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MARKETIZATION AND SOCIAL PROTECTION REFORM: EMERGING HRM ISSUES IN CHINA

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INTRODUCTION

Changes to social protection regulations can have a very significant impact on the welfare costs that must be borne by business enterprises and individuals and on the security, mobility and management of employees. In this paper we explore these issues by examining how the reform of a number of employee related social policies has impacted on five manufacturing enterprises operating in Shanghai. The reforms studied are part of a broad overhaul of the social protection regime the government of China is undertaking to assist the country's evolution to a socialist market economy and its further integration into the global economy after becoming the WTO member. Beginning in the mid 1980s, national regulations designed to facilitate this shift began to be introduced in the areas of unemployment insurance, pensions, medical insurance, and most recently, maternity leave and work-related injury insurance. Firms operating in Shanghai were chosen for analysis because Shanghai is one of the municipalities the national government has encouraged to experiment with the possibilities for regional variation permitted by the new regulations. The paper begins by outlining the place of social protection in management research and in so doing highlights the significance of what Karl Polanyi (1944) described as the 'double movement' of market economies. This is a notion that has informed a great deal of the debate surrounding how social protection interacts with the process of globalisation. We then overview the nature of the reforms introduced in China and report on how these changes are impacting on the case study firms. The paper concludes by offering a number of observations of both a macro and micro nature of relevance to international human resource management.

BACKGROUND - MANAGEMENT RESEARCH AND SOCIAL PROTECTION

The social reforms being implemented in China are designed to replace the 'iron rice bowl' system of social protection extant in the public sector under the command economy, with a welfare regime oriented to a society in which market forces are now a primary guiding principle of economic activity and workers are required to be mobile. In designing the new regime, China's officials have taken both social and economic objectives into account "with social safety and stability as principal and economic efficiency as auxiliary" (He, 2000: 4). It is believed that these desires make necessary the adoption of social policies that can provide individuals with security, motivate employees to work effectively, free up investment resources previously committed to welfare, and reduce the government's financial responsibility for social protection (Guan, 2000). The officials have also been informed by a conviction that how firms respond to welfare reform can greatly influence the costs that social protection instruments impose on firms and the manner by which key human resource (HR) tasks such as recruitment and the determination of staffing levels are undertaken. Li Tieying, President of the Chinese Academy of Social Sciences has stressed that such issues are fundamental to social protection reform:

[W]ithout a complete social security system, it is very difficult for workers to move from state enterprises to non-state enterprises and vice versa ... With "five persons doing the job of three persons", how can a firm be efficient? Without a new, complete social security system, China cannot prevent enterprises from remaining a small closed society, and China cannot improve firms' operating systems (Li, 2000: 40-41).

This perspective has also been proclaimed loudly by China's employers. In 1999 the Chinese Entrepreneur Association conducted a survey on state enterprise reform (Li, Yu & Liu, 2000). Among 1,235 respondents, who were either Chief Executive Officers or General Managers of state-owned enterprises (SOEs) from 30 provinces or cities, 71% indicated that the establishment of a social security system was a key prerequisite for SOE reform.

In seeking to ensure their reforms promote both efficiency and social/political stability, China's legislators have not been able to draw on a sophisticated body of human resource management (HRM) knowledge. This is because the manner by which social protection legislation impacts on management behaviour and style is not a topic central to HRM studies. Researchers in the field have recognised that there is a relationship

between social protection and HR practices (e.g., Child, 1994; Mok, Wong & Lee, 2002; Warner, 1995, 1996, 2000; Zhu & Dowling, 2002). Indeed, Brewster's (1995, 1999) contextual paradigm explicitly includes the prevailing social protection regime amongst the variables that can shape HR practices. However, characteristic of the position within the HR literature, Brewster accords only passing attention to the topic. By so doing he reinforces the tendency for HR scholars to consider social protection an area of working life that is of marginal significance to managers despite the fact that the funding of social protection is a very significant cost that must be met by firms and individuals in all industrialised nations (Weller, 2001). The prevalence of this perspective is a development which has ensured that fundamentally "...simple questions pertaining to firms' relationship to the welfare state remain ... poorly specified theoretically." (Mares, 2001: 184). Nor can China's reformers who wish to understand how their reforms might impact on managers' activity gain significant assistance from welfare analysts. Scholars in these fields have as part of their focus issues of importance to managers such as how changes to social protection regimes impact on labour market flexibility and on work incentives. But their research tends to focus on how labour responds to change and pays little attention to the responses of managers. Moreover, where they do link the terms 'management' and 'social protection' the focus of their analyses tends to be the management of welfare programs not how these programs impact on management behaviour and performance.

One body of welfare scholars who are a partial exception to the foregoing general rule are those globalisation theorists who have explored the link between social protection and the competitiveness of enterprises. This aspect of the globalisation literature is directly relevant to China's attempts to reform its social protection regime because a great deal of the work generated by those who have contributed to this field has been informed by Karl Polanyi's observation regarding the social impact of marketization. In *Capital*, Marx stressed the fact that capitalism, in freeing the worker from feudal oppression, also freed him/her from the life-long security provided by feudalism. Building on this notion, Polanyi (1944) observed that while marketization renders the daily lives of the majority of the population insecure, this insecurity in turn generates a demand for forms of social protection that can insure populations against the vagaries of the market. In this way markets are at least partially self-correcting. However, Polanyi showed that while the market can induce a demand for social insurance, if left to itself the invisible hand repeatedly fails to satisfy this demand adequately. Consequently, communities are invariably compelled to create collective organisations that can defend sectoral interests and introduce laws and regulations that provide a floor below which the "higgling of the market" can not be allowed to determine human well-being (Polanyi, 1944; Greider, 1997; Held and McGrew, 2000).

The primary question informing the social protection literature asks whether a sound social protection regime increases or diminishes the capacity of nations to function in global markets. Scholars who have contributed to this debate include those who argue that globalising nations have no choice but to maintain a sound social protection regime if they wish to sustain the degree of social stability required to function effectively in a globalising economy. Of this school the work of Rodrick has been especially influential. Rodrick (1998, 1999) has shown the existence of a sound social protection regime is commonly the key factor determining whether or not governments can successfully manage the globalisation process. More specifically, it is often the key factor determining whether or not governments can manage the painful reforms that invariably need to be adopted during periods of global economic crisis (Rodrick, 1998: 149; Alber and Standing, 2000). However, also present in the globalisation and social protection debates are those scholars who argue that the demand for social protection induced by the spread of global markets can not be satisfied for the globalisation process has rendered markets so competitive societies cannot afford to apportion the level of resources to social protection that is required (Tanzi, 2002).

Other key questions explored by global social protection analyst centre on whether globalisation is causing the character of social protection regimes to homogenise and if this process is inducing a 'race to the bottom'. Advocates of the convergence thesis hold that globalisation limits the range of possibilities open to nations and consequently governments are being compelled to adopt similar social policies. Those who have contributed to this debate include observers who argue the residualist model of the USA is the way of the future and others who hold European models are the natural end point towards which globalising nations will gravitate. That the convergence thesis may have some validity is suggested by research undertaken by Hort and Kuhnle (2000). These scholars have found that while the OECD nations rolled back the welfare services they provide their populations over the last two decades, the East Asian governments have enhanced the

welfare provisions enjoyed by their populations. In so doing the nations of Asia have followed closely the reform sequence pioneered by the European welfare states (Hort & Kuhnle, 2000:181).

Those analysts who have focused on the 'race to the bottom' thesis, by contrast, have sought to determine if globalisation is compelling nations to lower their social protection standards and whether this process has induced a vicious spiral which will gradually draw in all nations (Friedman & Jacobs, 2000; Yeats, 2001; Sarfati & Bonoli, 2002). Those who fear that this is happening can gain some solace from the results of the research conducted by Hort and Kuhnle. However, fear of a downward spiral will remain in the OECD states for as long as it remains a possibility that the bottom to which nations might be gravitating is no higher than that presently extant in Asia.

In the wake of the Asian financial crisis those who insist that a sound protection regime is necessarily a key aspect of a nation's globalisation strategy have received sustenance from the international financial and development agencies. Much to their embarrassment, the 1997-1998 crisis in Asia exposed the fact that the International Monetary Fund (IMF) and the World Bank were intellectually and materially unprepared for the possibility that a very major shock could afflict the economies of Asia. Indeed, when the crisis did occur these bodies, and particularly the IMF, forced countries rendered desperately in need of the assistance that the global institutions could provide to adopt policies that transformed what should have been a recession into a major depression (Stiglitz, 2002). This development caused the agencies to be subjected to a barrage of criticism so vehement even the IMF moderated its pro-market rhetoric and conceded there is a dark side to globalisation. In the process the IMF also conceded that its traditional working assumption that social protection is a burden on the health and effective functioning of market systems was seriously flawed. The new emphasis placed on social protection are reflected in recent publications of the multilateral financial and development agencies, such as the World Bank report, *From Safety Net to Springboard* (World Bank, 2001), the IMF report titled *Social Dimensions of the IMF's Policy Dialogue* (IMF, 2001) and the Asian Development Bank (ADB) report, *Framework for Operations on Social Protection in Asia and the Pacific* (ADB, 2001).

Thus far international business and international management scholars have remained unmoved by the re-positioning being undertaken within the global financial and development agencies. A special edition of *the Journal of International Business* in 2002 that explored the 'Janus Face' of globalisation, for example, did not even accord social protection a mention. Indeed, the dominant perspective in the field would still appear to be that expressed by Lim (2000) who has advised Asian communities to reject the claim that globalisation requires the adoption of a sophisticated social protection regime. The best way to ensure social well-being and stability in Asia, Lim insists, is to further deepen market relations, promote policies that encourage a high rate of personal saving, maintain traditional family and village networks, and strengthen "entrepreneurial resilience".

The international human resource management (IHRM) literature likewise appears to have been little affected by the global social protection debate. As a consequence, IHRM has thus far not made a significant contribution to the development of social protection policy or become capable of providing managers with advice regarding *how* they might effectively manage both the social protection needs of employees and state imposed social protection requirements. This situation requires remedy as HR theorists should be capable of making a particularly useful contribution to the emerging debates regarding global competitiveness and social protection. This is the more so because it is surely highly probable that scholars in the HR field have a comparative advantage over social policy analysts when it comes to advising managers on how they might best manage the demands that social protection regulations place on the enterprises they govern. Given their detailed knowledge of firm level employee management, one field where HR scholars could make a particularly salient contribution is where governments wish to shape social protection regulations to a form that advantages certain types of business organisation over others. In the case of China, this is a critical issue because the national government must find a way to stop the private sector adopting employee management practices that enable them to become free riders on the backs of state owned enterprises and the community.

SOCIAL PROTECTION REFORM IN CHINA AND SHANGHAI

Researchers who have examined China's social protection regime have tended to concentrate on detailing the way the nation's reforms are being financed and governed (Yin, Lin and Gates, 2000; Chen, 2001), the social and political implications of the new regulations (Guan, 2000, 2001; Wang, 2001), and the negative costs to employees involved in the breaking of the iron rice bowl (Mok et al., 2002; Smyth, 1999; Price & Fang, 2002). Much less attention has been paid to what it might mean for the workplaces of China that a new, universal social protection regime that is state managed, but places a high degree of responsibility on the individual, is being introduced to replace the 'iron rice bowl'. The latter system was a non-contributory, defined-benefit, pay-as-you-go regime, which was primarily financed and managed at the work unit level in the urban public sector and assumed employees were largely immobile. Within this regime workers were provided with a range of benefits that included food and housing subsidies, pensions, health services, maternity assistance, and injury, disability, and death insurance (Li, 2000; Guan, 2000; Wang, 2001). By contrast, the new system is a *selective* model that emphasises certain aspects of social protection, is nation wide (though regional variations compatible with the central themes are permitted), has many channels for fund raising, provides multi-levels of security, connects contributions to benefits, and is managed by the state rather than by individual enterprises. Guan (2000) has accurately described the emerging regime as 'societalisation' (*she hui hua*) as it is a society wide system in which everyone receives the same level of social protection irrespective of where they are employed (see also Li, 2000; Wang, 2001).

The benefits associated with the 'iron rice bowl' gave workers a high level of security but as the benefits were tied to individual enterprises the system contributed to "an extreme lack of labour mobility" (Howard, 1991:94). This became an acute problem for the government and business community once the market made alternative forms of employment available to workers. It was soon discovered that while the market could generate many jobs outside the state sector it commonly failed to offer the inducements needed to attract employees from the over-staffed state sector. Despite the higher wages commonly paid in the non-state sector, workers have expressed a clear disinclination to surrender their public and collective enterprise jobs because so doing requires them to give up many of the welfare benefits they enjoy (Maurer-Fazio, 1995; Smyth 1999). Thus, Gu has observed:

The majority of workers laid off from the state sector prefer to be re-employed by their original work units or by other work units in that sector (or the collective sector) rather than in the private sector. This is a rational preference because within the institutional configuration of the private sector, no systematic welfare provisions have been established. Workers are afraid that if they join the private sector and then lose their jobs, they will lose unemployment benefits, lay-off aid, medical care, and (most important) pensions. Even if they have job opportunities in the private sector, many decline them and maintain their status as laid-off workers unless new offers have some specific attractions (Gu, 2001: 106).

Gu's perspective was confirmed by the HR manager of one of our case studies who explained the normal view of job seekers in the 1990s. Government departments and large profitable SOEs that offer comprehensive social insurance coverage were ranked as first-grade workplace. In the second rank were foreign invested enterprises (FIEs, include international joint ventures and wholly foreign owned enterprises) as they often pay employees well and offer training even if they provide few social protection benefits. Finally, there are those organisations in the non-state sector that are ranked as third grade because they are characterised by the three 'low's, i.e., low social protection, low wages and low technology.

Workers' disinclination to transfer to the non-state sector has limited the capacity of managers in this sector to recruit staff, restrained the ability of state enterprises to reduce over-staffing and locked workers into a dependency relationship with their existing employers (Walder, 1986; Warner, 2000). These issues became of critical importance once SOEs had to compete with firms not encumbered with high welfare overheads (Li, 2000; Nolan & Zhang, 2002). The extent of this problem is indicated by the diversity in the coverage of pension insurance enjoyed by workers across the various sectors. In 2000 the SOEs insured 87% of their employees but had to compete in an environment in which only 51.47% of employees in collectively owned enterprises (COEs) were insured, and FIEs insured only 27.48% of their employees (Gao, 2001:132). What

such diversity implies for the competitiveness of the differing sectors is indicated by a survey conducted among 508 enterprises in 10 cities in 1998 which found that 57.66% of SOE's payroll consisted of social protection expenses, while COEs paid only 18.74%, FIEs 20.29% and privately owned enterprises (POEs) 18.18% (LASSRI, 2001:79). It was also reported that 125 million employees working for 20 million township and village enterprises at the end of 1998 were not receiving any pension benefits (Zhang, 2000). What the foregoing data makes clear is that the marketization process in China has failed to provide many workers with the insurance they need to enjoy even a modicum of security in their lives. In a great many cases within the private sector it is only those workers who have skills that are in short supply that are insured. The data also shows that many firms have engaged in unfair competition in that they have acted as free riders passing on to the community the eventual costs that will have to be met when workers without pensions retire. There is an extensive literature that has examined the 'soft-budget' constraints that characterise the SOEs under a planned economy. Much of this literature has uncritically applauded the expansion of market relations on the grounds that markets

“motivate the efficient monitoring of industrial assets to avoid the ‘tragedy of the commons’ and costly macroeconomic externalities; ...mediate the restructuring and exit of unsuccessful enterprises, both public and private; and ... select sustainable forms of corporate governance that are able to withstand mounting competition within the industrial systems of transition economies” (Jefferson 2000:432).

What renders this literature uncritical is the fact that it emphasises the benefits produced by the adoption of markets but ignores the problems generated when markets are allowed too much regulatory freedom. Thus Jefferson emphasises the fact that in China many SOEs survive only because they receive state financial subsidies. But in so doing, he ignores the fact that an analogous situation exists in the private sector. In short, many of the private firms he applauds survive only because they are able to pass on to the community a significant part if not all of the welfare expenses national or local regulatory agencies have specified should be part of the cost of operating a business in China.

As Table 1 indicates, this parasitical behaviour has grown over time because the sectors that primarily produce free rider firms have tended to increase with marketization. The magnitude of this problem has been further compounded by the fact that the unfair competition engaged in by the non-state sector has compelled state enterprises to borrow heavily to meet their welfare commitments and compelled an increasing number of SOEs to join the free rider ranks (Smyth 1999: 229). As a consequence, the proportion of SOE employees with pension insurance declined from 95.7% in 1992 to 87% in 1996 and went back to 90% in 2000 only after the government reinforced implementation of its pension policy (Gu, W. 2001: 12).

Table 1 about here

What marketization has generated in China is a classic example of the 'double movement' described by Polanyi (1944). The greater scope allowed the market increased the insecurity of a very large sector of the community but market forces have failed to compel individual firms to insure their employees against this insecurity. As a consequence the community has been compelled to respond collectively to this market failure by calling on the state to intervene legislatively. China is finding, however, that adopting regulations is not enough. The diversity in the welfare costs accruing to different types of business enterprises is a consequence of a number of causes beyond the fact that only the state and collectively owned sectors have traditionally provided universal coverage. Demographic influences are also important. The greater age of state and collectively owned firms in these sectors means many more pensioners remained attached to these enterprises and their working employees are on average significantly older and hence tend to generate relatively high medical costs (Zhu and Dowling, 2000; also see our case studies 1 and 2). Also important is the fact that local administrators are handicapped by the lack of a satisfactory regulatory framework to govern collection and distribution of social protection funds.

In 2001 the Standing Committee of the National People's Congress began drafting a new set of regulations that would make possible the enforcement of national standards. However, as late as 2002 it remained the

case that there were no national compliance mechanisms in place to penalise firms that do not comply with their social protection obligations. Moreover, even where municipal regulations permit enforcement policing is not always effective because of corruption or because China's administrators have limited experience at managing rampant non-compliance by non-state enterprises. These are problems that are not surprising in a market society with mass unemployment, weak trade unions, underdeveloped industrial policing institutions, a highly competitive private sector, and a social environment in which the promotion of the interests of the individual rather than the interests of the collective are emphasised (e.g., Deng Xiaoping said "It is glorious to let some people get rich first"). Nevertheless, the free rider problem must be combated vigorously if China is to maintain social stability and achieve its declared goal of creating a social protection regime based on efficiency, equity and fairness. With some resistance the state has come to accept that this goal will not be achieved if the governance of social protection legislation is left solely to the market. This emergent awareness is reflected in the national governments determination to enact national enforcement standards. And in Shanghai it is reflected in the 2001 proposal of the Municipal Bureau of Labour and Social Security to appoint an extra 1200 inspectors who will be charged with ensuring all enterprises properly insure their employees (interview with the Director of the Bureau).

In taking this last step Shanghai is continuing to be a national leader in social protection reform in China. In 1993 it became the first city to establish the minimum living allowance system when it took over responsibility for the paying of pensions from individual firms and concomitantly created a social pooling fund. Initially, individuals paid contributions equivalent to 3% of their previous year's average monthly salary to this fund and this rate has since been increased by 1% every two years and will be capped at 8% in 2004. All firms were ordered to make a contribution to the fund equal to 25.5% of the previous year's payroll this being a significant increase in costs for firms with few pensioners. In 1996, Shanghai added to its society wide pension regime a new medical insurance system and this was further reformed on 1st January 2001. These latest reforms increase the medical contribution required of firms from 5.5% to 12% of the previous year's payroll (10% for basic medical insurance and 2% additional medical insurance for locally owned companies, which means wholly foreign owned firms need to pay only 10%). Unemployment insurance was increased at the same time from 1% to 2% while the pension contribution was reduced from 25.5% to 22.5%, and kept constant was the housing fund (7%), welfare insurance (11.5%), education fund (1.5%), and trade union fees (2%).

Although the national government identified 6% of payroll as an adequate cost for medical insurance, Shanghai's municipal government doubled this figure. It did so because the administration cannot provide the level of health services demanded by citizens with a budget funded by only 6% of wages due to the fact that in Shanghai medical expenditure in Shanghai increased by 46.2% per annum in the 1990s, i.e., from 11 *yuan* per person in 1990 to 347 *yuan* in 1999 (Gao, 2000: 28-29). This was due to several reasons as noted by Gao, including increased concern for personal health brought on by an ageing population, a sharp increase in the price of medicine, and the growing use of the 'big-pot' phenomenon, that is, the situation where one family member works in an enterprise that provides health insurance and capitalises on this situation to obtain health services for family members whose place of employment does not provide health insurance. The 2001 reforms also required firms to increase wages by 3% as partial compensation for the fact that employees must now contribute much more to their own medical expenses. In the case of outpatient expenses for example, prior to 2001 an SOE employee paid no more than 15% of the cost while the firm paid the rest. Now an employee has to use the money accumulated in his/her personal medical account first (which contains 2% of his/her annual salary plus 0.5%-1.5% of Shanghai average annual salary from the social pooling funds). If the money in the individual's personal account is insufficient to pay outpatient expenses, he/she needs to pay up to 10% of Shanghai previous year's average annual salary, i.e., 1,400 *yuan* in 2001. If there is still a shortfall, the individual has to pay 30% to 100% of the remaining expenses (see Table 2 for Medical Insurance Rates and Guidelines). This is a development resented by workers in the public sector because formerly medical costs were primarily the responsibility of the firm and the state. From Table 2 it can be seen that those who started work after January 1, 2001 must now pay 100% of their outpatient expenses. Workers' negative response has been compounded by the fact that if they are hospitalised, they have to pay at least another 10% of Shanghai previous year's average annual salary to cover their inpatient expenses. If this is not enough, individuals need to further contribute 15% to 20% of the remaining expenses.

Table 2 about here

To reduce individually paid inpatient expenses, firms are encouraged by the government to take on supplementary health insurance with the Shanghai Workers Mutual Association (SWMA). The SWMA belongs to the All China Federation of Trade Unions (ACFTU) Shanghai Branch and the fact that the union insurance schemes are being promoted by the government is a step that may have important, long-term consequence for China's trade union movement. This is because it gives the unions a role in industry not unlike that existing in the Nordic states where involvement of unions in the management of social protection has been a significant factor underpinning their bargaining power and capacity to service their members. The SWMA offers various supplementary medical insurance schemes designed to reduce the costs accruing to individuals due to major illnesses and the need for hospitalisation. Enterprises that join the SWMA are required to insure all their employees, and workers are expected to pay part of the premium. For example, one scheme designed for supplementary insurance of inpatient treatment costs requires the payment of 35 *yuan* per annum if the average age of employees is at or below 45 years, or 45 *yuan* if the average age is over 45. If an employee requires hospitalisation, the SWMA's pays 50% to 70% of the total cost of the expenses that would otherwise accrue to the individual. The SWMA does not require participants to undergo a medical check-up and employees can enjoy the benefits as soon as their enterprise joins the scheme. Currently, 2.16 million employees are insured with the SWMA in Shanghai and the municipal government is actively promoting the further take up of this form of insurance.

RESEARCH METHOD

The following section reports the results of five case studies that we undertook to gain a level of insight into how the new social protection regime is impacting on firms that goes beyond that made possible by macro data. This case method was chosen because our research is an exploratory and non-hypothesis driven study, which is “interested in insight, discovery, and interpretation rather than hypothesis testing” (Merriam, 1998: 28), and intends to investigate a contemporary phenomenon (newly established social insurance policies and practices in the Chinese industrial sector) within its real-life context (enterprises that are in the centre of the social protection reform and belong to different types of ownership) when the boundaries between phenomenon and context are not clearly evident (Yin, 1994: 13). Furthermore, the case study method is “a research strategy which focuses on understanding the dynamics present within single settings” (Eisenhardt 1989: 534) and can assist us grasp holistic patterns of social phenomena in real settings (Orum, Feagin & Sjoberg: 1991).

We examined five case enterprises in Shanghai in 2001 for this study. The firms investigated are all industrial enterprises though with diverse forms of ownership. The pseudonym such as *Machine*, *Light-Industry*, etc. was used for each enterprise investigated to respect confidentiality and protect the anonymity of parties concerned (see Table 3). Those interviewed in each case included the general manager, HR manager, the trade union head, supervisors, ordinary employees and retired workers. Some major features of these firms and related social protection issues are summarised in Table 3.

Table 3 about here

CASE STUDY RESULTS

Case study 1 (see column 1 in Table 3): *Machine* was a large, engineering SOE founded in 1956. In 2000, the company had 1,675 employees, 1,500 of who were working while the remaining 175 were redundant and awaiting re-allocation (*xiagang daiye*). The redundant employees received a minimum wage of 318 *yuan*/month for the 1st year, 280 *yuan*/month for the 2nd year and in 2001 were deemed unemployed and hence no longer a charge on the firm. The average age of employees was 45 years and the ratio of current employees to retirees in 2000 had been 1:1. Prior to 2001 this situation would have constituted an enormous

burden on the company for retirees' medical expenses had to be paid for by the firm. Indeed, prior to the take over of pensions by the state in 1993 the situation would have been intolerable given the firm had a sales revenue in 2000 that was only 225 million *yuan* or 150,000 *yuan* per capita at a time when the Shanghai Statistical Bureau has calculated a firm can only survive in Shanghai if its sales turnover is at least 200,000 *yuan* per capita (reported by two of the interviewed managers).

The insecure state of *Machine* meant it had great difficulty competing in the market place and this the more so as the government severely limited the capacity of the firm to rationalise its business practices. Fearing instability, the municipal government, for example, has stipulated that an SOE can only retrench employees if it has no casual or non-local labourers and wages have already been reduced by 20%. Therefore, even when the firm suffered from over-staffing, it tried to lay off as few employees as possible (in the situation of a couple, only one partner could be retrenched).

With the implementation of the 2001 social protection reforms, the firm's contribution to employee insurance increased significantly at the same time as the direct welfare costs it had formerly had to pay were reduced. Nevertheless, the reforms were a great relief to the management and were also welcomed by retirees as it meant their medical expenses would now be paid without the delays common prior to the reforms. But in applauding the new social protection regime the senior managers of *Machine* observed that the improved market position of the firm induced by the reforms was limited by the fact that some non-state firms were continuing to avoid paying insurance for their employees. Laid-off workers from the enterprise, for example, had been re-employed by a local hotel that paid 1,000 *yuan* per month but did not provide any insurance for employees or their families. The HR manager reported that the prevalence of such behaviour remained a significant restraint on the extent to which workers were willing to change jobs even when they had skills that were much in demand in the non-state sector. He also noted that as *Machine's* annual salary level was 11,300 *yuan* in 2000, which was nearly 20% lower than the average level in Shanghai (14,000 *yuan*). To soften the impact of the health reforms on the very low waged, the ACFTU Shanghai Branch suggested to the municipal government that it base the initial 10% that individuals must pay for health insurance on the average annual enterprise salary rather than the city-wide average wage. This suggestion was not accepted due to the perceived difficulties in administration (interviews with the officials of the Municipal Bureau of Labour and Social Security). In order to reduce the individual payment for inpatient medical treatment and facilitate the establishment of the new medical insurance system, this firm joined the SWMA.

Case study 2 (see column 2 in Table 3): *Light-Industry* was an old SOE that has recently been revamped. In 1995 the enterprise introduced a stock-holding system as part of an incentive package in which employees and managers were given 30% of the shares, while the state retained control of 70%. In 1996 this arrangement was further modified when the government gave the managers another 30% of the shares and sold 10% to outsiders. These latter changes were undertaken to inject funds into the firm and to encourage long-term commitment from the managers an outcome further encouraged by the fact that the circulation of shares was limited to those who remained employed in the enterprise.

Light Industry had 1,352 employees in 1996 but only 380 remained in 2000 as a result of downsizing. Together with the technical restructuring and management reforms, the reduction of staff enabled the firm to raise productivity and pay above average wages. In 2000 the average annual salary of employees was 16,800 *yuan* (20% more than the local average salary level). The General Manager stressed the importance of the new social protection laws in facilitating the retrenchment of redundant employees. He reported this became much easier after the establishment of the society-wide unemployment benefits system was introduced for it meant the cost of maintaining retrenched employees now remained the responsibility of the firm for only a limited period. The 2001 health insurance reforms were also of importance to the firm because immediately prior to their introduction the ratio of employees to retirees was 1:1.78 and the average age of those who remained employed was 41 years. Of particular importance for *Light Industry* was the fact that the firm no longer had to carry the costs of medical treatment for retirees. The average medical expenses (excluding those paid by the social pooling funds) for current employees were 391 *yuan* per head in 1999 and 408 *yuan* in 2000; while for retirees, the figures were 1107 *yuan* in 1999 and 1070 *yuan* in 2000. The HR manager explained the medical expenses of the enterprise had escalated in previous years because of increased prices associated with medical services and medicines and because of the 'big pot' phenomenon. In support of this

assertion the HR manager tabled a list of medical expenses paid by the enterprise in 2000 for employees and retirees and the estimates for 2001 (see Table 4).

Table 4 about here

The last row in Table 4 demonstrates the total medical costs for 2001 were estimated at 875,700 *yuan* less than they had been in 2000 (i.e., a 45% reduction). Under the new insurance system the enterprise has to increase employees' salary by 3% and has to pay 1.5% of medical assistance expenses and pay a premium to SWMA. However, the enterprise no longer needs to pay or manage other types of medical costs. Most importantly, under the new system, employees can visit any hospital and this has enabled the firm to close its clinic.

Case study 3 (see Column 3 in Table 3): *Pharmaceutical* was an international joint venture (IJV) established in 1985 and has been one of the most successful IJVs in China. It had 924 employees in 2000 and only 66 retirees. The average salary of the firm was 320% the local average, however, its senior managers were not optimistic regarding future profitability. This was because as part of its 2001 reform of the health insurance system the government published a list of 1,000 medications that would be covered by medical insurance, 80% of which are produced by domestic pharmaceutical companies. Furthermore, it was feared that even with non-listed drugs it was likely that the new health insurance regulations would be a negative influence as it was probable consumers would turn to the cheaper products produced by domestic enterprises once they had to pay part of the cost. That these concerns were justified is indicated by the fact that 50 staff were retrenched in 2001 this being the largest downsizing in the firm's history.

Supported by both the Chinese and foreign partners *Pharmaceutical* emphasised both tangible and intangible rewards for its employees. The tangible rewards involved a housing allowance, supplementary insurance (pension and medical) and stock options. These policies had been adopted in the early 1990s to attract and retain key employees. Prior to 2001 the medical expenses of the firm had been limited because the average age of the employees was only 33. With the implementation of the new social protection regime, it must now apportion 6.5% more of its total payroll for medical insurance (2 million *yuan* more than in 2000). The universality of the new regulations have also been a negative influence for the firm in that they have undermined the management's capacity to offer health insurance benefits higher than the norm in the industry as an incentive to recruit and retain skilled employees. The General Manager nevertheless applauded the reforms as he believed they would reduce the degree of unfair competition in the market. He also reported that to retain the value of their incentive package the firm had insured its employees with a commercial insurance firm because of the greater flexibility allowed by these firms than was permitted by SWMA. The policy purchased by the firm raises the level of supplementary medical insurance offered to employees and pays the first 1,400 *yuan* of employees' hospitalisation expenses. Employees who remain with the firm for four years, moreover, will be allowed to carry 40% of the total supplementary insurance paid for by the firm should they leave the enterprise.

Case study 4 (see column 4 in Table 3): The Chinese partner of *White-Goods* established an IJV in 1993 with a foreign partner from a developed country. In 2000 the firm became a wholly foreign owned enterprise (WFOE) as the Chinese partner went bankrupt and sold its equity to the foreign partner. When the IJV was initially established, it only recruited blue-collar employees under 35 years and managerial staff under 40. As a result the average age of employees was just 32.5 years and there were no retirees in 2000. The firm's sales revenue per head was 400,000 *yuan* and average annual salary was 22,700 *yuan* (62% more than the local average).

Although the firm was a WFOE, it maintained some social protection practices inherited from its previous Chinese partner. These benefits included the partial reimbursement of employees' medical expenses and an assurance of continuing employment should an employee's spouse be retrenched. Before January 2001, the company paid 5.5% of its payroll to medical insurance and employees could reimburse 100% of their own medical expenses and 50% of the expenses incurred by their direct family members. The firm also maintained a health clinic for employees. With the introduction of the reforms of 2001, the company's

contribution to health care increased to 10% of total salary costs. The increase in the medical insurance fee, however, did not raise the medical expenses of the enterprise as the firm was able to cease reimbursing its employees' medical costs and drastically downsized its health clinic (see Table 5).

Table 5 about here

Table 5 indicates that while the company's medical cost would be reduced by 104,000 *yuan* by the reforms of 2001, individual's medical cost could be increased by 1,200 *yuan* based on the estimates of medical costs in 2000 (428,000 *yuan* divided by 350 employees in 2001). Facing this dramatic increase in medical expenses, the employees requested their trade union to seek some compensation from the company. In reply the firm agreed to increase the health insurance offered by the firm but insisted on purchasing a policy from a commercial insurance company again because the recognition of workforce diversity (e.g., young age, less health problems) allowed by the commercial sector was greater than that permitted by SWMA (no need for the whole company to participate in the insurance scheme).

The General Manager commented that the new medical insurance policies had the benefit as they were predictable and relatively stable and declared that he approved of the changes as he considered them comparable to best practice in his home country of Japan. However, he agreed the new costs imposed on the non-state sector could increase production costs and have a negative impact on the competitiveness of the enterprise. It was also conceded there was a problem with the firm's subcontractors who employed casual workers. As required by the municipal government all casual workers were employed through middle agents who are supposed to insure their employees from the lump sum paid by the firm. In practice however, the contractors commonly provide very low levels of protection and the senior managers agreed the government needs to address this loophole and better protect casual employees.

Case study 5 (see column 5 in Table 3): *High-Tech* is a large-scale privately owned Chinese corporation with over 1,800 employees. The firm is divided into three business groups consisting of pharmacy, information technology and real estate. Its pharmaceutical group was publicly listed in 1998 and since then its production output has increased at an annual rate of 50%. The total assets of the firm reached 2.8 billion *yuan* in 2000, sales revenue was a half- million *yuan* per capita and average wages were more than 200% the Shanghai average. Unlike many POEs in China, this firm is not family owned or managed. Rather, it was established in 1992 by five academics with a capital of 38,000 *yuan*. Initially, the firm recruited employees from among the founders' friends and colleagues and once it expanded beyond this market it limited recruits to applicants below the age of 40 only relaxing this requirement when recruiting senior managerial and technical staff. Because of the age policy, the firm will have no retirees for at least another 5 years.

Initially the firm had difficulties recruiting highly skilled employees as POEs were widely regarded as third-grade organisations due to their insecurity and poor social protection. This difficulty compelled *High-Tech* to offer more attractive salary scales and to insure its staff with a commercial firm. That there was still scope for reform is indicated by the fact that all staff interviewed claimed the new state managed regime would bring the firm into line with society norms. The impression that further internal reform was needed was also confirmed when it was acknowledged some employees had no social protection insurance. The firm could avoid insuring these workers because local government requirements allow employees to remain uninsured if they are to be employed for no more than 6 months. A short-time worker interviewed stated he could be sacked if he asked for insurance as low-skilled employees were easy to recruit. When this issue was discussed with the Municipal Bureau of Labour and Social Security, it was described as a loophole in current policies that would be considered for reform in the future.

The attitude of the firm to its least skilled employees contrasted markedly with its views regarding social protection for key workers and managers. Senior managers reported that they welcomed the new social protection policies as they believed they would increase the supply of skilled workers to the POEs. To further this goal the HR manager was considering providing supplementary insurance packages for skilled labour that was in short supply.

DISCUSSION

With its entrance into the World Trade Organization (WTO), China has been advised to “get on track with the international community” (*gen guoji jiegui*, see Guthrie, 1999), as the WTO “seeks to shape the rules of the game” to facilitate globalization (Warner, 2002: 386). The national government accepts the wisdom of this advice which it interprets to mean China's economy and society must be further subjected to the discipline of national and global markets (Lin, 2002; Mu, 2001). However, what has not been accepted by the regime is that the pathway to a successful market economy has only one track. Much to the chagrin of the IMF and other bastions of neo-liberalism that argue for the full and immediate embrace of market relations in all fields, China has adopted a development strategy based on dual tracks (state and market), gradualism and experimentation. Qian (1999) has correctly observed that this model has the great strength that it can generate the right incentives needed for developing the tacit knowledge required to construct and maintain a market economy even if it sometimes generates economic inefficiencies. In the wake of the Asian financial crisis, the wisdom of the development track embraced by China has gained new admirers. Indeed, many of the analysts who have become critical of growth strategies based on an unblemished faith in the beneficence of unrestrained markets are now hailing China as an exemplar that has much to teach the international community (Rodrick, 2001; Stiglitz, 2002).

Amongst the lessons for the international community that have been generated by China's experience with marketization are new insights regarding how a globalising, underdeveloped economy can best build and sustain a social protection regime. The literature that has examined social protection reform in China has tended to highlight the pain induced by the decay of the iron rice bowl system. The underlying message of much of this literature is that the state should never have become involved in the determination of employment conditions in the first place and should withdraw from this arena as fast as is possible. But as we have shown, this is an inadequate lesson to draw from China's recent history for the country's approach to social protection reform has not followed the single track of deregulation, privatisation and corporatization but rather has involved the cautious melding of market and state activity. Well before the Asian crisis alerted the international community to the fact that developing societies need to follow a development path that explicitly and systematically incorporates social protection into their globalisation strategies, China had already travelled a long way down this track. As with its general approach to marketization, China has approached social protection reform in a way that accords importance to both state and market, and concomitantly emphasises gradualism, and experimentation. Moreover, it has sought to ensure that both the benefits and the costs of marketization are shared, a process that has created many wealthy individuals but has also brought about a reduction in the level of poverty that is without precedent in the global community.

By the use of gradualism and experimentation China's leaders have learned to appreciate the significance of the double movement stressed by Polanyi which is inherent in the very nature of market regimes. A great benefit of China's approach is that it has allowed reform to progress at a pace that enabled reforms previously introduced to be modified when their design was found wanting. Given the idealist view of the power of markets that was common amongst intellectuals in the command economies when marketization was initiated this attribute has been of enormous importance. It prevented the disaster that befell Russia whose embrace of 'shock therapy' involved the very rapid abandonment of the prevailing social protection regime on the assumption that the market would automatically fill the gap. By contrast, China's reforms have been introduced at a pace that enabled reformers to appreciate that while the market caters effectively for the social protection needs of those with resources in short supply, it is less effective at providing even a modicum of security to those without these resources. What gradualism and experimentation has also enabled the reformers to appreciate is that marketization places new duties on the state. The great diversity in the insurance coverage induced by market forces had compelled the state to intervene in order to create a level playing field. But in accepting the costs associated with pensions, health and other areas of social protection the government has also been compelled to take a more active role in policing social insurance, for it has come to be appreciated that if it does not take this step it would soon be bankrupted by a universal social protection regime.

Amongst the other lessons drawn by China's leaders and that are now being imparted to the international community is that the building and sustaining of a sound social protection regime in a developing society, is not incompatible with the process of globalisation or more specifically the attempt to render one's society an

attractive site for inward investment. In the period that China's government has clarified that it intends to ensure all business enterprises must carry their share of the nation's welfare burden, China has become a truly major recipient of international investment, with capital inflow expected to reach \$US50 billion in 2002. This development adds to the case of those who argue that globalisation is not inducing a race to the bottom even if it remains the case that the jury is still out regarding where the common bottom might eventually prove to be. It does so both by adding to the evidence that nations can build social protection regimes, while globalising their societies, and by reducing the overall pressure in the market place that can encourage a viscous social policy spiral.

China's experience should also be seen as informative for the debate regarding whether or not globalisation tends to cause social protection regimes to converge in form. It remains too early to know what social protection model China's gradualist, experimental, and dual track approach to development will eventually produce. However, it is clear the government accepts that experience has shown a great many options remain open and that it is not the case that any one social protection track must be followed by societies that expand the influence of the market within their economies and societies. In short, China's experience does not lend support to the claim that there is only one social protection regime that best provides for the needs of a globalising society.

The foregoing observations draw on the macro aspect of our study but by focusing on the dynamics present within single settings, we have also been able to grasp how social protection reform shapes HRM practices in real life settings. Our case studies revealed that social protection reform is impacting on HR practices in ways that lend support to the Polanyian perspective. Diversity of organisational form proved to be an important issue. Though all our enterprises paid the appropriate insurances - a phenomena not common to the wider economy - it was found the tendency for non-state enterprises to act as free riders was manifest in that the non-state enterprises were more inclined to take advantage of loopholes in the regulations and in so doing create problems to which the state needs to respond. Organisational diversity was also important in that it tended to be associated with workforce diversity. Marketization encouraged non-state enterprises to adopt age specific recruitment strategies relating that limit the insurance costs carried by the firm. While this strategy is rational from the perspective of the organisation it is a problem for SOEs and the broader community for age discrimination limits demand for older workers whose high social protection costs have to be met by the wider community and/or by those SOEs which the state compels to employ even when they are not needed.

The divergent history and ownership form of the five firms studied has meant that the adoption of a state managed universal social protection regime has impacted very differently on the five firms. The major beneficiaries have been firms in the public sector such as SOEs and COEs who have been greatly assisted in their attempts to reduce overstaffing and that no longer have to carry the costs of paying pensions to retired employees and the high medical costs generated by both pensioners and an aged workforce.

Interestingly, when the issue of social protection was viewed as a tax burden on the enterprise, the managers of all the firms studied supported the notion that the state must compel every firm to carry its share of the welfare burden. When universal social protection insurance was viewed from the recruitment strategy perspective, by contrast, there was clear diversity. Managers in all enterprises welcomed universality for it made it easier for workers to transfer across sectors. The enthusiasm of non-state managers, however, was tempered by the fact that their capacity to use their willingness to provide insurance benefits as a recruiting and retention strategy had been undermined by the new regulations. Managers in these firms recognised and regretted that henceforth they would have to provide greater benefits to their employees if they were to distinguish themselves from the other enterprises against which they have to compete for staff.

Finally, the enterprise studies have shown that while workers and retirees generally welcomed the reforms because of the greater flexibility and security it permitted them they resented the fact that they now have to meet an unprecedented proportion of the costs of their own insurance. Although ACFTU Shanghai Branch lobbied the local government to let employees like those in case study 1 pay 10% of the company-based rather than city-wide average annual salary to reduce their individual medical contribution, it was without success. Workers were also very much aware that managers in the non-state sector distinguished sharply between employees with skills and capacities in short supply and those who had resources that were

available on the market in abundance. Not surprisingly, in case study 4 it was the non-managerial employees who, recognising that the market had failed to accord them the degree of security they believed they required, turned to the union. In this response we again perceive Polanyi's double movement though in this case the workers have turned to their representative organisations rather than the state. What is interesting about this incident is that the union appears to have had the capacity to convince the firm to increase the benefits made available to the employees but was not able to convince the same to purchase a policy from the union fund. Given the need of the state to compel firms to obey the insurance regulations and its limited industrial policing capacity, the weakness of the unions to discipline management is a phenomenon the Shanghai Municipality may wish to consider. It is also a lesson other nations seeking to grapple with how to regulate social protection so as to prevent repeats of the disaster that befell the employees of Enron might contemplate.

CONCLUSIONS

If China is able to develop and implement an effective social protection system, it will enhance the extent to which enterprises, especially SOEs, can retrench surplus employees to maximise their efficiency. It will also enable enterprises with different types of ownership to offer the same basic social benefits, a development that should facilitate personal risk management (e.g., to match the job to their own skills rather than a selected sector of enterprise) and consequent labour mobility between public and non-public sectors, and provide greater security to those outside the 'iron rice bowl' system. These developments in turn will have important consequences for HRM practices in China such as HR planning and the incentive schemes to be applied. They will enhance the capacity of SOEs to formulate staffing policies based on economic rather than social principles and extend the capacity of non-state-owned firms to attract high quality staff. Our case studies have illustrated, to some extent, the emerging HRM issues as the consequence of current social protection reform in China and hopefully would encourage more research in this area.

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Table 1: Shares of gross value of industrial output by ownership sectors, 1980-99 (%)

Years	SOEs ^a	COEs ^b	POEs ^c	Others ^d
1980	75.97	23.54	0.02	0.48
1985	64.86	32.08	1.85	1.21
1988	56.80	36.15	4.34	2.72
1990	54.60	35.62	5.39	4.38
1991	52.94	35.70	5.70	5.66
1992	48.09	38.04	6.76	7.11
1993	43.13	38.36	8.35	10.16
1994	34.07	40.87	11.51	13.55
1999	28.5	38.5	12.0	21.0

^a SOEs = state-owned enterprises;

^b COEs = collectively-owned enterprises;

^c POEs = privately-owned enterprises;

^d Others = enterprises of other ownership forms, mainly refers to FIES (i.e., foreign joint ventures and wholly foreign-owned ventures).

Sources: Adapted from Lo, 1997: 4; Statistical Yearbook of China, 1990: 416 and 1995: 377; Xiao, S. J. 2001: 17.

Table 3: The profile of case firms in 2000

Case numbers	1	2	3	4	5
Firms	<i>Machine</i>	<i>Light-Industry</i>	<i>Pharmaceutical</i>	<i>White-Goods</i>	<i>High-Tech</i>
Type	SOE	SOE/SHF ^a	IJV ^b	IJV/WFOE ^c	POE
Size (employees)	1500 ^d	380 ^e	924	370	1800
Age of the firm (years)	44	45/6	15	6/1	8
Average age of employees	45	41	33.4	32.5	33
Ratio of male to female employees	1 : 0.67	1 : 1.22	1 : 1.04	1 : 0.58	1 : 0.67
Ratio of current employees to retirees	1 : 1	1 : 1.78	14 : 1	1 : 0	1 : 0
Sales revenue per head (in Chinese dollar <i>yuan</i>)	150,000	184,000	1,050,000	400,000	500,000
Average annual salary (in <i>yuan</i>)	11,300	16,800	59,000	22,700	45,600
Insurance offered by the firm (pension, unemployment, medical)	√	√	√	√	√
The change in the amount of medical insurance paid by the firm	↓	↓	↑	↓	↑
The change in the amount of medical insurance paid by the individual	↑	↑	↑	↑	↑
Additional insurance coverage paid by the firm	SWMA ^f	SWMA	Commercial	Commercial	Commercial

^a SOE/SHF: SOE up to 1995, thereafter stock-holding firm (SHF);

^b IJV: international joint venture;

^c IJV/WFOE: IJV up to 1999, thereafter wholly foreign owned enterprise (WFOE);

^d The number on the payroll was 1675. Among them 175 employees became redundant and were waiting to be re-allocated by the Firm or re-employed by other organisations;

^e The number on the payroll was 664, but 284 of them became redundant and in the same situation as explained in the previous note;

^f Refers to Shanghai Workers Mutual Association which is part of trade unions.

Table 2: Medical Insurance Rates and Guidelines

Category ¹		Status ²	Personal Medical Account	Outpatient fees ⁵			Inpatient fees			
				Stage 1 (personal account)	Stage 2 (% of city average salary paid by individuals)	Stage 3 (% of remaining costs paid by individuals)	1	2	3	4
							Initial payment made by individuals (% of the city's average annual salary)	The maximum to be paid by insurance (times city's average annual salary)	% of expenses between 1 and 2 to be paid by individuals	The individually paid % of expenses above the maximum to be paid by insurance
Old (Retired before 31-12-2000)		R	Below 75 yrs, 4% of the city's average annual salary ³ Over 75 yrs, 4.5%	To be used first	2%	15%	5%	4	8%	20%
Middle (started work before 31-12- 2000)	Born before 31-12-1955	W	From 45 yrs up to the retirement, 2 % + 1.5% ⁴	The same	10%	30%	10%	4	15%	20%
		R	The same as those in the Old age group	The same	5%	20%	8%	4	8%	20%
	Born between 1-1-1956 and 31-12-1965	W	35-44 yrs, 2% + 1% From 45 yrs up to the retirement, 2 % + 1.5%	The same	10%	40%	10%		15%	20%
		R	The same as those in the Old age group	The same	5%	35%	8%	4	8%	20%
	Born after 1-1-1966	W	Below 34 yrs, 2% + 0.5% Between 35 and 44 yrs, 2% + 1%. From 45 yrs up to the retirement, 2 % + 1.5%	The same	10%	50%	10%	4	15%	20%
		R	The same as those in the Old age group	The same	5%	50%	8%	4	8%	20%
New (Started work after 1-1-2000)		W	Below 34 yrs, 2% + 0.5% Between 35 and 44 yrs, 2% + 1%. From 45 yrs up to the retirement, 2 % + 1.5%	The same	100%	100%	10%	4	15%	20%
		R	The same as those in the Old age group	The same	10%	50%	10%	4	8%	20%

¹ People are classified into 3 categories, i.e., the old age group refers to those retired before Dec. 31, 2000; the middle age group refers to those who joined workforce before Dec. 31, 2000 (this group is further divided into 3 based on the age); and the new age group who started work after Jan. 1, 2001.

² There are two types of status, i.e., retired (R) or is still working (W).

³ The 4% of the city's average annual salary based on the official statistics is paid by the social medical pooling funds.

⁴ This refers to a joint contribution of personal payment of 2% of his/her salary plus the social pooling funds of 1.5% of the city's average annual salary.

⁵ Outpatient fees are paid firstly by individual personal medical account (refers to stage 1), if it is insufficient, individual needs to pay certain percentage of the city's average annual salary (refers to stage 2). In case there is still a shortfall of payment, individual has to share some of the cost with the rest being paid by the medical insurance (Stage 3).

Table 4: Medical expenses paid in 2000 and estimated costs in 2001 – *Light-Industry*

Medical costs paid by the enterprise in 2000 The total payroll was 6,400,000 yuan. (under the old sharing system)			Medical expenses to be paid by the enterprise in 2001 Estimation was based on the previous year's payroll (under the new insurance system)		
Items	%	Money (yuan)	Items	%	Money (yuan)
Pooling funds	5.5%	352,000	Pooling funds	12%	768,000
Employees' medical costs		437,900	Wage increase to compensate individual's medical expenses*	3%	172,800
Retirees' medical costs		1,069,700	Medical assistance as required by the government	1.5%	96,000
Medical clinic		76,100	To participate in SWMA scheme		23,200
Total		1,935,700			1,060,000

* This wage increase was based on the guidelines proposed by the municipal government.

Table 5: Medical expenses paid in 2000 and estimated costs in 2001 – *White-Goods*

Medical expenses in 2000 The total payroll was 8,400,000 yuan (There were 370 employees)			Estimated medical expenses in 2001 The total payroll will be 8,200,000 yuan (There will be 350 employees)			Changes (In yuan)
Items	%	Money (yuan)	Items	%	Money (yuan)	↑ = increase ↓ = decrease
Payment made by the firm:			Payment to be made by the firm:			
Pooling funds	5.5%	462,000	Pooling funds	10%	820,000	↑ 358,000
Employees' medical costs	100%	330,000	Employees' medical costs	0	0	↓ 330,000
Reimbursement of medical costs of employees' family members	50%	32,000	Reimbursement of medical costs of employees' family members	50%	30,000 ^a	↓ 2,000
Medical clinic		140,000	Medical clinic		10,000 ^b	↓ 130,000
Sub total		964,000	Sub total		860,000	↓ 104,000
Payment made by individuals:			Payment to be made by individuals:			
Medical insurance	1%	84,000	Medical insurance	2%	164,000	↑ 80,000
Medical expenses	0		Medical expenses	100%	350,000 ^c	↑ 350,000
Reimbursement of medical costs of employees' family members	50%	32,000	Reimbursement of medical costs of employees' family members	50%	30,000	↓ 2,000
Sub total		116,000	Sub total		544,000	↑ 428,000

^a It is estimated that the medical expenses will be decreased with the implementation of the new medical insurance policies, so the medical expenses incurred by employee's family members would be reduced by 2,000 yuan in 2001;

^b The firm was going to reduced the size of its clinic that would only be used for first-aid purpose;

^c Average medical expenses per employee were estimated at 1,000 yuan in 2001.