment subsidies to cover part of their training and wage costs up to a period of two years. Public works in the construction and repair of infrastructure have also been organized in some areas in response to unemployment. But it has only been in 1995 that official policy statements have begun to place importance on the job creation potentials of entrepreneurship training and self-employment in microenterprises.

SOCIAL WELFARE AND SOCIAL INSURANCE REFORMS

Reducing the "Social Burden"

With the decentralization of management decisions from the government to enterprise managers and from the central to local governments, enterprise responsibility for the provision of housing, health care, and pensions for their workers became stronger. As the government transferred the responsibility to finance the benefits, in addition to the management and delivery responsibility, enterprises have borne a heavier burden. "This increase in enterprise responsibility combined with increase in resource allocation has led to greater differentiation of resources among

and within enterprises, as the main available means of compensation. While this has helped introduce incentives needed for economic growth, it has reinforced the ties between benefits and jobs with serious negative effects on the delivery of the services concerned and on the enterprise system" (World Bank 1994: 2).

The system of enterprise-based social welfare has therefore been characterized by: (a) growing inequalities among and within enterprises in the provision of in-kind benefits (as well as in cash wages), whereas under the previous system there was little differentiation; (b) heavy financial burdens for the enterprises,¹³ especially as such social welfare expenditures have tended to grow faster than the overall growth of production and to levels far higher than those in countries at a comparable stage of economic development (World Bank 1994: 2); and (c) growing gaps between those who enjoy improved standards of services and those whose employers have been unable to provide them. For example, a group of "housing poor" has emerged who occupy accommodations that are less than half the target standards set by the government; they are not low-wage earners but rather employees of loss-making enterprises or non-profit agencies. Other negative consequences of the system are, as mentioned above, that it hampers voluntary labor mobility and severely restricts management and restructuring options on the part of enterprises. Social facilities and services siphon off large amounts of capital into non-production related purposes, hindering the efforts of the enterprises to improve efficiency.

The government's recent attempts to separate social benefits from the workplace and to replace them by community or private provision should serve to reduce the social burden of enterprises and improve labor mobility. In some cases, community-based arrangements could be set up or public agencies could reassume responsibility, e.g., the Ministry of Health could take over the running of hospitals or health centers from the enterprises, and workers, irrespective of where they work, could be entitled to more equal access.

Housing Reforms. Under the old system, the government built and allocated housing to enterprises, which then assigned them to workers on the basis of job-related criteria such as performance, seniority, and rank, as well as needs related to family characteristics and actual space used. Typically, about 80 percent of housing in a city is owned and maintained by enterprises which rent them out to their workers at nominal rents.¹⁴ Workers commonly stay on indefinitely (except to move to better accommodation or to change jobs), even after retirement; they may even pass on their apartment to their children. Where enterprises have actually sold housing to workers, they

have very heavily subsidized the sales, with the condition that should workers want to resell they can only do so back to the enterprise at the original price.

Long-term financing for housing either for enterprises or for individuals is still in a nascent and experimental stage in China. Previously, most enterprises purchased and maintained housing with funds set aside from their retained earnings or, although not sanctioned, even from accounts reserved for production and investment. Under the recent housing reform program, some attempts have been made to increase rents to bring them more in line with market rates, to enable enterprises to cover more of their costs and also to induce sales. So as not to penalize workers, the rent increases have been accompanied by some wage adjustments. Since the mid-1980s, workers have been allowed to buy homes. But mortgages are hard to get. The Industrial Commercial Bank of China, for example, will advance no more than 60 percent of the value of a property. To increase the availability of financing for housing, the government is also resorting to trust arrangements (earmarked for housing) raised from enterprises and individual payrolls (World Bank 1994: 3-4). The housing fund is to be used to assist enterprises which are otherwise unable to acquire housing for their workers and to help to solve the problem of the "housing poor."

Measures have also been introduced to increase housing construction. In addition to housing development by individual enterprises for their workers, a few real estate development companies were established as subsidiaries of large SOEs and collectives in the mid-1980s. Now many such companies operate in most cities; they lease land from the local governments, develop a supply pipeline and vigorously market their products to enterprises. There has also been the growth of private rental housing for urban workers (including expatriates working in the foreign enterprises) who are able to pay market rents. In fact, there is now concern that investment in property development or speculation may have overheated; it was up by 96 percent between 1992 and 1993, as compared to 77 percent growth of investment in capital projects (EIU 1995b: 30). Much foreign investment, mainly from Hong Kong, has gone into property development especially along the Southern coast.

Health Care Reforms. Social welfare reforms have also targeted the health and medical benefits system. Before reform, the government was responsible for health insurance, financed out of the general budget, for government employees or retirees, university students, and demobilized soldiers. Each enterprise was required to finance and operate its own group insurance providing coverage for both active and retired workers. The system had a number of serious problems, in particular the limited and uneven burdens on enterprises, and rapid cost escalation¹⁵ due mainly to the

lack of cost containment measures and the fact that since workers were not required to co-pay they tended to overuse health care.

The reform options aim especially to impose co-payment by individuals; implement various cost-containment measures; and encourage city-level pooling across enterprises for major medical expenses. For example, as of April 1, 1995, employers in Beijing are required to contribute to a new health insurance fund operated by the municipal government (IBIS 1995a: 10). Employers must make monthly contributions equivalent to 6 percent of the average Beijing salary paid in the same month of the previous year. Employees are also expected to contribute 1 percent of average monthly income. The fund will provide reimbursement for serious illness or accident in excess of 2,000 yuan per month on a scale depending on the medical charges; and employers are expected to pay 70 percent of the remaining charges. The regulation applies to all employees, retirees, and employers, including overseas-funded companies. Those that do not participate will be fined. The reforms have ended free medicine in China; the health services now recover close to 90 percent of their costs (*The Economist* 1995: 71).

Setting Up Social Safety Nets

Reforms to strengthen the modern enterprise system and employment reforms to improve labor allocation, mobility, and productivity cannot be effective without a complementary and supportive social insurance system. At the same time, the aim of sharing responsibility for surplus workers by "the society, enterprises, and individuals" cannot be achieved without a nationwide and effective social insurance system. Social stability would be threatened in the process of transition if there are no proper social safety net measures for at least the most vulnerable population subgroups.

The main aspects of the reforms, which have been taking place since 1984, include expansion of the types of insurance coverage, establishment of pooled retirement plans, setting up of unemployment insurance programs, and reform of the medical care system (Lin 1994). Since 1991, the emphasis of the reforms has shifted to: (a) expansion of social security coverage to include all workers in public and private enterprises, so as to promote equal treatment and the mobility of labor in cities and industrial sectors; (b) promotion of the principle of combining individual and collective provision of social protection to cover old age, sickness, death, and other social risks; and (c) establishment of a partially prefunded social protection system, by which the required funds for meeting the increased demand for old-age benefits are accumulated. With the future challenge of an aging population may be accumulated.

The reforms were initially introduced as experimental programs in selected areas, but especially since November 1993 they have been extended to a growing number of cities and provinces and to not only the state sector but also the collectives and foreign joint ventures. Guangdong, regarded as the "experimental lab of the country's reforms," introduced a new social security system in 1994 extending old-age insurance to 6 million employees (including 1 million already retired); industrial accident insurance to 5.4 million; unemployment insurance to 4.2 million; and health and maternity insurance to almost 1 million. The Beijing city government has covered 2 million employees by unemployment insurance and another 2 million by retirement pension schemes and has, since March 1995, set up a system of individual medical accounts (IBIS 1995b: 40). As official sources continue to stress progress and future plans affecting employee protection, it can be expected that foreign investors in China will be subject to additional financial and legal requirements.

Pension Schemes. A multi-level pension insurance system is being implemented. The basic or general pension system is applicable to all enterprises covered by legislation, and is operated by the state. In addition to participating in the general pension scheme, prospering enterprises can also decide to set up supplementary schemes for their workers, so as to give them higher benefits. Those enterprises, such as private or foreign firms, which are not required by law to provide pensions can still set up their own autonomous schemes. Individual workers have been urged to establish pension fund savings accounts in banks. Also, private insurance companies, especially those in the southern coastal areas, have been doing a growing business in selling individuals old-age insurance policies.

Under the 1978 Retirement and Disability Provisional Resolutions, coverage was limited to the state sector enterprises and "large" collective enterprises. Peasant contract workers in SOEs; employees in small collective enterprises, in urban and rural township and village enterprises and in the private sector; the self-employed; and non-nationals in joint ventures were not covered. In the covered sectors, men over 60 and women over 55 (for white-collar salaried women, and 50 for blue-collar women) with 10 years' continuous service qualify for periodic earnings-related old-age pension. Payments are made in cash out of the pension pool. The retirement age is reduced to 50 for men and 45 for women for those in work considered arduous or unhealthy. There is also provision for early retirement at age 50 for men and 45 for women with 10 years' continuous service, if they are totally disabled.

Financing was by employers, while employees did not contribute. But recent reforms have encouraged individual contributic workers,

initially at a rate of 3 percent of total wages to be gradually increased to 8 percent. Enterprise contributions are therefore to be reduced. Currently, the pension fund is collected by different groups, e.g., the Ministry of Labor is responsible for managing the pension fund of employees in urban and township enterprises, the Ministry of Personnel for the pension fund of the state sector (although 11 ministries have set up their own pooling systems), and the Ministry of Civil Affairs for the pension fund in rural areas. Recent reforms have encouraged pooling of the pension fund; and many cities are now experimenting with pooled pension funds from all enterprises, state and private, with employees contributing a percentage of their wages.

Unemployment Insurance. The regulations on "wait for employment insurance" (in effect, unemployment insurance) applying to state-owned enterprises were introduced in 1986 to provide income support for workers whose contracts were terminated, those dismissed for disciplinary reasons, and those laid off due to bankrupt or reorganized enterprises. In 1993, the unemployment insurance system was modified to extend the coverage to other categories of state-sector workers, e.g., workers whose enterprises had been merged with other companies or closed down temporarily or permanently. It also extended unemployment benefits to permanent workers as well as contract workers, thereby signalling the possibility of permanent workers being unemployed. Based on the 1993 resolution, the unemployment fund is raised via a payroll tax of between 0.6 and 1 percent of the wage bill levied on enterprises. Resources are usually pooled at the county, district, or city level, although some provinces have adopted the practice of provincial pooling.

The qualifying condition for the benefits is a one-year employment record immediately preceding unemployment. The actual unemployment benefits are not earnings-related. They are set at a level equivalent to 120 to 150 percent of public assistance relief, as determined by the local Bureau of Civil Affairs (ILO and UNDP 1994). Unemployment compensation is payable up to one year if the employee has worked less than five years and up to two years if he or she has worked five or more years. In addition, the unemployment insurance system provides free medical care and, in case of death of the unemployed, funeral grants and awards to dependent survivors, plus special assistance in hardship cases. The benefits are terminated under the following conditions: (a) expiration of benefit entitlement; (b) military service or permanent residence abroad; (c) reemployment; (d) refusal of two job placement offers without due cause; (e) undergoing labor reform or being sentenced for criminal or civil offenses; and (f) filing fraudulent claims.

The main purpose of the unemployment insurance system has been to relieve individual enterprises of full responsibility for their workers'

redeployment by establishing funds that pool resources and share risks among enterprises. By doing so, the system is expected to enhance labor mobility and flexibility while maintaining a safety net for unemployed workers. But there are important gaps in the coverage of the unemployment insurance scheme. Currently, the regulations cover only permanent and contract workers in state-owned enterprises (temporary and casual workers and those contract workers of rural origin are excluded).

The aim in the coming years is therefore to extend the unemployment insurance system so that all employees are covered; expenses are reasonably shared by the state, enterprises, and individuals; relief is closely related to reemployment, and the government legalizes its implementation. Some cities have already experimented with the extension of unemployment insurance to all property forms and with resource pooling of the unemployment funds. Pending legislation also includes proposals for reducing the duration of benefits to no more than 12 months and for paying cash benefits at the same level as the provincial minimum wage. The proposed regulation will also require employee contributions to fund the program, with a contribution rate of about 1 percent of wages, excluding bonuses, subsidies and other items—this would help augment the fund and also introduce an element of individual responsibility into the system. The next major step would be to include village enterprises, which employ more than 100 million workers, into the scheme.

Linking Unemployment Insurance to Employment Creation—The Reemployment Project. At the end of 1993, the Ministry of Labor introduced a Reemployment Project which is intended to use the economic lever of unemployment insurance to not only provide income security to the long-term (more than six months) unemployed and workers whose enterprises have closed down or ceased operations, but also to promote their reemployment as soon as possible. Circular No. 150 issued in 1993 by the Ministry of Labor instructed all labor bureaus at the provincial and municipality levels that "the employment promotion allocation and the unemployment insurance fund should be actually used in employment work, helping the life improvement of unemployed persons and promoting reemployment."

Currently implemented on a pilot basis in 30 cities, the project offers vocational guidance and training for reemployment to those who have been unemployed for more than six months. The employment service agencies of the labor bureaus organize monthly vocational training courses to provide the unemployed information and advice on intensive job search, career opportunities, means of job-seeking, and assistance to draw up plans and measures to return to work. The unemployed who actively participate in

these activities are given priority in job introductions, while those who do not participate without valid reasons could be denied unemployment benefits. In addition, those who pass the training examinations are charged a reduced training fee or are exempted or even given a special allowance.

For those who have been out of work for more than 12 months, the employment service agencies arrange interviews and temporary placement or internships. They invite enterprises to have face-to-face interviews with the long-term unemployed and to try out these workers on a temporary basis for up to three months. During the trial period, the unemployment benefits of these workers could be given to the enterprises to wholly or partially subsidize wages. After the trial period, the enterprise can offer contracts to those found suitable for the needs of the enterprise. The long-term unemployed who do not attend the interviews without valid reason will cease to receive unemployment benefits. For those who have attended all the above programs but still fail to find employment, the project assists them to go into self-employment or to be assigned to the labor service enterprises set up by the labor bureaus.

For the workers from enterprises that have closed down or ceased operations, the project offers unemployment benefits for three months. To qualify for the benefits, they are required to participate in one or several of the project programs for retraining, interviews, job try-outs, etc. Those who have participated but are unable to find reemployment can receive unemployment benefits for an additional three months.

The project also involves consultation between the labor bureaus and the relevant government departments to ensure joint actions relating to the availability of funding allocations and tax benefits. Such preferential measures are meant to encourage and support enterprises in their efforts to absorb unemployed and redundant workers, or to assist workers to voluntarily enter self-employment. Unemployed or redundant workers who organize their own employment or enter self-employment can receive start-up capital through the payment of their unemployment relief entitlement as a lump sum.

ENTERPRISE REFORMS

Employment and social security reforms cannot be divorced from enterprise reforms. In the course of moving from a planned to market economy, China has focused on the transformation of the SOEs into modern enterprises. The focus is on the SOEs—particularly the large and medium-sized ones, because they are the backbone of the national economy. At the end of 1993, SOEs accounted for 30 percent of all industrial enterprises in the country, produced

53 percent of the nation's total industrial output value, employed about 70 percent of total industrial workers, owned 75 percent of total industrial fixed assets, and contributed 66 percent of the profit and tax payments of all industrial enterprises.¹⁶ They have also been providers of housing, health care, educational facilities, pensions and many other social benefits for some 34.4 million workers in industry (SSB 1994: 94).

But the SOEs face mounting problems and challenges, in terms of both their own internal operations and their competitive position vis-a-vis other types of enterprises. As explained by the Minister of the State Commission for Restructuring the Economy (Li 1995: 17), "their status as independent legal entities has not been fully established; the operational mechanisms of enterprises, particularly large and medium-sized ones, have still not changed over to meet the demands of market competition; and they still shoulder heavy economic and social burdens and have not as yet reversed the trend of reaping low economic returns." The SOEs have borne the brunt of the responsibility for mandatory or indicative production targets, job creation, public welfare, and social services, while at the same time they have contributed, through paying heavy taxes, to state revenue and state efforts to encourage collective, individual, private, and foreign investment. But in this process, they face increasing competition from the newer property forms and find it increasingly difficult to survive in the market economy.

China's State Council therefore identified the deepening of enterprise reform as the focus of the economic structural reforms for 1995, with the major goals centering on establishing a modern enterprise system, delineating the property rights relationship of SOEs, making enterprises responsible for their own profits and losses, strengthening the internal management particularly of large and medium-sized enterprises, separating certain social and welfare functions from enterprises, and redeploying surplus workers. The underlying aim is to enable the SOEs to be more competitive vis-a-vis the other property forms.

IMPLEMENTATION OF THE REFORM MEASURES: REALITIES, EFFECTIVENESS, AND PROBLEMS

The sections above described the reform regulations and programs. In this final section, we examine their actual implementation and effectiveness, and the problems and weaknesses encountered. We draw mainly from the results of an ILO/Ministry of Labor survey of 300 industrial enterprises in Beijing, Shanghai, Guangzhou, Tianjin and Shenyang conducted in February/March 1995.¹⁷

Employment Reforms

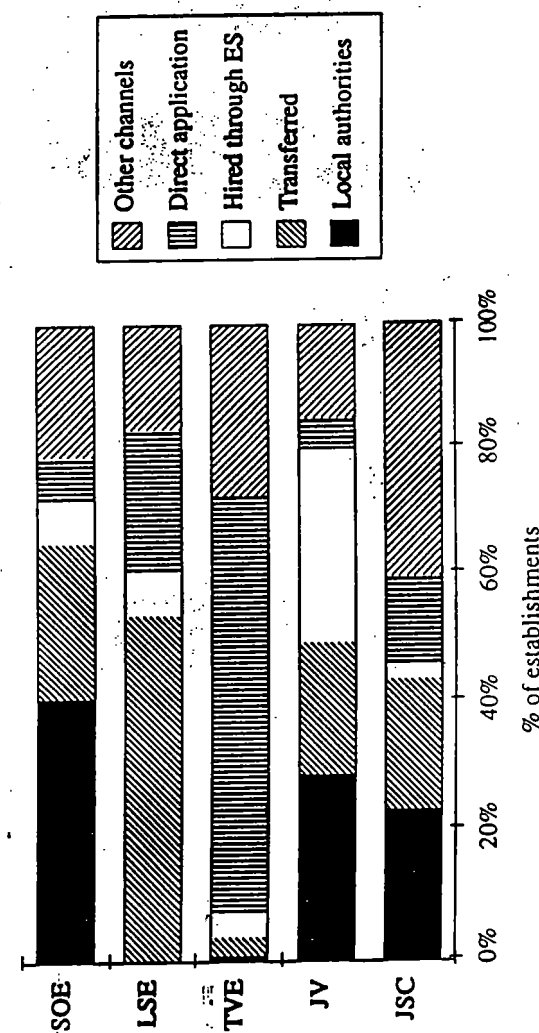
The contract system was expected to improve labor allocation, reduce underemployment, and increase labor productivity. Yet, many enterprise managers indicate that the system has not fundamentally altered labor-management relations, despite the large change, at least on paper, in job security. To retain skilled workers, managers often offer very long-term, even lifetime contracts (Sziraczki and Twigger 1995: 9-11). For example, the ILO/Ministry of Labor survey found that of the total employed in the 300 surveyed establishments, only 37 percent were fixed-term contract workers and that almost two-thirds of the workforce in the state-owned sector were permanent. The survey findings reflect the picture for the country as a whole; national statistics show that contract workers accounted for about one-third of total employment in the SOEs in 1993.

Although the contract system is now supposed to cover peasant workers, many, if not most, of them are recruited in urban areas for less than one year. When such temporary workers do have contracts, their contracts do not entitle them to the same status or benefits as those accorded to the contract-system workers. Therefore, while the contract system is reducing the segmentation of the labor market and making it more competitive, a certain degree of duality remains and different groups of workers continue to have unequal rights and access to employment and protection, partly due to rural-urban mobility restrictions.

At the exit end of the employment process, the freedom of managers, especially of the SOEs, in laying off workers who are either unsatisfactory or redundant is still restricted. Therefore, the vast majority of contract workers are offered reemployment at the end of their contract. The overall turnover rate in the survey was only 7.7 percent, with the largest group of job leavers taking retirement. In addition, rigid job definitions and work rules and traditional employment practices remain essentially untouched by the contract system.

In spite of the Regulation on the Employment of Staff and Workers, the survey found that the labor allocation system remains rigid, especially for the SOEs and regardless of the economic performance of enterprises (Figure 3.1). Of the new recruits, more than 40 percent were assigned to the SOEs by local authorities, and another 23 percent were transferred from other enterprises. The assigned workers are normally demobilized soldiers and graduates from technical colleges and universities who have not been able to find their own jobs.¹⁸ The LSEs also have limited labor flexibility; they receive their new workers mainly through internal labor markets from their parent companies: 54 percent of the new recruits in LSEs were surplus

Figure 3.1 Composition of Recruitment by Property Form, 1994



Note: Based on 290 sample responses.

Source: ILO/Chinese Ministry of Labor Survey reported in Lim, Sziraczki, and Zhang (1995).

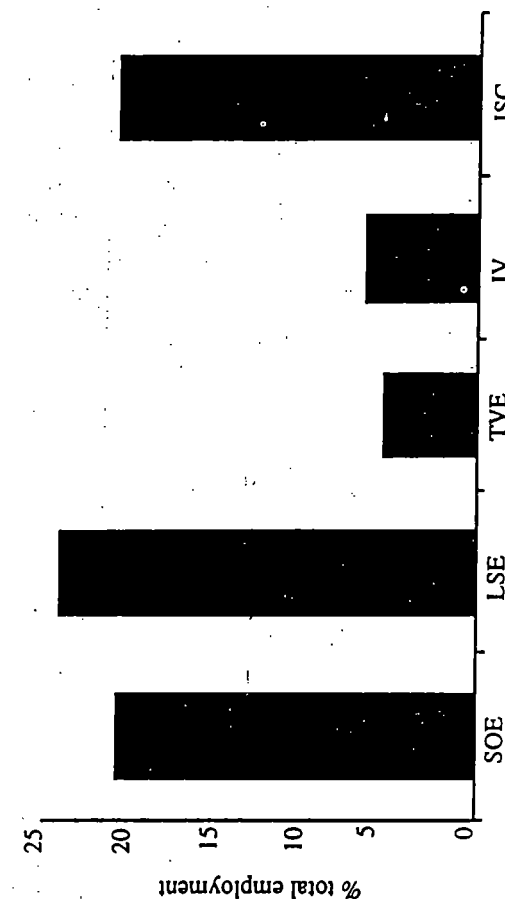
workers who had been transferred from other establishments. Only the township and village enterprises (TVEs) were able to select workers from among those who directly applied to them for jobs. More than 70 percent of the newly employed in the TVEs were therefore first-time job seekers, as compared to only 17 percent among the recruits in the LSEs. Another interesting finding from the survey was that only the joint venture (JV) companies currently make use of employment services to recruit workers. The joint ventures and foreign companies recruit workers through employment services mainly because the regulations require them to do so. The employment services' market share of recruitment was very low, less than 11 percent.

The survey confirmed the seriousness of the labor surplus problem.¹⁹ It found that 18.4 percent of the total workforce (active and non-working) was redundant, that there are marked regional differences, and that more than half the surveyed enterprises anticipate a further deterioration in the labor surplus situation. The labor surplus problem was, however, not confined to the SOEs. The LSEs and the recently commercialized companies or the joint stock companies (JSCs), also experience serious redundancy problems (Figure 3.2). The survey also highlighted the negative relationship between economic performance and the number of surplus workers in an enterprise, and pointed to the need to improve economic efficiency and labor productivity to effectively deal with labor surplus. The break-even and loss-making establishments reported that more than one-third of their workforce was redundant. A particularly striking finding was that even those enterprises operating at 100 percent production capacity utilization experienced the problem of redundancies (Figure 3.3).

The specific reasons cited for labor surplus were inability of enterprises to keep up with developments in the product market, technological and organizational changes, the obligation of enterprises to absorb administratively-allocated workers, and the poor quality of the workforce. Middle-aged, unskilled female workers were most likely to be redundant. From a survey conducted among managers of SOEs in December 1994, the State Statistical Bureau reported that managers said they would be far more efficient were they to lay off 20 percent of their staff. But the Bureau noted that "out of overriding concern for social stability, the authorities are opposed to hefty layoffs. If 20 percent of the staff and workers were trimmed from the SOEs, some nine million people would be on line waiting for reemployment" (EIU 1995a).

All the measures suggested in the government guidelines on the Provision of Surplus Workers, together with some other options, were mentioned in the survey questionnaire, and enterprise managers

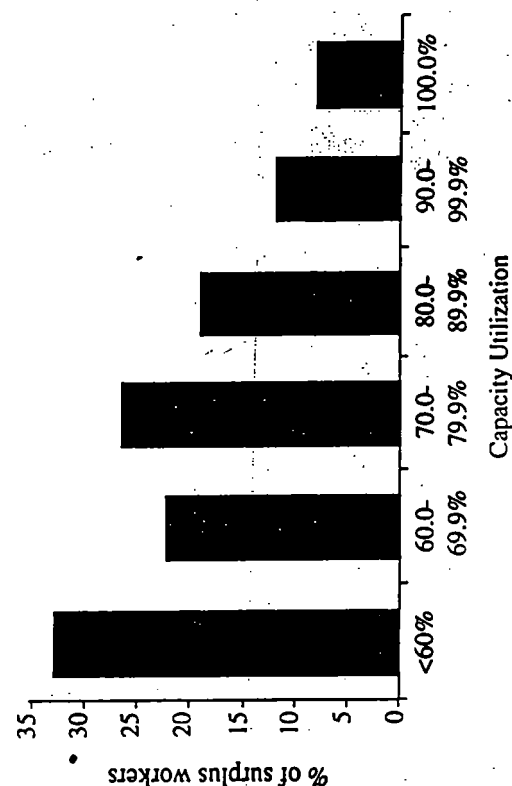
Figure 3.2 Labor Surplus as a Percentage of Total Employment by Property Form, 1995



Note: Based on 295 sample responses.

Source: ILO/Chinese Ministry of Labor Survey reported in Lim, Sziraczki, and Zhang (1995).

Figure 3.3 Percentage of Surplus Workers by Capacity Utilization, 1995



Note: Based on 290 sample responses.

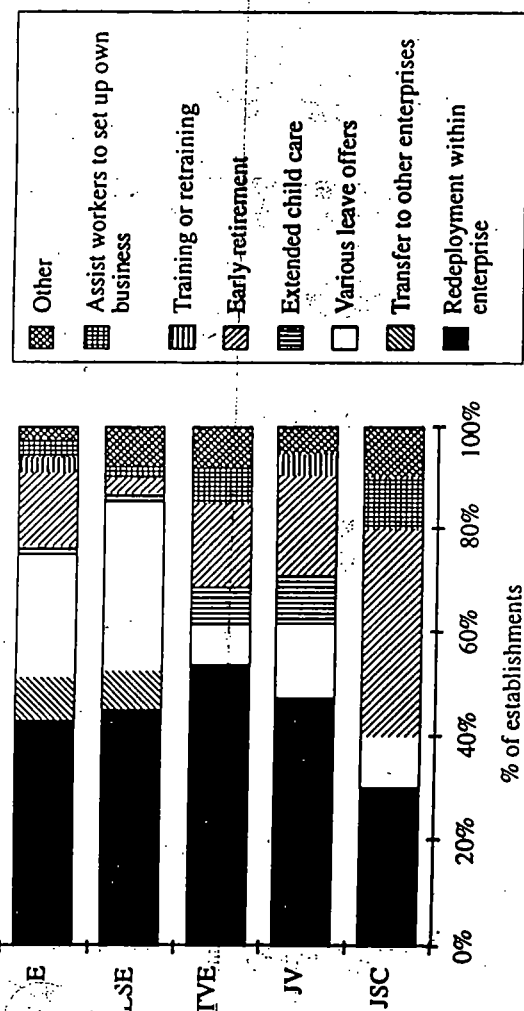
Source: ILO/Chinese Ministry of Labor Survey reported in Lim, Sziraczki, and Zhang (1995).

were asked to indicate the main method they had used to deal with labor surplus. Most enterprises reported relying on a set of measures, but by far the most popular measure was redeployment within the enterprise (Figure 3.4). Various leave offers and early retirement were also important measures. But enterprises were less likely to transfer their redundant workers to other enterprises, to encourage them to seek self-employment, or to provide them training or retraining. No establishment reported attempting to overcome surplus labor mainly by part-time work, reduced work-weeks, or longer vacations for workers.

The redeployment of labor from the parent company to its existing or newly created LSE has been a very popular measure. The LSEs are involved in a variety of economic activities, mainly labor-intensive. There is normally a predominant type of production or service and a number of related or supplementary businesses or activities. For instance, some LSEs provide their "mother" companies component parts of production (they take over part of the chain of production) utilizing the idle assets or machines or excess stocks of the "mother" companies. Or they take over the social burden of the "mother" companies by running the kindergartens, cafeterias, schools, etc. for staff of the sponsoring agencies. By the end of 1993, there were 202 thousand LSEs with some 9.15 million employees. Their annual production value is over 160 billion yuan and annual taxes paid to the state total 12 billion yuan.²⁰

But the labor service system is inherently apt to suffer from inefficiency; for example, almost a quarter of the LSEs in the survey were loss-making and, as shown in Figure 3.2, the LSEs also had more serious labor surplus problems than the SOEs. There could be several reasons for the inefficiencies (Sziraczki and Twigger 1995: 16-17). First, activities of the LSEs have often been selected on a less than thorough or efficient basis, so that they are not economically viable in the longer term. On the other hand, it sometimes happens that the parent companies use state subsidies and tax relief to launch LSEs that would have been able to operate on their own resources without external support. Third, the parent enterprises often keep their modern production lines and skilled workers, while they transfer outdated technology and less productive surplus workers to the LSEs, which then face problems of cost efficiency, viability, and budget constraints. Fourth, the widespread practice that the sponsoring agencies keep running the newly created LSEs can be a further source of inefficiency. The government has recognized the problems, and has recently stipulated that the newly-set up firms should be independent from their parent company and should be commercialized.

Figure 3.4 Main Measures Taken to Cope with Labor Surplus by Property Form, 1995
(percent of establishments responding "yes")



Note: Based on 209 sample responses.

Source: ILO/Chinese Ministry of Labor Survey reported in Lim, Sziraczki, and Zhang (1995).

The heavy use of early retirement as a solution for labor surplus involves two main problems. First, it can have a negative impact on productivity in that many of those taking retirement in their forties are capable of performing well because of their on-the-job training and familiarity with the local production process. Second, early retirement tends to be a very expensive policy tool. Given the relatively long life expectancy and the growing share of older people in the population, the current practice of early retirement will be increasingly difficult to finance. However, there could be three areas where early retirement may be desirable—in cases of worker disability, large-scale redundancies or enterprise closures, and where the long-term unemployed are close to retirement age.

What is clear from the survey is that the various enterprise measures fell short of affecting the vast majority of redundant workers. The overall number of workers affected by the measures was less than a quarter of the total surplus labor. When asked about the main problem in coping with surplus workers, enterprise managers most often mentioned the lack of financial assistance from the authorities, followed by the large number of surplus workers, their poor quality, the workers' unwillingness to move, and the restrictions imposed by government regulations relating especially to layoffs.

Social Welfare and Social Security Reforms

To date, reforms to improve inter-enterprise mobility through delinking social benefits from enterprises do not appear to have been effective. The survey revealed that more than three-quarters of all enterprises provided medical care and food facilities, at least two-thirds provided housing and training facilities, and at least half provided childcare centers and transport for their workers (Table 3.2). Other social benefits, although less common, included schools for workers' children and holiday facilities.

There were no striking differences between the state-owned and the non-state sectors in terms of the provision of these social benefits and services. The JVs and JSCs appear to have conformed to the practice in China of offering workers a wide range of social benefits. In fact, the JVs and JSCs showed the highest level of provision of certain facilities, such as housing, medical care, and training. Of course, it could be that JVs had little choice but to offer these social benefits due to local regulations or pressure from their Chinese partners.²¹ For the JSCs, the change in property form from SOEs to share-holding companies was not accompanied by a restructuring of the social responsibilities. The JSCs continued to provide the social benefits that the SOEs previously provided to their workers.

he JVs

Table 3.2 China: Percentage of Establishments Providing Social Benefits/Facilities, 1995

Benefit/Facility	SOEs	LSEs	TVEs	JVs	JSCs	TOTAL
Housing	83.0	52.1	14.3	73.1	91.7	66.8
Childcare Center	58.9	52.1	14.6	51.9	61.5	50.5
Medical Center/ Hospital	92.9	62.5	34.1	94.2	84.6	79.7
Canteen/Cafeteria	86.5	62.5	59.5	84.6	84.6	78.4
Transport	65.2	41.7	16.7	75.0	61.5	56.1
Training Facilities	72.3	64.6	46.3	61.5	76.9	65.8
School for Workers' Children	14.9	21.3	7.3	5.8	7.7	12.9
Holiday Facilities	35.5	41.7	14.6	34.6	23.1	32.9
Other	12.0	2.1	7.3	6.4	9.1	8.6

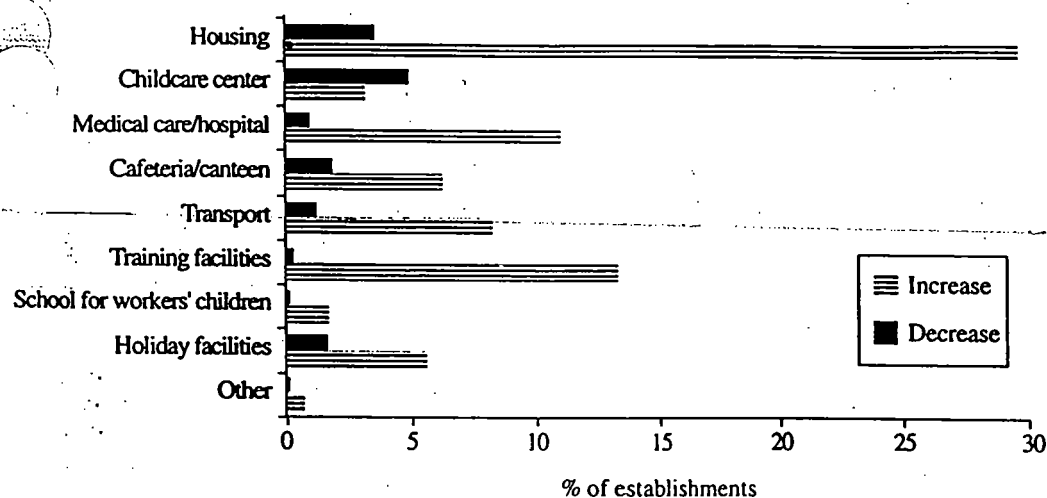
Source: Lim, Sziraczki, and Zhang (1995).

and JSCs were providing housing for their workers is particularly interesting because one of the reasons previously given for why workers hesitate to take jobs in the non-state sector is that private firms do not offer housing facilities. The SOEs had a heavier social burden than the LSEs, but this might have been because many of the LSEs rely on their parent companies for the provision of social facilities for their workers or they continue to share facilities with their parent companies. The TVEs generally had the lowest social burden in so far as they provided the lowest level of social benefits for their workers. There was a clear relationship between employment size of the enterprise and the range of benefits provided. The larger enterprises offered a much wider range of non-wage benefits than the medium-sized and small firms.

The survey also found that, although the aim of the reforms is to reduce the social burden of enterprises, the majority had no plans to change the provision of social benefits. In fact, those that said they had plans for change were more likely to be thinking of increasing, rather than reducing, the benefits. Almost 30 percent of the establishments reported that they were planning to increase housing facilities for their workers over the next twelve months, as compared to less than 4 percent planning a decrease (Figure 3.5).

With the exception of the TVEs, the bulk of establishments subscribed to the general (state-operated) pension scheme and unemployment insurance for their workers (Table 3.3). In addition to contributing to the general unemployment insurance scheme, many enterprises operate a kind of "company-based unemployment insurance system" for those workers who are forced to take leave because of lack of work. These workers usually receive reduced pay for the period of leave. But over the long term, most of the enterprises have little or no accumulation of such insurance funds, hence the heavy load. The TVEs operated their own autonomous pension funds, but their total pension cost as a percentage of gross industrial output was still considerably less than that for the other property forms (Figure 3.6). Enterprises also covered their workers for occupational injuries and health and medical care.

Other data from the Ministry of Labor (Table 3.4) indicate that since the establishment of the system up to 1994, some 2,100 offices had been set up to administer the unemployment insurance fund. The coverage at the end of 1993 was about 80 million urban employees working in 530,000 enterprises. Between 1986 and 1993, the fund provided unemployment benefit to a total of 2.4 million workers. The number of unemployment benefit recipients has increased significantly; in 1994 they totalled 1.9 million or about 38.9 percent of the total registered unemployed. The placement rate of benefit

Figure 3.5 Planned Changes in Social Facilities, 1995

Note: Based on 300 sample responses.

Source: ILO/Chinese Ministry of Labor Survey reported in Lim, Sziraczki, and Zhang (1995).

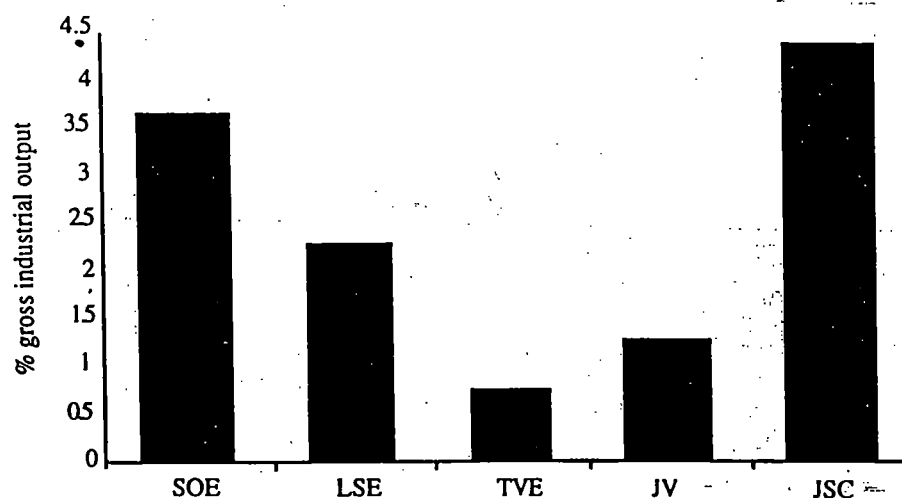
Table 3.3 China: Percentage of Establishments Providing Social Security by Type of Provision and Property Form, 1995

Social Security Provision	SOEs	LSEs	TVEs	JVs	ISCs	TOTAL
General Pension System	99.3	93.9	9.5	100.0	100.0	85.7
Autonomous Pension System	2.1	2.0	45.2	3.8	..	8.4
Supplementary Pension System	10.6	6.1	20.9	7.7	..	10.4
Unemployment Insurance	99.3	69.4	2.4	100.0	92.3	80.3
Health Insurance	17.1	24.5	21.4	25.5	23.1	20.7
Occupational Injury	41.1	40.8	34.9	51.0	84.6	43.8

ce: Lim, Sziraczki, and Zhang (1995).

Figure 3.6

Pension Cost by Property Form, 1994



Note: Based on 295 sample responses.

Source: ILO/Chinese Ministry of Labor Survey reported in Lim, Sziraczki, and Zhang (1995).

Table 3.4. China: Unemployment Insurance (UI), 1987-1993

Year	Number of UI Offices	UI Fund (a) (million yuan)	Expenditures for Unemployment Benefits		Unemployment Benefit Recipients		Placement Rate: Percent of Benefit Recipients (b)
			Total (million yuan)	Percent of UI fund	Total (thous.)	Percent of Registered Unemployed	
1987	1,900	820	1.43	0.2	..	..	70
1988	1,900	580	3.82	0.7	..	..	70
1989	2,000	680	7.77	1.1	..	..	70
1990	2,000	710	12.89	1.8	..	..	60
1991	2,000	920	25.01	2.7	340	9.6	60
1992	2,100	1,160	93.16	8.0	350	9.7	40
1993	2,100	1,780	288.00	16.2	1,030	24.5	60
1994	2,100	1,860	533.00	28.6	1,870	38.9	57

Notes: (a) Collected revenues in each year

(b) The proportion of unemployment benefit recipients placed into jobs each year.

Source: Ministry of Labor, People's Republic of China.

recipients has dropped from about 70 percent in the late 1980s to 57 percent in 1994.

Enterprise Reforms

The survey confirmed that the SOEs have been performing poorly. Among the different property forms, the SOEs are most likely to be loss-making and to have declining profits and growing debts. Not only are they less competitive than the "modern" enterprises; they tend to have no accumulated funds or internal resources, either for operations or investments. They rely heavily on credit, often on preferential terms, and on subsidies from the state. "Stricter conformity to clearly defined property rights relationships and enforcement of bankruptcy rules and regulations would in the longer term help revitalize the state-owned sector by ensuring that only the efficient enterprises survive and, very importantly, reduce the government's growing budget deficit" (Lim, Sziraczki, and Zhang 1995: 54).

The size distribution of enterprises in the survey sample showed that employment is still heavily concentrated in large enterprises. But the economic performance of such firms tends to be worse than that of small and medium-sized enterprises, especially in terms of labor productivity and capacity utilization; and they suffer somewhat higher levels of labor surplus and have heavy social burdens. The large firms tend to have better access to preferential policies and labor market measures. The reform measures to date have focused on the large and medium-sized firms because of their importance in terms of contribution to industrial output and taxes and the number of workers they support. The potential of small firms, both in terms of economic efficiency and employment creation, has been neglected. "Greater attention should be given to the development of small enterprises and bring their role to generate jobs into full play. It should be the priority of the government's economic and employment policies to nurture small enterprises. Preferential policies should also be given to them in terms of registration, resources, loans, production, location and taxation, etc. and more tailor-made services such as consultation, training, product development and market exploration, etc. should be rendered in line with the fact that many of them are short of qualified talents and weak in economic strength" (Ministry of Labor 1995: 4).

Although the government has introduced a number of measures to facilitate the transition to a modern enterprise system, including financial assistance and special labor market programs, only 18 percent of the survey respondents reported that they had received some assistance. Medium-sized and large firms were also more likely to receive assistance than small firms.

Almost a quarter of the SOEs received some support, but the TVEs have been relatively neglected; none reported receiving any assistance. Of those that received some help, 25 percent mentioned placement of surplus workers by employment services, and 22 percent benefitted from preferential policies. On the other hand, retraining programs for surplus workers organized by labor bureaus and employment services, or financial assistance to enterprises to pay the workers' wages or to set up new companies, were rarely mentioned.

Even for the enterprises with serious labor surplus, assistance from the labor bureau has been relatively limited (Figure 3.7). Among the enterprises with more than 30 percent labor surplus, only slightly more than half had participated in any labor bureau program, and less than a quarter had been able to take advantage of the redeployment program organized by the labor bureau. The other way of looking at the data is that the coverage of the labor bureau programs has been very limited, not being able to reach the majority of enterprises.

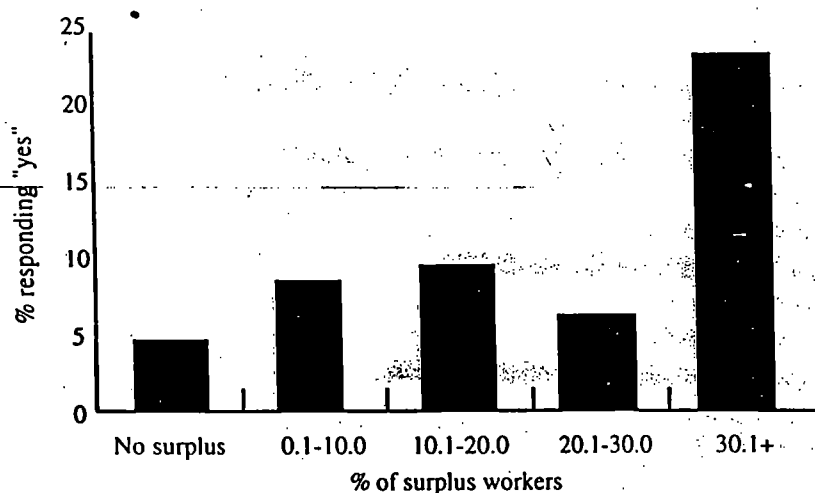
Enterprise managers were asked what kinds of additional services the labor bureau and employment service should provide to assist them. By far the most important form of assistance sought by enterprise managers (close to 70 percent of them) was the placement of surplus workers by the employment service (Figure 3.8). Other services, including information on job vacancies, financial support for enterprise-based training, self-employment promotion, support for LSEs, counselling services, etc., were less frequently mentioned.

Managers were also asked whether there were any employment-related regulations they would like to see changed: 60 percent of the sampled enterprises proposed some changes in regulations. The four most frequently cited measures were: (a) the government should be responsible for the redeployment of surplus workers; (b) there should be greater managerial autonomy at the enterprise level for employment policy; (c) there should be less restrictions on layoffs; and (d) where enterprises are themselves responsible for placement, they should receive greater financial assistance for the placement of surplus workers (Figure 3.9). These answers clearly indicate that the reforms to give enterprises greater autonomy and improve labor market flexibility need to be strengthened.

CONCLUDING REMARKS

China has made substantial progress in formulating the regulatory framework and establishing the labor market and social security insurance policies, and programs for reforming its employment, social insurance, and enterprise

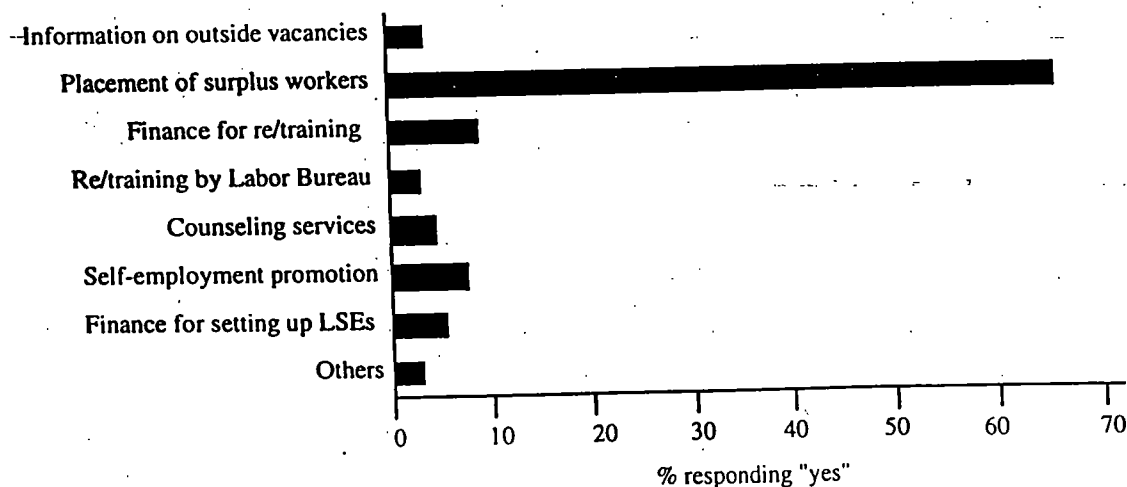
Figure 3.7 Percent of Establishments that Participated in the Redeployment Program
by Level of Labor Surplus, 1994
(percent of establishments responding "yes")



Note: Based on 162 sample responses.

Source: ILO/Chinese Ministry of Labor Survey reported in Lim, Sziraczki, and Zhang (1995).

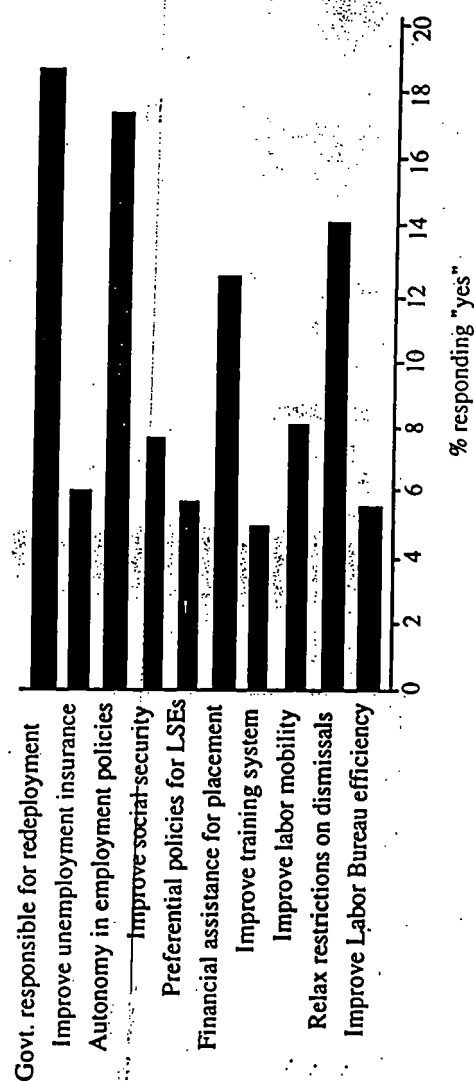
Figure 3.8 Most Important Assistance Sought by Establishments from the Labor Bureau
and the Employment Service, 1995
(percent of establishments responding "yes")



Note: Based on 300 sample responses.

Source: ILO/Chinese Ministry of Labor Survey reported in Lim, Sziraczki, and Zhang (1995).

Figure 3.9 Labor Regulations that Establishment Managers Would Like to See Changed, 1995
(percent of establishments responding "yes")



Note: Based on 179 sample responses.

Source: ILO/Chinese Ministry of Labor Survey reported in Lim, Sziraczki, and Zhang (1995).

systems. Unlike the "shock therapy" approach adopted in Central and Eastern European transition economies, China has carried out its reform process gradually, starting with pilots and experiments and making the necessary adjustments and expansions. Although national legislation has been introduced, in a country as large and diverse as China, different methods of implementation have been tried in different provinces or cities. As results of the pilot experiments become clear, the necessary adjustment will be made, implementation guidelines drawn up, and the reforms extended to other areas and groups. The pace and nature of implementation differ in different parts of the country, and the reforms themselves are in progress or a state of flux. The reform process clearly has a long way to go, and major challenges remain outstanding.

In implementing the reforms, there is need for closer and more effective coordination of the various components. For example, the bankruptcy law cannot be strictly enforced unless a comprehensive social insurance system is in place; and the social burden of enterprises cannot be lightened unless government agencies at the national or local levels are reorganized to take over the schools, hospitals, etc. that are currently operated by the enterprises. Financing arrangements remain a major issue and will affect the speed of implementation, coverage, and efficacy of the reforms. Another challenge that has yet to be effectively addressed is the extension of reforms to the rural areas, where the majority of population still reside. This is especially important; on the one hand, to prevent the emergence of a dual society and economy and, on the other, to create a unified and more efficient labor market and social security system.

Notes

1. In the Chinese context, social welfare provides various living facilities and services paid by the state or enterprises to workers in addition to their monetary wage for the purpose of achieving expanded reproduction of the labor force. Social insurance, on the other hand, provides basic living needs for workers and their dependents (Beijing University 1994).
2. This section is taken mainly from the chapter on "Employment in the People's Republic of China: Challenges, Policy Reforms and Future Options," in Lim and Sziraczki (1995).
3. The figures were supplied by the Department of Employment, Ministry of Labor, People's Republic of China.

4. For a discussion of these issues, see Chapter 2 in this volume.
5. These estimates are compiled from: World Bank (1993); ILO (1995); EIU (1995a); and Deng (1995).
6. Temporary workers are mainly rural residents working under a labor agreement of restricted duration in urban state and collective firms. They include seasonal workers and peasant workers who are temporarily engaged in industrial sectors.
7. For an overview of the reform of labor allocation and the current recruitment practices and job search methods, see Ma (1993).
8. The SOEs run some 18,000 primary and secondary schools with 6.1 million pupils and staffed by 600,000 individuals (Deng 1995: 5). Deng is Director of the State Economic and Trade Commission which is responsible for enterprise reforms in China.
9. Retired workers in large and medium-sized state-owned enterprises represent about 37 percent of the total workforce (Deng 1995: 5).
10. In 1990, the State Council issued Decree No. 66 on Regulations for the Management of Labor Service Enterprises, which provided a legal status for the position and role of the LSEs in the economy. In 1993, the State Planning Commission, Ministry of Labor, State Economic and Trade Commission, State Commission for Restructuring the Economic System, Ministry of Personnel, Ministry of Construction, People's Bank of China, State Tax Bureau, State Bureau of Industrial and Commercial Administration, and State Bureau for State-owned Asset Administration issued The Announcement of Labor Service Enterprises Developing Tertiary Industry to Provide Job Placement for Redundant Workers, which further defines the role of the LSEs in a market economy and continues to provide preferential taxation, funding, and locational policies for the LSEs.
11. For a description of the pipeline measures intended for the 1996-2000 period, see Lim and Sziraczki (1995: 29).
12. For a description and assessment of the labor market policies, see Sziraczki and Twigger (1995: Chapter 5).
13. According to some estimates, the value of welfare benefits ranged from 20 to 30 percent of total wages in the 1980s. See Zhou (1995).
14. The rent of a typical apartment unit of about 52 square meters is about 18 yuan or slightly over US\$2 per month. The rent accounts for less than 3 percent of household income and falls far short of minimal operation and maintenance costs.
15. Medical expenditures for active SOE workers increased at an average rate of 23 percent a year during 1985-90, to account for 28 percent of total labor insurance costs in 1992, and equivalent to 14 percent of the SOEs' total payroll. As reported in World Bank (1994: 5).

16. Statistics provided by the State Economic and Trade Commission, as quoted in Wu (1995) and in Deng (1995). Among the state-owned industrial enterprises, 14,400 large and medium-sized enterprises dominated. While representing 4 percent of China's total number of industrial enterprises, they accounted for 44 percent of total industrial output value, 62 percent of total industrial fixed assets, and 59 percent of total industrial profit and tax payments. Within the state-owned sector, the large and medium-sized establishments represented 20 percent of all industrial SOEs but contributed over 80 percent of total assets, sales revenue, and sales tax.
17. The questionnaire was jointly developed and the survey organized by the Labor Market Policies Branch of the International Labor Office (Geneva), the ILO Beijing Office, and the Ministry of Labor. Part I dealt with basic quantitative information on production, investment, and various other indicators of economic performance. It also covered the employment level, structure, and changes; recruitment and labor turnover; and wages and other cash benefits. Part II involved structured interviews with establishment managers who were asked a series of questions relating to (a) the legal form of the enterprise and organizational changes; (b) production and financial issues; (c) the remuneration system, social benefits and social security, and human resource development; (d) expected employment changes; (e) labor surplus and redeployment measures; and (f) the types of assistance the establishments received from the labor bureaus and employment service, and management views of government regulations and labor market programs. The results of the survey are analyzed in Lim, Sziraczki, and Zhang (1995).
18. Information from the Ministry of Labor indicated that normally about 20 percent of the total number of demobilized soldiers and graduates going into the labor market are not able to find their own jobs and require the assistance of the state to be assigned to particular enterprises.
19. There is no single official definition or method of measuring labor surplus. The ILO/Ministry of Labor survey measured labor surplus as referring to (a) those workers who, because of the lack of sufficient work in the enterprise, are placed on leave with reduced payment or are forced to take unpaid leave to search for temporary job opportunities elsewhere; plus (b) those in the active workforce who could be released without affecting the present level of output of the enterprise.
20. Figures from the Ministry of Labor, quoted in Lim and Sziraczki (1995: 27).
21. Other studies suggest that wholly foreign-owned firms were less likely to offer such a wide range of non-wage benefits.

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7. EMPLOYMENT AND SOCIAL PROTECTION POLICIES IN CHINA: BIG REFORMS AND LIMITED OUTCOMES

Barry L. Friedman

The period since 1978 has been one of rapid reform and also dramatic economic development in China, with the average annual real growth rate in GNP over this period exceeding 9 percent (SSB 1994a: 20-21). The spirit of reform has permeated virtually all policy areas, including employment and social protection policies. It is clear that the reforms as a whole have been major driving forces in achieving the outcomes, although it may be more difficult to identify the separate effects of individual policies. In the labor area, however, while the reforms sound impressive, the outcomes have been rather limited. The labor reforms have been targeted at some of the most difficult problems in the economic transition. Labor reforms are necessary, for example, to reform state-owned enterprises (SOEs), but progress toward this goal has been small. Labor reforms are needed to prepare for the aging of the population which is now beginning, but like other countries, China has had difficulty finding policies likely to be effective in preparing for it. Labor reforms are needed to improve the equity and adequacy of the safety net (current benefits are concentrated among the workers in SOEs), but reform here depends on resolving the role of SOEs in the economy.

In several areas of labor policy, there have been seemingly significant reforms, but only limited progress in achieving the ultimate goals of reform. Although there is a common theme in these areas, the reasons for the lack of progress toward the ultimate goals of reform differ in each area. This paper examines the progress and limitations of reform in three areas, employment programs, old-age pensions, and housing policy. In all three areas, the enterprise, particularly the SOE, has had a major role in delivering the service to its own workers. Thus, we begin by examining the role of SOEs and the need for reform.

OVERVIEW OF THE SOCIAL PROTECTION SYSTEM

Social protection policy in China is difficult to characterize because there are so many variations. Policy is set by the government, but most services are delivered by the enterprise. The system could be described as one of

mandating. The enterprise is supposed to act as the agent that carries out government policy, but if the interests of the agent do not coincide with the goals of the policy, it is likely that there will be variations in the way the policy is carried out.

The Role of Government

Variation comes not only from enterprises, but also from government itself. Government policy is prescribed in State Council documents. These set general guidelines, after which the relevant ministries develop specific regulations. For social protection policy, several ministries are involved. The Ministry of Labor is responsible for employment and social protection policies for workers in urban enterprises including not only SOEs, but other urban enterprise types as well. The Ministry of Personnel is responsible for programs for workers in government and nonprofit organizations. The Ministry of Civil Affairs is responsible for programs for rural residents as well as certain urban welfare services not managed by enterprises. In addition, several other ministries participate in formulating policy including the State Planning Commission, the State Restructuring Commission, and the Ministry of Finance, all of which have ministerial status. This paper concentrates on the programs of the Ministry of Labor (MOL), those that serve enterprise workers.

After national regulations are issued, the local branches of the various ministries develop local policies in accord with them. Both provincial and municipal governments develop their own regulations which need to be approved by the local people's congresses. Not surprisingly, localities include their own variations in their regulations. In some cases, the variations are encouraged by the central government. For example, State Council Document 6 of 1995 on pension policy prescribes two alternative models and each city can choose the one it wants. While there is a plan ultimately to develop a single model, at the moment there is not a unified national pension policy.

To describe the implementation of a new policy, usually some cities adopt it on an experimental basis before it becomes official policy, since most new initiatives begin with experiments. After the formulation of national regulations, some cities respond quickly and others with long lags in developing their own regulations, which in turn may deviate in various ways from the national standards. It is within this framework of varied governmental policies that enterprises must operate, each following the rules set for its own city.

The Role of SOEs

That enterprises play such a prominent role in the system is a result of a fluke of the Cultural Revolution. When the social insurance system was founded in 1951, it was administered across enterprises by the All China Federation of Trade Unions (ACFTU). Then in the tumult of the Cultural Revolution, both the ACFTU and the MOL were abolished. Lacking an organization to run the programs, it was decided to make each enterprise responsible for providing the required social insurance to its own workers. Both the MOL and the ACFTU were restored after the reforms began, and now the MOL has primary responsibility for social insurance regulations, but not for the direct delivery of benefits.

Enterprise-based benefits were feasible in the old system because of the special relationship between the government and SOEs. SOEs were said to be "owned by all the people," in effect by the government. Their profits belonged to the government. The government could prescribe policies for them, and if the policies proved expensive, could subsidize those enterprises making losses. However, not all enterprises were SOEs. There were also collectively-owned enterprises which in principle were worker owned. The government was reluctant to subsidize these. To avoid placing an undue burden on them, they initially were not required to provide full social insurance benefits. They were encouraged to do so to the extent they could afford the benefits. In practice, older and larger collectives were expected to match the benefits of SOEs, but not the smaller collectives.

The range of benefits provided by SOEs to their workers went well beyond the official social insurance benefits. One important SOE benefit was a guaranteed job for life. After the reforms began, this was referred to as the "iron rice bowl," and there was talk of smashing it. That never happened. SOEs still retain many redundant workers imposed on them by the old policy, although there have been numerous gradual reforms designed to reduce the restrictions on enterprises. Enterprises also have provided housing for their workers, schools for the children of workers, and at times, even jobs for the children of workers.

The Goal of SOE Reform

When the economic transition began in Central and Eastern Europe, one of the early issues on the policy agenda was the privatization of state enterprises. It is noteworthy that the privatization of SOEs was not an issue in China for the first decade of reform, although with the development of foreign and private ownership and stock markets, some forms of privatization

of the old SOEs are now underway. Instead of eliminating SOEs, Chinese policy retained them, but allowed a new economy to develop around them. Indeed, the SOE sector has actually grown in absolute terms and still accounted for 69 percent of urban employment in 1993 (SSB 1994a: 84).¹ In postponing the move toward privatization, there was probably a desire to avoid sudden economic disruption, since a number of important industries were dominated by SOEs. But the SOEs were also a significant welfare institution since they were mandated to be providers of social protection, and there was a reluctance to undermine it without an alternative.

The magnitude of SOE benefits is already large. Reported SOE expenditures on labor insurance and welfare funds amounted to 36 percent of wages in 1993 (SSB 1994b: Tables 10:15 and 1:25). The largest benefits were pensions (16 percent) and medical care (10 percent). Also included are unemployment insurance contributions and expenditures on worker injury and maternity benefits as well as a host of subsidies such as those for transportation, family planning, barber and bath, and winter heating. However, there are additional large expenditures not included in this figure. Spending on housing and education and care for the children of workers may be as large. In addition, the payment of wages to redundant workers may be considered an unmeasured social benefit.

In spite of their role, it was clear that SOEs would have to be reformed. A long-run goal was to make SOEs stand on their own without subsidies. Since the existing social protection system was based on mandates to enterprises, this would be difficult, since some enterprises would depend on subsidies if they were to survive and provide the mandated benefits. There was thus a recognition that SOE reform and the reform of social protection policies would have to go together. It is frequently reported that a large number of SOEs require subsidies, perhaps 40 percent. This means that the majority may be profitable, but a sizable minority are not, partly because they may be inefficient, but partly because of mandated burdens.

The need to subsidize weak SOEs in turn has repercussions for other parts of the economy. There has, indeed, been an effort to reduce direct subsidies from the government budget, but as a result, other sources of subsidy have been used. A substantial burden falls on the banking system which makes loans to SOEs in trouble and then rolls them over when the SOE cannot pay. In addition, the banking system keeps interest rates low for priority SOEs including large ones in trouble and then rations credit by non-price means for others. It is unlikely that there can be substantial banking reform until the banking system is freed from the burden of assisting weak SOEs.

In addition to the banking system, other agents also provide indirect subsidies. Healthy enterprises may make direct loans, but more likely, they make indirect working capital loans by not collecting payments from SOEs in trouble. Healthy enterprises are also encouraged to merge with weak SOEs in which case the weak enterprise may disappear inside the healthy one, but may not be dissolved or made efficient. Even the pension system has been called on to make loans to weak enterprises in some cities, and the loan recovery rates have been low. Weak enterprises are also excused from making their contributions to the pension system. There are thus interlocking burdens. The social protection system burdens SOEs which in turn burden other entities, including parts of the social protection system. This complicates the reform process in that several kinds of reforms may need to be linked for any of them to be effective. To make the picture more concrete, it is necessary to turn to reforms in particular areas.

REFORM OF EMPLOYMENT PROGRAMS

Two main concerns have driven employment policy: one, the need to create enough jobs to absorb the labor force; and, two, the need to reduce the number of redundant workers in SOEs. China has adopted an impressive array of policies intended to deal with redundancy. So far, however, these policies have not been used extensively. The highest priority has been given to maintaining high employment.

When the reforms began, employment was the main problem. Before 1978, the solution to the urban employment problem was to send young people to work in the countryside. It has been estimated that as many as 17 million young people were so assigned. This policy was abandoned as part of the reforms. Not only would cities have to create enough jobs for new workers, but they would have to absorb those who had been sent to the countryside and wanted to return. Added to this, there was a population bulge reaching working age in the early 1980s.

Faced with these pressures, the emphasis was on creating jobs. The new policy was to encourage "three channels of employment." SOEs, which had been the preferred channel before, would continue creating jobs. Collective enterprises would expand their role. The third channel would be self-employment which would once more be permitted after a period of being suppressed. In addition, government would actively pursue a policy of job creation. Labor service companies (LSCs) were set up as agencies within the local labor bureaus to manage employment services.

The LSCs focused their efforts on new entrants to the urban labor force, since those who already had jobs were guaranteed them for life. Previously, school graduates would wait for a job assignment from the labor bureau. Now the LSCs encourage young people to seek jobs on their own, and provide assistance. The LSCs were established at the neighborhood level to be in close contact with young people. In addition, some were attached to SOEs and served the children of workers. The LSCs could arrange placements in SOEs and collective enterprises. They established training programs. And they established new enterprises, especially to employ those who were hardest to place elsewhere. Some of these created jobs may have been subsidized, although the subsidies are hard to trace. In any case, the new activities generally were labor intensive with relatively low capital costs.

The policies to deal with redundancy began in 1986. Redundancy had been recognized as a problem since the beginning of the reforms, although its magnitude was only guessed. It originated in the old labor system in which enterprises had little control over either hiring or firing. Workers were assigned to enterprises by the local labor bureaus. The numbers assigned often exceeded the needs of the enterprises, and worker qualifications often did not meet skill requirements. Once hired, workers could rarely be dismissed because of the "iron rice bowl" policy. The redundancy is thus a legacy of past policies and affects primarily SOEs along with older and larger collective enterprises that were treated like SOEs. There have been a number of estimates of redundancy, usually ranging between 10 percent and 20 percent of workers, but the methodologies and concepts differ.

The initial policy toward redundant workers was to require enterprises to retain them. There was a reluctance to add dismissed workers to all the new entrants seeking jobs. This policy assured job security to workers even if they did not have enough work. It was in effect a form of social protection, protecting workers from a loss of income even if they were redundant. The redundancy itself was a social creation, resulting from the previous restrictions on hiring and firing. But the cost of this social protection was placed on enterprises since they were mandated to keep the redundant workers employed (although they might be subsidized if they incurred losses). Enterprises had to pay wages to workers who produced either no output or a value less than their wages. Moreover, this burden was not distributed evenly across enterprises. The many new enterprises started during the period of reform were much less likely to be burdened by this legacy of past policies, while SOEs were most affected. Just as the extent of redundancy remains somewhat uncertain, so does its cost and the distribution of this cost across enterprises.

Several linked policies were introduced in 1986. First, the contract labor system was initiated. This was meant to end the "iron rice bowl;" new employees would be hired under contracts of limited duration, although those already in permanent jobs would be allowed to retain that status. Employers would be allowed to set the qualifications for new workers and even give tests to help select workers. Workers could leave a job, although they would need the permission of the employer if they wanted to move to another SOE. Enterprises would not have to renew a contract if the worker was no longer needed. In addition, enterprises could dismiss workers for cause, even permanent workers.

Since it was expected that workers might not be retained on the expiration of their contracts, an unemployment insurance (UI) system was established to give them income support. Generally, a UI system develops later in a country's development process, but in China it was a direct attempt to ease the transition of redundant workers out of SOEs. Each city organized its own UI system and required SOEs to contribute 1 percent of their standard wage bill. Initially, coverage was limited to workers in SOEs. In addition, there were restrictions on eligibility. Contract workers not renewed were eligible as were workers of any type dismissed for cause. Permanent workers would be eligible if their enterprise was bankrupt or nearly so.

The UI system of 1986 was intended to deal only with some sorts of redundancy. It would not allow enterprises to dismiss workers because of cyclical downturns. Indeed, it would not allow viable enterprises to dismiss permanent workers at any time except for cause. They would gain flexibility only through their contract workers who could be terminated, and only at the end of their contracts which could run for several years. The focus for dismissing permanent workers was clearly on those enterprises in or near bankruptcy. In addition to income support for terminated workers, up to 30 percent of the UI fund could be used for training and other services to unemployed workers.

The employment reforms were accompanied by a bankruptcy law which in principle would permit enterprises to go bankrupt, although the emphasis was on having healthy enterprises take over those on the verge of bankruptcy. Since social protection benefits were provided by enterprises, one concern about bankruptcy was over the benefits to workers whose enterprise might cease to exist. There were simultaneous reforms in the pension system which introduced pooling of contributions across enterprises. The pool would be able to pay pensions to workers even if their enterprise stopped contributing, as long as the number of non-contributing enterprises did not grow too large. The UI system would cover health benefits to workers drawing benefits.

While the 1986 reforms appear to be a major effort to deal with redundancy, in practice the change was limited and gradual. The majority of new workers were hired on a contract basis, although an estimated 20 to 25 percent continued to be hired on a permanent basis (World Bank 1990: 4). As the initial contracts began expiring, the vast majority were renewed—an estimated 90 percent (World Bank 1990: 60). Relatively few workers drew UI benefits—only 100,000 by 1988. The UI system, with limited expenditures, accumulated sizable reserves. The main thrust of policy was to encourage enterprises to redeploy their own redundant workers while restricting dismissals. This included retraining workers for new positions within the enterprise as well as setting up new collective enterprises which could give jobs to their redundant workers. As for bankruptcy, it was rarely practiced.

Further reforms in 1993 hastened the pace of change. UI coverage was expanded to all urban enterprises. Eligibility conditions were broadened so that a worker dismissed for virtually any reason could draw benefits. There was also a feeling that enterprises might have exhausted most of their opportunities to redeploy workers internally. Enterprises would still have to retrain workers. The LSCs that had been established by enterprises earlier to provide services to the children of workers would be called on to assist redundant workers.² The LSCs would still try to set up new collective enterprises. For workers not reemployed after a period of trying, the enterprise would have more latitude in ultimately dismissing them. There was a noticeable change by 1994. Expenditures on UI benefits for that year equaled the cumulative expenditures for all previous years since the start of the program in 1986. In 1994, 1.2 million workers drew benefits, much higher than before, but still less than 2 percent of the roughly 70 million workers in state enterprises, and far less than the number of redundant workers. One other aspect of recent reform is the introduction of the all-contract labor system which is eliminating the distinction between permanent and contract workers. In the cities adopting it, all workers will henceforth be contract workers. Of course, the actual outcome may be less dramatic than this sounds since some of the contracts may be of indefinite duration.

The establishment of a UI system is an acknowledgment that the support of terminated redundant workers is a social responsibility. In fact, however, the UI system is funded by contributions from enterprises.³ In effect, the UI system redistributes the cost from those enterprises that happen to have the redundant workers to all enterprises. Spread as an equal percent of wages across all enterprises, the burden can be relatively small, especially if the dismissals of redundant workers are spread over several years. For viable enterprises, this smaller burden is likely to make them more competitive. UI

also makes a difference in that benefits are of limited duration, whereas the redundant workers otherwise might be kept indefinitely. UI benefits can last up to two years in China, but that is an improvement over indefinite redundancy. In fact, most spells have been less than one year. The policy of requiring enterprises to redeploy their own workers continues to concentrate the burden on those enterprises having redundancies, but this burden may now be temporary if enterprises can eventually dismiss workers.

While UI coupled with the permission to dismiss workers would clearly improve the situation of viable enterprises, the case of near-bankrupt enterprises is more complicated. Full bankruptcy would impose a burden on social protection programs such as UI and pensions. However, much of that potential burden is already being carried by these systems in order to keep these enterprises open. UI funds are used for workers who are "employed but not working;" the UI system makes loans to these enterprises so they may continue paying wages. The pension system also treats these enterprises as if they were already gone. They are excused from making contributions, supposedly for a limited period, but that is doubtful. From the point of view of social protection programs, the best policy is one that would get the workers into new jobs in viable enterprises as soon as possible so contributions could resume and UI payments cease. From the point of view of the economy, the best outcome would be to shift the assets of these enterprises to more productive uses. From the point of view of government, it would be desirable to end the subsidies that prop up these enterprises.

In the area of employment policy, the institutions to deal with redundancy are now in place. All that is needed is the will to use them. The will, in turn, could be strengthened if two kinds of information were available. First, considering all the costs of subsidizing redundant workers, how much money could be saved by shifting these workers into UI and eventually into new jobs? Second, how rapidly could redundant workers be placed in new jobs? If there were persuasive and favorable information on these questions, it would become much easier to use the reformed institutions.

REFORMS IN PENSION POLICY

There have been major reforms in employment policy which have not yet had a major impact because they have not been extensively used. In contrast, the reforms under consideration in pension policy may have a small effect because they are not adequate to deal with the problems. The biggest problem is the aging of the population which will begin relatively soon.

Even now, however, before the aging has begun in earnest, the cost of the pension system is relatively high.

In 1986, there were reforms in pension policy along with those in employment policy. As a step away from the enterprise-based pensions, cities established systems to pool contributions across enterprises. The pooling solved the aging problems in those enterprises with the largest ratios of retirees to workers: it eliminated the large differences across enterprises in pension burdens, although contribution rates were not completely equalized within most cities. The pools eliminated one barrier to job mobility since pensions became portable within the pool, although still not between pools. The pools offered workers protection in case of bankruptcy, since they could pay a pension even if a worker's enterprise no longer existed.

City pooling could solve the aging problems in some enterprises, just as pooling across cities could solve the relative aging problems of those cities with the highest ratio of retirees. However, pooling alone will not solve the aging problem for the country as a whole. Moreover, many city pools already charge enterprises contribution rates in excess of 20 percent. Perhaps the main reason costs are high is that pensions are very generous. Payments from the pension pools include not only the actual pensions but also a series of subsidies. Moreover, most cities have set pension levels well above the standards prescribed by national policy. Chinese officials have estimated that the average payment per retiree from the pension pool is well over 80 percent of the average wage. Also driving up the contribution rate is the fact that many enterprises are excused from contributing, including those near bankruptcy. In addition, eleven industries which tend to operate on a national basis and which on average have lower pension costs are excused from the city pools, although each of the eleven has its own pension system. There is no doubt some noncompliance as well. The result is that those enterprises that actually contribute are left with a larger contribution rate. As aging begins to raise the contribution rate further, the incentive to be noncompliant will grow. Moreover, recent reforms have expanded coverage to most urban enterprises. When these enterprises are confronted with the high rates of the current system, the tendency toward noncompliance could grow further.

Although pension costs are likely to rise as the ratio of retirees to workers rises, the cities have set aside only small reserves to help pay for the rising costs. Without prefunding, the rising costs will have to be paid by increasing future contribution rates (or benefits may have to be cut). In effect, the present generation of workers which pays low contributions passes on the cost of its pensions to future generations of workers who will have to

pay the higher rates. In view of the looming problems, Chinese officials have been considering reform plans.

In the reform plans under consideration today, individual accounts play a role. The traditional idea of an individual account is that the enterprise and worker contribute into an account for the individual worker. The funds accumulate and earn interest. Upon retirement, the individual can withdraw his/her accumulation as a lump sum or convert it to a lifetime annuity. The individual's retirement benefit is fully funded, that is, all the money needed to pay it is put into the account in advance. If all retirees drew their pensions from individual accounts, aging would not pose a problem: there would be no need to raise contribution rates because each person's account would be the whole basis of his/her pension. As a side benefit, the large accumulation of funds in the individual accounts would supply a source of capital which could be used to facilitate the development of capital markets. There is, of course, an investment risk to the retiree, since his/her pension depends on the rate of return earned over the years by the investments in his/her account.

The idea of individual accounts has become popular among Chinese officials, but the kinds being proposed are likely not to have the desirable features described above. China faces the problem that it already has a pension system which has promised pensions to existing retirees and workers, but has not set aside substantial funds in advance to pay these obligations.⁴ If fully funded individual accounts were introduced, a double contribution rate would be needed, one part to fund the individual accounts and the other to pay for the costs of current unfunded obligations. Chinese officials believe that the combined contribution rate needed to support both systems at once would be too high. In addition, they believe that the accumulation of funds would be so large that there would not be enough securities or projects to invest them all. For these reasons, they would like to start prefunding on a partial basis.

One plan would establish individual accounts for all new workers which would be the basis of their entire pensions. The combined contributions of the enterprise and worker into such an account would total about 16 percent of wages. In addition, a social pool would be established to pay the unfunded pensions to those already retired and to the older current workers who would not have enough in their individual accounts to support their retirement. The planned contribution rate into the social pool is about 7 percent. However, current payments to retirees are roughly 20 percent of wages, and this will go down only slowly as this generation passes on. Initially and for many years, the 7 percent contribution into the social pool will not be sufficient to cover its costs. To make up the difference, funds will be taken from the

individual accounts. They will be only partially funded, or as Chinese officials call them, "notional accounts."

In a traditional individual account, interest is paid each year on the funds invested in the account. There may be no investments in the notional accounts, but interest will be credited, nevertheless. The interest itself will be notional. The outcome of this system is likely to be sensitive to the way the interest rate is set. One possibility is that the interest rate will be kept at or above the rate of wage growth. This could replace 60 percent or more of future (higher) wages at the time of retirement. With this interest rate, the system might be only slightly less generous than the current one. However, the notional accounts will be only partially funded, and as in any partially funded system, population aging is likely to require an increasing contribution rate. The increase may be smaller than under the current system, not because of the change in structure, but only if benefits turn out to be lower. Suppose instead that the interest rate is set at the actual rate being paid on investments. The rate paid in China currently is not only below the rate of wage growth, but also below the inflation rate. With such a negative real interest rate, pensions will replace far less than 60 percent of future wages at retirement. With smaller pension payments, future contribution rates may not have to rise as much.

It would take actuarial projection models to predict the full consequences of this plan. China is beginning to develop such models. However, they have not been used yet to explore the limitations of this plan, in particular the circumstances in which it might fail to deal adequately with the aging problem. There is also a second plan, and cities may choose between them. The alternative plan would base only part of the pension on an individual account and the remaining part would come from an unfunded tier with a benefit set at about 25 percent of the average city wage. The smaller individual accounts might be more easily funded, but may also be partially notional.

The critical question relating to the aging problem is whether there is sufficient prefunding to avoid a future increase in the contribution rate. Structural reforms will make a difference if they generate more prefunding or hold down benefits. However, current reform efforts in both plans try to preserve current benefit levels while avoiding an increase in contribution rates. With this combination, it will take substantial good luck to prepare adequately for the aging problem.

REFORMS IN HOUSING POLICY

Housing policy is of interest to enterprise reform because enterprises have become the main providers of housing to workers. The reform problems in housing differ from those in employment policy, where there are reforms which are not extensively used and from those in pensions where the reforms are not adequate to deal with the aging problem. In housing, the issue is one of multiple goals, and policy has pursued only one of the goals. Policy has focused on increasing the supply of housing. As with all enterprise-based benefits, there is a burden on enterprises, but there has been little progress toward the kinds of housing reforms that would contribute to enterprise reform. Another goal of housing policy is to develop a housing market, but progress toward this goal is limited. Indeed, if these other reform goals had been more important, the ways of increasing housing supply would have been different.

During the last decade, roughly 3-4 million apartments have been built in urban areas each year. Currently, enterprises own 70 percent of the housing stock, two-thirds of which was acquired after 1985 (World Bank 1983). Enterprises assign workers to housing based on seniority, rank, and other factors.⁵ At the time of assignment, it may be used as an incentive tool, but the worker then keeps the housing indefinitely, even in retirement. Housing has become a barrier to job mobility since workers fear losing their housing if they move, and perhaps ending up low in the housing cue of the new enterprise. It is also a burden to the enterprise which must finance and manage its housing.

New housing is paid partly out of the retained earnings of enterprises. Enterprises must use part of their profits for a "welfare fund," and part of housing costs are financed from this fund. Loans from banks or government are also used, and a portion of capital construction loans may be used for housing construction. The land for new housing is provided by local governments. The enterprise has full ownership of the structure, but only "use rights" over the land. Workers pay rents on their housing, but rents are fixed at levels well below maintenance costs which average 50 percent higher. Enterprises thus finance maintenance as well as new construction. However, there is also a tendency to defer maintenance, and buildings do deteriorate.

In some cases, there are subsidies to enterprises for housing, primarily from local governments. The Ministry of Construction sets guidelines for the minimum size of apartments. Households in units not meeting these guidelines are considered the "housing poor." These are not necessarily low income households. Typically, however, the enterprises owning such units

are loss-making. Such enterprises may be subsidized to get them to upgrade their housing. This is another of the channels that helps to prop up weak enterprises.

The main thrust of housing reform policy has been to make credit available for expanding housing supply. Much of this credit has been funneled through enterprises. It has thus served the supply goal while reinforcing rather than diminishing the role of the enterprise in housing. It is recognized that the enterprise could be freed from housing responsibilities if housing markets develop. There have been efforts to develop such markets, but progress has been slow. Indeed, the housing example is interesting because it shows how difficult it can be to make a market work in the transition from the old system.

One of the major barriers to establishing a market for either rental or owned housing is the rent subsidy. Unless rents are sufficient to cover full housing costs, the market will not work. However, subsidized rent is an important part of the compensation of a SOE worker. It would be difficult to raise rents without an accompanying wage reform that would in some way cash out in-kind benefits. There are, indeed, efforts to raise rents gradually. Government housing reform guidelines in 1994 called for rent to be increased to 15 percent of family income by the year 2000. However, if rent is still linked to income, rent will not be determined in the market, and the enterprise role will probably have to continue.

There have also been efforts to encourage workers to purchase their apartments. Of course, a worker paying a low subsidized rent has little incentive to buy. Recognizing this, the housing price is subsidized. In a common arrangement, the enterprise sells its housing to workers at a 40 percent discount. Since there is not a market in housing, the enterprise presumably also sets the initial value. Since the housing price is subsidized, the worker might have an incentive to sell the house and recover the cash value of the subsidy. To discourage this, workers are not allowed to sell the house in the market. It can be resold only to the enterprise and only for the original subsidized purchase price. In one enterprise visited by the author, the workers did not have the right to pay the full cost of the house in order to get full ownership. All buyers had to accept the 40 percent discount. In this system, the enterprise is in effect still the owner, and the unit will eventually revert to it. This reform does not allow the market to replace the enterprise in providing housing.

Another barrier to establishing a housing market is that buyers of property in either a rental or individual ownership situation need credit. Currently, credit is available primarily to enterprises. If home ownership is to be affordable, buyers will need long-term mortgages. Whatever the form

of ownership, credit markets will need to develop. Credit markets, in turn, may require legal reforms clarifying the property and land use rights of the owner. In particular, regulations are needed concerning procedures for eviction. Since a housing market is so dependent on legal procedures, credit and housing market reform will both be tied to legal reform.

A viable housing market could eventually replace enterprises as the main providers of housing and thus provide an important step toward enterprise reform. But a housing market depends on coordinated reforms in wages and rents, credit markets, and legal procedures. It is not surprising that China has so far pursued just the housing supply goal. Is it possible to reform such a complex system? The World Bank Enterprise Housing and Social Security Reform Project is making an effort at such comprehensive reform in four cities in China. It is beyond the scope of this paper to describe this effort. It should, however, give an indication of how quickly China can come to grips with the basic problem of enterprise reform.

CONCLUSION

This paper has examined three areas of reforms in China: employment policy, pension policy, and housing policy. In each area, major reforms either have been or are being implemented. Yet in each case, the reforms have not had a major impact so far. All three areas impose significant burdens on enterprises. The reforms, however, have not yet removed the burdens sufficiently for full SOE reform in which viable SOEs could stand on their own competitively without need of subsidy. The reasons for the limited impact of reform efforts have differed by area. In the case of employment policy, the reforms are likely to work in supporting the transition of redundant workers out of SOEs, but the decision has not yet been made to use them extensively. In the case of pension policy, although the reforms look dramatic, they do not make the hard choices that eventually may be necessary to deal with the aging problem. Housing policy has focused on one goal, increased housing supply, but has not addressed the complex issues of making a market work to the point that the market could remove responsibilities from enterprises. The shortcomings in outcome all reflect constraints on policy which make the effort difficult.

In spite of the difficulties, the spirit of reform is strong in China. There is an impressive desire to solve problems. Reforms are just beginning in health insurance. Given the complications in that field, limited accomplishments will probably soon become apparent there as well. Reforms are underway in work injury insurance and maternity benefits. And in the areas considered in this paper, I did not deal with all of the reform

issues, for example, the expansion of coverage of UI and pensions to more sectors of the economy. Employment and social security policies have turned out to be among the most difficult areas for reform, especially because of their close link with enterprise reform. Officials, however, are patient and keep trying. As long as they understand the nature of their problems, it is likely that improved reforms will continue to emerge.

Notes

1. There was a rapid expansion in employment in enterprises in rural areas. Taking account of all enterprises, SOE employment by 1993 was only 36 percent of the total.
2. For small enterprises without their own LSC or without the resources to support training programs, workers could use the services of municipal LSCs not attached to enterprises.
3. The 1993 reforms permit cities to require small individual contributions in addition to the enterprise contributions, and a few cities have done so.
4. Various estimates have been made of the implicit pension debt, that is, the present value the pension obligations owed to those already retired plus the obligations to current workers based on work already performed. The results are very sensitive to the assumptions made, and range from 40 percent of gross domestic product (GDP) to over 100 percent. The important point is not the exact number, but the fact that it is large and mostly unfunded.
5. Since there may be more than one worker in a family, the enterprise may not house all its workers, some of whom may obtain housing from the spouse's enterprise. In addition, there are publicly-owned units as well as privately-owned ones.

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5. THE PAST—AND FUTURE—OF LABOR LAW IN CHINA

James V. Feinerman

This paper presents a brief, but comprehensive, summary of the history, current state, and future of Chinese labor law. Such an endeavor requires consideration of numerous questions of practical implementation which stem from the legal regulations that are outlined below. Usually in any overview discussion of Chinese law, I find it advisable to preface my remarks—and then constantly remind the reader—that mere description of the legal rules gives an impression of the system in its ideal form. The effectuation of many of these legal rules is, to say the very least, problematic. The authors of the other papers in this volume make those points about other aspects of China's labor system, ranging from social welfare legislation to the actual operation of China's trade union system. As lawyers often do, I would like simply to "incorporate by reference" what other authors have written about those issues and concentrate essentially upon the legal system.

This description begins with a brief historical introduction and then turns to a discussion of the state of labor regulation as it exists at the end of the twentieth century. The remainder of the piece provides a broad outline of some recent developments that are still in progress, drawing upon some of the issues addressed by the other authors in this volume.¹

POST-1949 HISTORY OF CHINESE LABOR LAW

Obviously, labor law and labor regulation has been an important issue throughout the history of the People's Republic of China (PRC), close to the heart even of the late Chairman Mao. Since its inception, the Communist Party of China has pretended to be the vanguard of the proletariat and the leading edge of the working class. It has remained important for the party and the state leadership to be on top of labor issues.² As a result of this ideological requirement, China's Communist Party leaders have taken a great interest in labor law. In fact one of the very first laws that was ever passed after the founding of the PRC—indeed four years before the PRC's first constitution even came into force in 1954—was the 1950 Trade Union Law which established the All China Federation of Trade Unions (CLFB 1985a). Readers familiar with Chinese labor issues may already be aware of this fact, but for those that are not, I think it's fair to say that the All China Federation of Trade Unions (ACFTU) is a rather supine party-controlled state-organized

union that bears very little resemblance to a serious, free trade union common in democratic societies—that is, an honest organization of the working people who are its members, created and controlled by them (Lee 1986). Yet this organization—the ACFTU—has been in place virtually from the beginning of the PRC government, and it was established by this very early piece of legislation that really initiated China's modern era of labor law (Ottley and Lewis 1982).

Throughout the 1950s and even into the 1960s and 1970s, a series of laws were put into place that governed everything from labor insurance in the early 1950s (Wang 1976); to the 1956 statute that established an eight-grade wage scale which, in altered form, is still in place in many state-owned enterprises in China (Zheng 1987); and to a 1957 law that created staff-worker congresses which are different than trade unions—a type of enterprise unions, not vertically organized, and under the control of the ACFTU, but obviously still controlled by the local-level party operatives (Chan 1982).

In the 1975 constitution, which was written by the Gang of Four and replaced the earlier Maoist 1954 constitution, the right to strike was actually inserted, some say at Mao's personal urging, as a constitutional right in the Chinese system. It did not last very long. Although the right to strike was reiterated in the 1978 constitution, that constitution was actually amended a year or two later to remove the right to strike. At that time, the argument was made that since the workers were the masters of the people's state, who else would they be striking against except themselves if they were to go out on strike? In the light of this logic, the right to strike was superfluous and unnecessary.

LABOR LAW OF THE EARLY REFORM ERA

Following the ascendancy of Deng Xiaoping and the dawning of the 1980s—along with the period of economic reform that actually began with the Third Plenum of the Eleventh Communist Party Central Committee in 1978—the modern era of market economic reform has given rise to three groups of labor legislation which are worth noting.³ In the scope of this paper, it will not be possible to describe them all exhaustively, but their broad outline can be sketched.

The first group of labor regulations was for general application. They were meant to be implemented in what were then referred to as state-owned enterprises and to some extent also came by default, at least until they were recently replaced, to apply to other forms of domestic Chinese enterprises. A second set of labor regulations was a body of new labor regulations that were crafted for joint ventures and wholly foreign-owned enterprises which

began to be established in China with the reform period beginning around 1980 (Moser 1987). And then, finally, there is a third group of regulations established in the PRC's special economic zones, five of which have been created in various parts in the southeast of China (Pow and Moser 1987). Each of these zones are subject, somewhat confusingly, both to provincial-level regulation which applies to all the special economic zones in an individual province and then also to individual zone regulations which apply only within those particular zones.

These important new pieces of legislation—which in many ways continued the overall theme of the 1950s legislation—were, broadly speaking, protective of labor in the Communist Party's own view. In fact, they did very little to empower individual workers or their representatives—the people who were supposed to protect their interests under the then-prevailing system—to challenge the Chinese state or enterprises to provide the full range of rights and opportunities, and to have those rights vindicated: things that we take for granted in the labor law systems of democratic countries. In many cases, the laws operated in some ways to dampen what might otherwise be legitimate worker protests and to force workers to operate outside the system, and “go underground” or undertake wildcat actions because of the limited options they have had under the official system.

Nevertheless, beginning with the reforms of the late 1970s and early 1980s, economic changes required the system to introduce both the practice of contract employment and contract employment legislation, which came into effect in 1983. It is quite clear from this period that Chinese employment legislation has at least in some ways become more in line with law that is recognizable internationally, even if its overall effect has remained, in many important ways, to limit the actual rights and some of the privileges that employees of Chinese state-owned enterprises, in particular, enjoyed previously (Helburn and Shearer 1984). Contract employment regulation is, perhaps, only the most salient example of this phenomenon.

In many cases, the provisions for contract employment did away with the longstanding understanding that labor would be employed in any state-owned enterprise under the terms of what Chinese citizens continue wistfully to call the “iron rice bowl” (Chang 1986). Such legislation made it quite clear that a much more limited package of benefits and a much shorter and definite term of employment was going to be offered to Chinese workers, at least under this new regime, from then on. Moreover, beginning in the early 1990s, to bring this discussion up to the present, a series of laws were put into place, including two very important ones, which I think have recast, although in some cases have only reiterated, the overall understanding with

respect to workers' rights in China. The first was the 1992 Trade Union Law, and the second was the 1994 Labor Law.

RECENT ATTEMPTS TO REFORM LABOR LAW

Since 1991, the PRC has promulgated a number of new labor laws and regulations, including a new Trade Union Law (1992) and new Labor Law (1994). Although the impetus for both of the new major pieces of legislation was to make Chinese labor law fully compatible with the demands of a market economic system, each of them perpetuates many of the Maoist or socialist anomalies of China's earlier labor regime while selectively modernizing or adapting the overall structure.

The 1992 Trade Union Law

The 1992 Trade Union Law continued to emphasize the system that is euphemistically described in communist parlance as democratic centralism (SCNPC 1993). This means that everyone down below does what the party center tells them to do and the trade union mechanisms are all vertically integrated, controlled from the top by the ACFTU.

Most clearly, the 1992 Trade Union Law (similar in many respects to the 1950 Trade Union Law) did much to maintain the status quo ante, but with a few new wrinkles. For example, in Article 3 of the law, both physical and mental laborers are given the right to form unions if they earn their living primarily from wages; previous law would not have extended such right to the previously suspect class of intellectuals. On the other hand, trade unions are now supposed to be established according to principle of "democratic centralism" (Article 11), with the trade union at next highest governmental level having the responsibility to approve formation of lower-level unions (Article 13). As before, ultimate control over union activity, including union formation, remains with the Communist-Party-dominated ACFTU, reflecting very little change in the actual governance of trade unions.

While the 1992 law reiterates in many ways the 1950s Trade Union Law, it has some particular provisions that were meant, I believe, to strengthen or at least to provide the wherewithal for unions to do some of their jobs. For example, one of its provisions (Article 36) says that Chinese enterprises are now required to pay two percent of total wages as trade union operating funds; in addition, the enterprises are expected to pay all the wages and benefits of full-time union personnel for the duration of their service in union positions (during which time they are relieved from most, if not all, other work responsibilities). The law also allows trade unions to make

collective contracts with enterprises, but this is rather a two-edged sword, since it also means that all the workers in such enterprises are subject to a form of collective negotiation; however, the experience, I think, since the 1950s has been that workers have very little input into arrangements that are made for their employment. Rather they have been recipients of a negotiated deal that is given them with no ability really to influence its contours.

The 1992 law was also supposed to provide for greater involvement of the trade unions in occupational safety and health matters, and this has become a very serious concern. Worker protection has always been a difficult issue in China, but as the publicity has come out—particularly with the added knowledge we have of the way factories operate as foreign ventures—it is clear that China has a very serious problem of poor occupational safety and health. Yet this new responsibility for worker health and safety appears to be cast against a parallel responsibility that unions have to continue promoting enterprise output. Under the 1992 law, trade unions are now empowered to protect worker health and safety (even to urge abandonment of dangerous work sites) but retain a somewhat contradictory ongoing responsibility to maintain continuous production (Articles 24 and 25). So on the one hand, unions may be allowed under this law to stop work as a result of poor safety or health conditions, but at the same time they are urged under another provision of the same law to try as quickly as possible to get their workers back to work—perhaps even before the unsafe conditions have been corrected.

Overall, the new 1992 Trade Union Law emphasized the union role in training, educating and motivating workers (upholding the state interest in continuous production and smooth functioning of the newly market-oriented economy) rather than meaningful advocacy of Chinese workers' interests by trade union representatives.

The New 1994 Labor Law

In 1994, a new Chinese Labor Law was passed (CLFB 1985b); its scope is rather broad, so it is impossible to do more than summarize its main points and relate them to current developments while remaining within the constraints of this paper. This new labor law makes some significant advances over the previously existing law. For example, the new law makes clear that all workers are supposed to be employed pursuant to a labor contract, although as other authors may have noted, this provision does not actually always work in practice.⁴ Moreover, the terms of that labor contract are supposed to set out every individual worker's contractual relationship with his or her employer. The new law also sets overall standards for paying

benefits, although local governments are expected to set actual pay scales based on regional considerations and prevailing prices in that locality.⁵ It makes provisions for social insurance and sets up new requirements for such insurance.⁶ The law also sets requirements for hours and overtime.⁷ In keeping with its terms, Chinese workers are now supposed to work either an eight-hour day or a 44-hour week with rising scales of overtime pay, depending upon how many hours of overtime they work, but with limits even on that overtime. Also, there are new requirements for occupational safety and health; for training; and, importantly, for retraining workers who have been made redundant and for setting up rational procedures with formal terms that workers can understand as to how termination, when it happens, is supposed to be carried out. The new law also attempts to provide better protection both for women workers and for minors and to forbid absolutely child labor below a certain age. Finally, it also sets up provisions for resolving labor-related disputes.⁷ One interesting feature of the new law is that it uses the previously taboo term "unemployment" rather than "awaiting employment" to describe out-of-work Chinese laborers (Articles 70 and 73).

The draft of the 1994 Labor Law was revised almost thirty times; years intervened between its initial draft and its final enactment, demonstrating both the policy debates surrounding its terms and societal impact of its implementation. The details of certain provisions are worth some examination to illustrate the important changes they reveal in China's economy and labor market. For instance, the law makes new requirements of the labor contract, which must be a written document containing new mandatory provisions about such matters as duration of the contract, job description, working conditions, compensation, disciplinary provisions, and even grounds for termination. Furthermore, collective contracts with staff and workers are also governed by the provisions for labor contracts in the new law, albeit at the level of the least common denominator rather than establishing a serious, new higher threshold.

Remuneration and benefits are also subject to new scrutiny under the 1994 Labor Law. In the light of new economic realities as China moves toward the market, some autonomy is now permitted in wage distribution, but disturbing echoes of Marxist rhetoric persist—workers are to be paid each "according to [his] work" under the principle of "equal pay for equal work."⁸ Local governments are expected, with an eye to prevailing local standards, to prepare minimum pay provisions. Another bow to market economic imperatives are new provisions for social insurance, which both government and enterprises are expected to develop for retirement, illness, injury, work-related disability, occupational disease, unemployment, and

childbearing; supplementary insurance for workers is also supposed to be maintained by each Chinese enterprise.

New rules also appear in the 1994 Labor Law about maximum hours, establishing an eight-hour day and a 44-hour week as the national standard. In keeping with China's constitution, every Chinese worker is guaranteed one day of rest per week. Overtime work hours are ordinarily limited to one hour per day; in special circumstances, overtime may amount to a maximum of three hours per day or 36 hours per month. Overtime pay is required to be paid at 150 percent of normal pay rates, and at higher rates of 200 percent on rest days and 300 percent on holidays (Yang 1995).

Occupational safety and health have become new official concerns of Chinese labor law; this legislation attempts to establish and to "perfect" protective systems with adequate process, worker education, and appropriate governmental checks on compliance. New interest in worker training—and re-training—requires enterprises to budget amounts for this purpose in accord with national regulations. A new system of certification is supposed to be put in place to recognize those workers who have acquired particular occupational skills.

Termination provisions in the 1994 law allow enterprises new freedom to fire workers, under the terms of labor contracts. A few circumstances permit immediate termination for workers who prove unqualified or who violate workplace rules or state law. In most other circumstances, thirty days' notice is required for termination, including layoffs for economic reasons. Enterprises must hire laidoff workers if rehiring within six months of any layoff; moreover, there are also some protections against termination or layoff for sick or pregnant workers, especially those who may have contracted some occupational disease or work-related injury.⁹

Unionization is fostered by the promise in the new law of democratic management rights, including independence (in accordance with the law) of staff-worker congresses to participate in enterprise management and to protect their legal rights and interests. Further protection is supposed to be insured by provisions for resolution of labor-related disputes—including consultation, mediation, arbitration, and adjudication, when necessary. The range of possibility begins with mediation at the level of the initial hiring unit, then proceeds to arbitration at the higher levels of the labor bureaucracy, ending with the final resort of court litigation and enforcement actions. The new law also extends in the context of labor legislation other protections of women and minors elsewhere in Chinese law; they are supposed to be guaranteed equal opportunity and non-discrimination along with protection against dangerous working conditions.

Such is the overall national statute; but before making any future prognostications about Chinese labor law, it should be noted that at the same time this new national labor law is being implemented, a large number of special and local rules are being promulgated as well, and labor legislation is appearing all over China, not only at the provincial level but also at the municipal level. Obviously, these additional pieces of legislation are too numerous and variegated even to begin to describe. Nevertheless, there is legislation at almost every lower level that is subject to this overall national labor law, and special rules are being set up to protect workers in particular kinds of enterprises. In the context of overall economic reforms discussed by other authors in this volume, it should be noted that enterprises moving, for example, to share ownership are subject now to special regulations regarding how they have to treat not only their management employees but also their workers and the kinds of decisions that have to be made about their ownership rights, about how state assets are divided, and about procedures for increasing their compensation.

RISING INDICATIONS OF LABOR UNREST

Obviously this system, which has continued in reality since the 1950s, has led to some labor unhappiness, and there has been severe labor unrest in China over the last several years—in many ways an outgrowth of some social phenomena that the Chinese leadership failed to improve after the events related to the Tiananmen Square demonstrations in the spring of 1989.¹⁰ But I think that one of the developments that led to the government's crackdown was the fear that for the first time workers would organize truly autonomous unions. Dongfang Han, a contributor to this volume, can speak from personal experience about his organizing one of China's first truly independent workers' organizations, the so-called Beijing Workers' Autonomous Federation.¹¹ Such an occurrence—much more than the Communist Party leadership's reaction to a few intellectuals and students demonstrating in Tiananmen Square—may have in reality precipitated the more severe crackdown on June 3-4, 1989. Real worker autonomy, and the subsequent attack on the Communist Party and state autocracy, was the Beijing government's worst nightmare, putting the lie to their claim to be in the vanguard of the proletariat. Yet the events of the spring and summer of 1989 must be considered in combination with the social realities that are surveyed by other contributors in this volume.

The past decade and a half has seen the decline of China's state-owned enterprises, the breakdown of the old "iron rice bowl" system, high inflation rates, and poor pay (declining in real terms because of inflation and in

comparison with peasant incomes in the agricultural countryside). At the same time as inflation is rising and prices are getting out of hand in China's major cities, Chinese workers are haunted by the growing numbers of dismissals of redundant workers as state-owned enterprises try to downsize and move toward a market-oriented economy and place new demands on unskilled workers to try to improve their skills (move "up market") and to do better in more highly technical tasks. Increasing dissatisfaction with poor occupational safety and health conditions has led to everything from wildcat strikes to even the formation—although these phenomena are rather hard to document¹²—of underground unions which attempt to do for their Chinese worker members what the formal state-authorized unions have failed to do.

Other contributors have discussed such phenomena as the reduction of government subsidies and political support for state-owned-enterprises; as a result, the living standards of Chinese workers employed by them has dropped precipitously. At the same time, due to parallel economic reforms, urban residents who are most likely the employees, or members of families with state enterprise employees, have experienced over a decade of continuously high inflation. For more than a few Chinese workers, the final blow in the process of economic restructuring comes with the dismissal of surplus labor as state-owned enterprises are streamlined, due to diminished state subsidies, or become privatized or collectivized (Vause and Vronionis 1988).

Even for those workers whose jobs are not eliminated completely, non-payment or slow payment of wage and benefits by failing enterprises effectively deprives them of the fruits of employment in much the same fashion. Market orientation of the Chinese economy, combined with internationalization and technological innovation, make new demands on many poorly-skilled Chinese workers. Their enterprises are finding it increasingly difficult to respond creatively to these challenges; some collapse under the pressure, and others accommodate by staff changes which disadvantage the workers least likely to find alternative employment in the emerging market economy.

Both Chinese enterprises and Sino-foreign joint ventures have changed the terms of employment for the majority of Chinese workers. One manifestation of a new regime is stricter administration of factory rules and discipline, previously enforced and interpreted liberally when important employee interests were concerned.¹³ At the same time that workers' rights and benefits have been adversely affected by economic imperatives, poor and unsafe working conditions have proliferated as a result of the "bottom-line" orientation of new enterprises. Particularly at fault are joint ventures with Hong Kong and Taiwan investment, whose ethnic, cultural, and linguistic ties

with the localities of their investment seem to have immunized them from serious enforcement of existing occupational health and safety regulations. Multinational concerns from the United States, Europe, and Japan, on the other hand, appear to enforce their (usually high) global standards in their China operations. In sum, the rise of a market-driven economy leading to the end of China's "iron rice bowl" mentality can be viewed as conducive—in many ways—to severe decline in workers' economic well-being and livelihood.¹⁴

At the same time, the stature and legitimacy of China's trade unions and official labor leaders have been compromised by the notable lack of union advocacy of workers' interests. Obviously, a state- and party-controlled labor bureaucracy would not be likely to cross swords with the highest levels of leadership regarding labor issues where the entire direction of the Chinese economy for the past fifteen or sixteen years has been to the contrary. Their role, in the official view, has rather been to make the economic decisions taken at higher levels palatable to the rank-and-file laboring class. One result of this failure to protect legitimate workers' interests has been the appearance of "underground" unions—renewing the threat of genuine labor unions raised by the Workers' Autonomous Federations of the Tiananmen era. While such organizations are by no means widespread in China today, their mere appearance is a rebuke to official labor and troublesome to governmental authorities. Coupled with sporadic worker actions such as wildcat strikes, walk-outs, etc., they demonstrate a need for serious attention to labor concerns and the potential explosiveness of worker discontent in the face of economic change.

FUTURE DIRECTIONS FOR CHINESE LABOR LAW

Prognostications for the future are always dangerous where Chinese legislation is concerned. Although what follows is based on some diligent reading of the Chinese legal press and some recent discussions with officials at the Chinese Ministry of Labor, the wide range of new regulations already in preparation may take some time in both promulgation and eventual implementation. Three areas are particular concerns of the Ministry of Labor and, thus, likely candidates for more immediate attention. The Ministry's interest is, in turn, generated by the pressing economic realities of China's increasing marketization and its effect on Chinese labor.

The first is the whole area of employment training. There are new regulations in preparation that would create employment training centers all over China. This is one way to deal with the problem of redundant workers and to try and get other organizations besides the Ministry of Labor and the

enterprises that are laying off the workers involved in the sort of overall social process of reemploying these people, by getting them back to work through training them for new employment. The Ministry also intends to set up all over China local labor exchanges, along the British model, that would make it possible for workers to have a regular place to go to find new jobs and to apply for job training.

Staff of China's Ministry of Labor have observed that China's training system has not yet developed "suitably." As a result, other institutions besides the Ministry of Labor have become involved in trying to remedy gaps and failures in the worker training process. New legislation to be introduced would have to deal with four pressing social problems: job transfers, certification procedures, financing of training, and design and content of new training programs. Once new employment services organizations are created, they too will have to be regulated with respect to: (a) organization and terms of service; (b) responsibilities for such matters as worker registration, counseling, labor market information, and determinations of special staffing needs; and (c) management rules for employment services.

The second major area of concern are new regulations underway with respect to employment contracting, including employment contract termination regulations that are meant to spell out the responsibilities, particularly between the enterprise and other state entities, for the welfare of redundant workers. Previously, I think, the futures of workers that have been laid off have been held hostage to the resources of the enterprises that have laid them off. One circumstance that these regulations are meant to try to improve is the overall system of support for the coverage of people who face long-term unemployment because their jobs are being eliminated. There is, so to speak, a turf war going on here between the Ministry of Labor and the Ministry of Personnel, a separate State Council agency that also has some responsibility for staffing and employment.

Before these controversies can be settled, major issues will have to be confronted regarding such basic matters as ownership (both as an economic fact and a legal concept) and labor's role in Chinese enterprises. In addition to existing labor contract regulations, laws about collective (i.e., non-state-owned enterprises) labor contracts and illegal labor contracts are being prepared. As currently envisioned, all labor contracts would have fixed terms (likely three years), with standard provisions for termination and for establishing legal responsibilities in cases of normal termination (at the end of the contract term) and termination before the end of the contract period. The scope and coverage of these laws, as well as oversight responsibility, remain somewhat unclear.

Third, there are new regulations being drafted in the area of unemployment insurance which have focused on three key issues. One, there is a need to expand coverage of unemployment insurance from just those few workers who work at the best endowed state-owned enterprises to cover virtually all workers in China. Two, regulators hope to create an insurance system which is better able to withstand the challenges that will be faced as China moves toward a market-oriented economy by not only combining employer's contributions but also making workers pay in, much as Americans are used to doing under Social Security. Finally, a new system will regulate payment standards for unemployment insurance linking payments to participation in employment services programs and efforts at retraining. Thus laidoff workers will not be able to go on the dole long-term but would only be able to get payments at the maximum level for a rather minimal period of three to six months (or, at the most, twelve months) and then have future payments contingent on their participation in retraining. Long-term unemployment relief would be neither affordable nor advisable under this new system. Rather, once unemployment insurance payments end, those still without jobs would have to rely upon other forms of social relief for their subsistence.

CONCLUSION

Necessarily, this has been a rather quick *tour de horizon*, a forced march through much material, but I hope that I have at least covered the basics. Three overall concerns remain to be resolved by Chinese authorities administering the system and determining new legislation in the future. The first is the completion of a comprehensive legislative framework to deal with the labor law issues that will necessarily arise in China's increasingly market-oriented economy; here the work is well under way. Second, the integration of a system which comprises both national laws and local regulations, with some significant differentiation between Chinese-owned and foreign-owned enterprises, will continue to prove a complex task; in this effort, coordination and consistency will likely prove quite difficult. Finally, implementation of, and compliance with, labor law and regulation will challenge the best attempts of Chinese leaders and officials charged with the task. The rule of law has only tentatively begun to come to China; official corruption and Communist Party interference plague the government, even the judiciary and legal profession. Selective non-enforcement of national regulation in the furtherance of local economic interests remains a constant problem. Without a strong advocate of their own to promote their interests (given the weakness and official domination of the ACFTU and local-level trade unions), Chinese

workers will have to make great efforts to hold onto benefits already gained and to cope with even greater challenges resulting from ongoing economic change.

Notes

1. Few sources are available in English for the study of Chinese labor law. Two excellent works are Josephs (1990) and *Asia Law and Practice* (1994).
2. Proletarian leadership requires placing "masses of workers" in control of Chinese enterprises. See, for example, Mao (1979).
3. For a concise but comprehensive introduction to the social and economic context for the contemporaneous legal reforms, see Josephs (1988).
4. Indeed, this has been required for workers in state-owned enterprises by previous Chinese law since at least 1986; see FBIS (1986).
5. One example, reported in the English-language newspaper *China Daily*, is: "Shandong Outlines Extensive Labour Law" (*China Daily Business Weekly* 1994).
6. Beyond mere minimum wage standards, it even has affected the debate over medical insurance—often provided as part of the package of workers' benefits; see, for example, Zou (1994) who advocates cost-sharing by employees as a solution to rising medical expenses.
7. These provisions do not appear to conflict with procedures for settling labor disputes. "PRC Regulations for Handling of Enterprise Labor Disputes," which became effective August 1, 1993.
8. A long tradition of worry about exploitation of workers has persisted during the reform era; cf., regulations of the Ministry of Personnel and State Commission for Restructuring the Economy in 1992, "Tentative Provisions for the Administration of Labor and Wages in Share System Experimental Enterprises," (June 1, 1992), and "Tentative Procedures for Administration of Personnel in Share System Experimental Enterprises," (Sept. 17, 1992), which tie wages to productivity of newly established share companies and delineate responsibilities of managers, directors, and shareholders for personnel matters.
9. Nonetheless, unemployment as a result of firing redundant workers has become an enormous problem in China; see, for example, the feature story in *China Economic News* (1995) that reports almost five million "unemployed" urban residents and many more "underemployed" but still working in dying state-owned enterprises.

10. It was reported that workers disgruntled by rising unemployment, increasing inequality, and rampant inflation had initiated over 100 strikes and work stoppages in 1988 (Donnet 1989).
11. See Chapter 8 of this volume.
12. International human rights groups have been gathering some information about such developments.
13. High-profile foreign joint ventures, however, may not have as free a hand as their Chinese competitors; see also Lewis and Fleshler (1987:12) who report that Shanghai Volkswagen's general manager did not have the right to fire any worker who had violated discipline rules.
14. One exception, at least in terms of formal legislation, may be female employees, now subject to new protections; see, for example, CLP (1988).

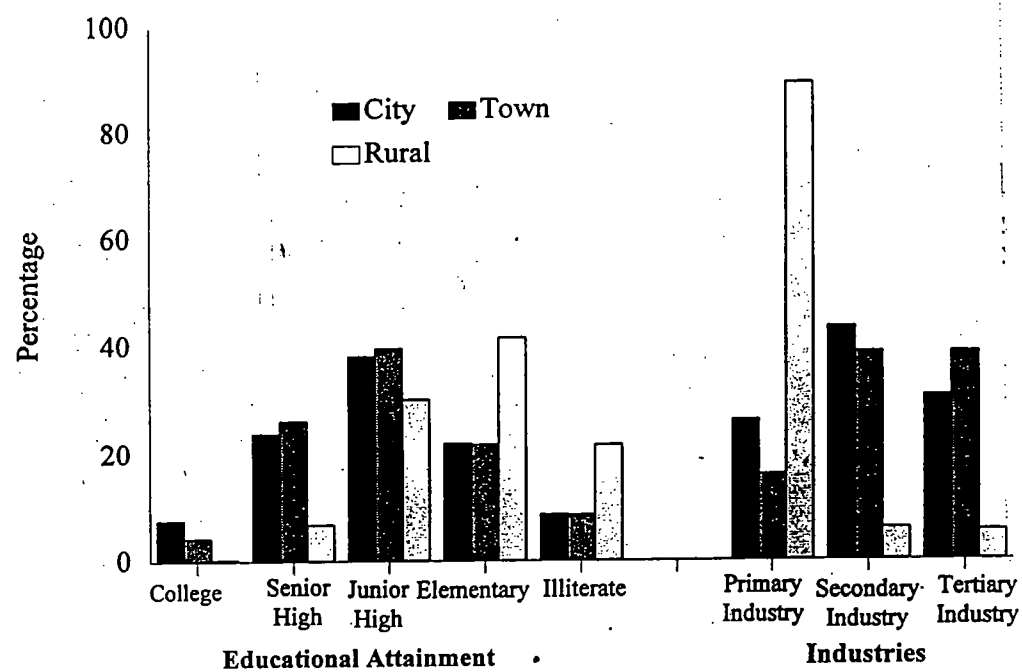
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Figure 2.2 Educational and Industrial Composition of the Working-Age Population in China, 1990



Source: SSB (1990).