

**Study on policy evaluation and recommendations for
flexible employment in china**

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In the *Study on the current situation of flexible employment in China-----coverage, evolution and status*, we have already researched into the concept, definition, type, scale, distribution and impact of various flexible employment forms in China. This report will go on to discuss about the adjustment in China's legislation, institution and policy in response to increased flexibility in the labor market.

Flexibility refers to the scope of marketing regulation in terms of employment volume, work time or labor remuneration in response to economic changes. It is mainly influenced by labor market institutions (trade unions, unemployment insurance systems, public employment services, etc.), relevant legal system, as well as labor market policies. This paper will focus on the flexibility from the external and quantitative perspective, namely the transference of laborers between different units, between various forms of employment, and their shifts between employment, unemployment, or non-economic activities, as well as employment stability and security issues derived thereof. Since too much flexibility can be detrimental to the increase in labor market efficiency and productivity, the purpose of this study is to set forth policy proposals to seek a balance flexibility and security. Given that flexible employment is only a specific reflection of labor market flexibility, this paper will not confine itself to the specific forms of flexible employment.

I. General flexibility of China's labor market

Before analyzing the impact of institutional, policy and legal aspects on labor market flexibility, we must first of all have a clear understanding the general flexibility of China's labor market. This chapter will look into the changes in the labor force through variations in the employment aggregate and employment structure so as to present a picture of flexibility of the labor market.

1. Sustained and rapid economic growth drives constant increase in employment aggregate

Since the 1990's, China's economy has maintained rapid growth, with the GDP growth rate standing at over 7% since 1996(table 1). Sustained and rapid economic growth has created many new jobs, hence the increase of employment aggregate. Since 1996, the annual net increase of people employed has maintained at around 7 million (table 2). In terms of structure, the new jobs are mostly found in the non-public sectors in urban areas whereas rural areas and urban public sectors have seen a net employment decrease. As the rural areas are usually seen as the "reservoir" of labor forces, the net employment decrease, from a perspective, is an indication of the real economic development in China. State-owned and collectively-owned units were traditionally the main job providers, while private, individually-owned, and other units as well as

other forms of employment are emerging as new bodies for employment. The net job decrease in the former and the increase in the latter attests to substantial changes in the economic structure and the employment structure.

In general, the changes in both employment aggregate and structure indicate that substantial changes have taken place in the labor market. The study on labor market flexibility should be put into this context.

Table 1: Economic growth rate in real terms from 1996 to 2003

Year	Growth Rate	Year	Growth Rate	Year	Growth Rate	Year	Growth Rate
1996	9.6%	1998	7.8%	2000	8.0%	2002	8.0%
1997	8.8%	1999	7.1%	2001	7.5%	2003	9.10%

Source: «China Year Book of Statistics 2004» .

Table 2: Increase in employment aggregate from 1996 to 2003

Year	People Employed (10, 000)	Net Increase of People Employed (10, 000)	Growth Rate
1996	68950	870	1. 3%
1997	69820	817	1. 2%
1998	70637	757	1. 1%
1999	71394	691	1. 0%
2000	72085	940	1. 3%
2001	73025	715	1. 0%
2002	73740	692	0. 9%

Source: «China Statistical Year Book 2004» .

2. Tremendous job changes brought about by economic transition and industrialization has enhanced labor market flexibility

There used to be a great number of redundant workers in China's state-owned and collectively-owned units, who were mostly under

long-term labor contracts. It was therefore extremely difficult for these units to adjust labor relationship according to business operation. Under such circumstances, since the mid 1990's, the government has pressed ahead with SOE restructuring programmes with the principles of "encouraging merger and acquisition, standardizing bankruptcy, laying off and repositioning redundant personnel, downsizing for efficiency and implementing reemployment project." As a result, the number of redundant workers in SOEs has reduced by a big margin and productivity of the companies greatly improved.

From 1996 to 2003, state of employment in various sectors has witnessed the following changes: people employed by state agencies decreased by 43.68 million; people employed by collective agencies decreased by 20.16 million; number of employees in units of other types increased by 13.6 million; those employed by privately-owned enterprises increased by 19.25 million, people working in individually-owned businesses increased by 6.68 million, and people working on non-registered jobs increased by 71.99 million, making the total job increase of 57.17 million in urban areas. The rural areas saw a net increase of 650,000 people in the active labor force in township and village enterprises, a net increase of 12.03 million in private enterprises, and a decrease of 10.48 million in individually-owned businesses. People engaged in agriculture stood at 312.06 million. Those who worked on non-agricultural jobs in rural areas

saw a net increase of 2.2 million. Total number of working people in rural areas decreased by 2.35 million (table 3).

The downsizing of state-owned units has mainly taken the following forms: laying off, repositioning, or changing the identity of redundant workers. By the end of 2003, a total number of nearly 28.18 million people had been laid off. Some got retired before due age, others were repositioned by being encouraged to find new jobs in other units, to be self-employed, to set up business entities, or to join labor export services. Still others changed their identity as their companies were transformed into other type of enterprises. Among all these people, nearly 50% were employed, with others retreating from the labor market or being engaged in the informal sector.

The downsizing of collectively-owned units has mainly taken the forms of identity changes, voluntary resignation, unemployment and laying-off, etc. Among the neglected, some retreated from the labor market, some became unemployed and others found employment in the informal sector.

From 1996 to 2003, urban population increased by 150.72 million while rural population decreased by 82.34 million. The number of people who have migrated from rural to urban areas reached 130 million, and original urban residents increased by about 30 million. Calculating the labor participation rate at 50%, there is a need of about 15 million new

jobs. Adding those laid-off workers who have got reemployment and some migrant workers who are not included in the statistics. We can see that the scale of employment in the informal sector is even larger.

All in all, the structural changes have led to dramatic changes in the structures of employment sectors and have stimulated labor transference, reflecting the great increase in labor market flexibility

Table 3: Distribution of people employed in different economic sectors by urban/rural division from 1996-2003

Name	Forms of Ownership	年 份											
		1996	Percentage	1997	Percentage	1998	Percentage	1999	Percentage	2000	Percentage	2001年	比例
Urban Areas	State-owned Units	11244	56.4	11044	53.1	9058	41.9	8572	25.7	8102	35.0	7640	31.9
	Collectively-owned Units	3016	15.1	2883	13.9	1963	9.1	1712	5.1	1499	6.5	1291	5.4
	Cooperative Units		0.0		0.0	136	0.6	144	0.4	155	0.7	153	0.6
	Joint-operation Units	49	0.2	43	0.2	48	0.2	46	0.1	42	0.2	45	0.2
	Companies of Limited Liabilities		0.0		0.0	484	2.2	603	1.8	687	3.0	841	3.5
	Joint-stock companies	363	1.8	468	2.3	410	1.9	420	1.3	457	2.0	483	2.0
	Units funded by HongKong, Macao and Taiwan investors	265	1.3	281	1.4	294	1.4	306	0.9	310	1.3	326	1.4
	Units funded by Foreign investors	275	1.4	300	1.4	293	1.4	306	0.9	332	1.4	345	1.4
	Private Enterprises	620	3.1	750	3.6	973	4.5	1053	3.2	1268	5.5	1527	6.4
	Individual	1709	8.6	1919	9.2	2259	10.5	2414	7.2	2136	9.2	2131	8.9

	Flexible Employment	2381	12.0	3093	14.9	5698	26.4	7836	53.4	8163	35.3	9158	38.3
Urban Sub-total		19922	28.9	20781	42.4	21616	30.6	23412	32.8	23151	47.3	23940	48.8
Rural Areas	Township and Village Enterprises	13508	40.6	13050	26.6	12537	25.6	12704	25.9	12820	26.2	13086	26.7
	Private Enterprises	551	1.1	600	1.2	737	1.5	969	2.0	1139	2.3	1187	2.4
	Individual	3308	6.7	3522	7.2	3855	7.9	3827	7.8	2934	6.0	2629	5.4
Rural Sub-total		49028	71.1	49039	70.2	49021	69.4	48982	68.6	48934	67.9	49085	67.2
Total		68950	100.0	69820	100	70637	100	71394	100	72085	100.0	73025	100.0

Note : 1、 Source: 《China Statistical Year Book 2004》, P122.

2、 Flexible employment in urban areas=urban sub-total— above-mentioned items。

3. The number of people shifted from working state to unemployment or non-economic activities has also increased

The flow of people from working state to unemployment and non-economic activities has been on constant rise. From 1998 to 2002, labor participation rate in urban areas declined from 73.7% to 65.3%. The number of people engaged in non-economic activities increased from 78.84 million to 140.26 million, i.e., an increase of over 61 million within four years, which signifies that on average as many as 15 million people retreated from the labor market every year. The drop of labor participation rate implies the increase in the number of people retreated from the labor market, most of whom are victims of the restructuring programmes and some are poorly-educated young people.

Open unemployment is another option beside quitting the labor market. Estimated unemployment rate from investigation rose from 4% in 1996 to 6.1% in 2002. Official rate of registered unemployment also rose all the way to 4.3% in 2003, with a larger proportion of long-term unemployment. In places where enterprises are less competitive and the population less mobile, with the rising cost for employment such as transportation and housing, general unemployment and long-term employment has maintained at a particularly high level. Such kind of employment can ultimately become a structural problem, which is related

to chronic lackluster in labor demand and widespread regional disparity in employment capability.

The ever rising unemployment rate means that there are more and more people who are losing their jobs and who are looking for jobs. These people are either those laid off in the restructuring process because they are older in age and less qualified, or new entrants into the labor force.

4. Work mobility

As non-state and non-collective sectors taking increasingly greater share in job opportunities, the mobility of work has been greatly enhanced which brings about the increase in labor mobility rate. The increase of work mobility rate in China is mainly due to the following reasons:

- 1) Shortened terms of labor contracts in the formal sectors and higher job-quitting rate.
- 2) Irregular employment manners in the informal sectors including both voluntary resignation and passive dismissal.
- 3) Vast number of informal employment in both the formal and informal sectors, most of which are mobile.

5. Employment stability and security of the labor market has declined

In a final analysis, the drastic fall in the number of jobs together with the

fact that existing labor force is not fully qualified for the new posts have led to the rise of unemployment rate as well as the drop of labor participation rate. A lot of new job opportunities have been created along with economic development and institutional reforms, which attracted a large number of rural laborers into the urban area. As the labor market is playing a bigger role with labor legislation and labor-related law enforcement still lagging behind, formal job positions are diminishing, with flexible and informal jobs taking a much greater proportion in total, work tenures becoming generally shorter, and labor force getting more mobile. With social security system and employment service system still in deficiency, there is a great sense of instability among laborers and a general employment insecurity on the labor market. In the next chapter, we will look into the impact of China's current rules, policies and legislations on labor market flexibility and will come with some proposals.

II. Analysis on the impact of employment protection legislation on labor market flexibility and employment security

Employment protection legislation refers to laws, rules and regulations that provide protection to workers' employment security. Here it mainly refers to laws and regulations related to labor contract, downsizing, etc. On the one hand, it determines the flexibility of an enterprise in labor

adjustment, and on the other, it plays a key role in enhancing workers' sense of security.

1. Impact of labor contract on employment security

1) Status quo

At present, diversity in labor contracts has already exerted great influence on employment stability and constitutes a key factor affecting workers' employment security. Major problems include: non-existence of labor contracts and short-term labor contracts; diversified employment forms without corresponding legal adjustment; multiple labor relations, etc.

According to the first national survey *From School to Work*, generally speaking, 38% of employed young people have no labor contract of any kind, 20% have signed labor contracts for a term of less than one year, 36% have signed contracts with a fixed term of 1-3 years. Among young employees between 15 and 19, those with no labor contract or with one year's temporary contracts accounts for as much as 86%. Nearly 80% of young employees in rural areas have no labor contract or have only temporary contracts. According to a survey on the term of labor contracts among 22,151 employees in Shanghai, the proportions of contracts with a term of one year, one to five years or over five years stand at 38.1%, 49.2% and 5.2% respectively. Without labor contracts, the rights and interests of workers will have no guarantee. Temporary labor contracts

with a term of less than one year means that every year a large number of workers will have to renew or terminate their contracts, rendering their employment vulnerable. The small number of free-term contracts also attests to poor employment security. All in all, judging from the current state of labor contracts, workers are not fully secured in terms of wages, insurance, work-related injury and even job positions.

Besides, diversified employment forms have already gone beyond the scope of labor legislation. In many cases neither the employer nor the employee is entitled to labor law regulations and can only be subject to civil laws and economic regulations. Such cases may include housemaids, workers paid by the hour, privately hired workers (e.g. private chauffer), units that are not eligible for recruitment (such as affiliates to legal persons, private construction teams), retired personnel reemployed by enterprises and individuals with work outsourced from enterprises, which are not covered by the existing labor laws, nor by any other law, thus leaving loopholes. As a result, many labor disputes are very difficult to solve and the rights and interests of workers cannot be guaranteed. According to a questionnaire survey conducted by Beijing Juvenile Legal Aid and Research Center on the protection of migrant workers in 8 provinces around China, 48% of the migrant workers surveyed have experienced wage arrears and it cost them 3 times as much as the salary itself to get the arrearage paid.

Finally, in addition to the problems of non-existence of labor contracts, short-term labor contracts and non-labor contracts, there is also the problem of multiple labor relations and other special forms of labor relations. That is to say labor relations are diversified, which include part-time employment, moonlighting, job paid by the hour, dispatch services and free lance jobs, etc. These forms of employment are different from conventional employment in terms of work hour, wage, workplace, insurance and other welfares and are more apt to fall into labor disputes, rendering workers' rights and interests insecure.

2) Causes

Such a situation is mainly caused by lack of related laws and regulations. For instance, new legislations are yet to be formulated for regulating diversified labor relations. By far, *Labor Law* is almost the only formal legislation concerning labor contract and labor relations. In 2005 the Ministry of Labor and Social Security promulgated the *Notice on Issues Related to the Establishment of Labor Relationship* and the *Notice on Strengthening Management of Labor Contracts for Migrant Workers in Construction and Other Trades*. It is stipulated in the *Labor Law* that once a labor relationship is established, a labor contract must be signed which, according to its term, can be categorized as fixed-term contract, free-term contract or task contract, or, according to its signee, categorized as collective labor contract or individual labor contract. Provisions are

given in the last two documents related to identification of de facto labor relations and on labor contracts of migrant workers in the construction industry. Specific issues covered by the *Notices* include:

-- Free-term contracts. According to the *Labor Law*, in times when a person has worked in the same unit for over ten years and both the employer and employee agree to extend the labor contract; when a person has worked for a long time and has no more than 10 years before statutory retirement; when a demobilized serviceman comes into first employment and in other cases as provided by laws and regulations, if the employee requests to sign a free-term labor contract, the employer should agree to do so.

--Economic compensation. The *Labor Law* stipulates that the employer should offer an economic compensation to the employee in cases of dismissal and downsizing with precaution but does not have to pay any compensation when the contract expires.

--Probation. The *Labor Law* stipulates that a probation period of up to six months can be prescribed in the labor contract. The probation should be no more than 15 days for a 6 month and less contract, no more than 30 days for a 6 month to one year contract and no more than 60 days for a 1-2 year contract.

It is evident that the existing provisions are not only inadequate but also

in need of improvement and they have the following problems:

- i. The current *Labor Law* does not have sufficient procedural rules for the signing of labor contracts. Employers who evade labor contracts can only be penalized by administrative means which does not have enough deterrence.
- ii. The *Labor Law* is clearly defined to cover specified labor relations between employee and 5 kinds of employers, namely enterprises, individual economic organizations, government organs, public service agencies and social organizations and is not applicable to labor relations defined by civil contracts. The courts, on the other hand, often refuse to accept such cases in the first place citing that labor disputes should first go through arbitrations. In fact, they are reluctant to deal with the cases because they are not very profitable.
- iii. Existing labor legislations do not lay enough emphasis on long-term contracts. While conducting reform related to permanent workers, fixed-term contract was given more priority than free-term contract. At the same time, as the *Labor Law* grants employees the right to ask for free-term contract after serving the same employer for over 10 years and it spares employers the obligations to pay compensations to the employee at expiration of

contract, employer would often try to avoid the binding of long-term contract by signing short-term labor contracts instead to create fact of discontinuing so as to save economic compensations.

That is why most of the labor contracts are fix-termed.

3). Proposals

The short term and diversification of labor contracts reflects the short sightedness of employers in their business operation as well as the decline in labor market stability. National conditions should be taken into full account while making adjustment to labor contracts. Most of the employers do not have the credibility in market competition and their businesses are not sustainable at all. Furthermore, since there is a great supply of labor force with low and similar quality, employers would rather choose short-term labor contracts. Under these circumstances, adjustment to labor contract control should be carried out in an appropriate manner while allowing certain flexibility for enterprises to promote their development that will give protection to workers. Efforts should be accelerated for the formulation and implementation of related labor standards. These problems could be addressed and specified in the forthcoming *Labor Contract Law*.

- i. Establishment of labor relations should be strictly standardized by legislation. Non-standard labor relations and labor relations

established in civil contracts should be clearly defined and incorporated into the scope of regulation of the labor legislations.

- Labor laws should apply to all those who work for the purpose of remuneration or for getting income from business, as long as a labor relationship is established with whatever subjects and by whatever means.
 - Special provisions should be made for labor relations in part time employment, hourly-based employment, employment through labor supply services, freelancing and etc.
- ii. Given the real situation of labor supply and demand, it will be a protracted and arduous task to transform the short-term contracts into long-term ones by legal measures. To this end, the following readjustment should be made:
- Free-term labor contracts should gradually and ultimately replace fixed-term contracts and should become the major form of labor relationship.
 - After servicing in the same unit an accumulative total of 10 years, a worker should be entitled to request for a free-term labor contract.
 - The employer should pay an economic compensation to the employees when the labor contract expires.

- A worker who has been dispatched for three consecutive times or years should be entitled to apply for full membership of the labor-service enterprise. A worker who has been dispatched to serve in the same unit for three consecutive terms is entitled to become a formal employee of the unit.
 - In consideration of youth, rules could be laid down that a young employee should not be fired during and after the probation period with lack of skill as an excuse.
 - It should be specified that after working for a unit for certain accumulative hours, a part-time worker is entitled to enjoy the same treatment as the full-time employees.
 - Specifications should be provided in formal forms of employment related to other employer units.
- iii. It takes time to formalize flexible employment. At present, efforts should be made first and foremost to curb behaviors violating the basic rights and interests of workers. At the same time, the formulation of labor standards for flexible employment should be accelerated.

2. Impact of dismissal and downsizing on employment flexibility and security

1). Status Quo

Dismissal and downsizing bears directly on the flexibility of enterprises in their staff rearrangement as well as an employment security of those who are made redundant. Main problems in this respect include:

- i. In individual dismissal cases, the employer often deliberately make things tough for workers and press them to resign and the terminate their labor contracts so as to avoid economic compensations. According to the first *From School to Work* survey in China, only 4 % of young employees have enjoyed dismissal compensations.
- ii. It is often found in individual dismissal cases that the employer abuse company rules and regulations to dismiss workers by falsely blaming them for violating labor disciplines.
- iii. Provisions for probation period are also often abused in individual dismissal case.
- iv. In collective downsizing, the procedures are usually not transparent and are unclear.

2). Reasons

The arbitrariness of employers in dismissal and downsizing is due to the fact that decisions are often made in absence of the employees who are, as the employer, one major party of the labor relations. As a result, the rights and interests of the workers cannot be guaranteed.

In all relevant documents such as State Council Decree No. 111 *Regulations on the Settlement of Redundant Workers in SOEs*, *Provisions for Downsizing in Enterprises for Economical Purposes* issued by the Ministry of Labor and Social Security in 1994, *Measures on Economic Compensation for Violation and Termination of Labor Contracts* (LBF[1994] 481), *Measures on Repositioning and Settling Redundant Staff in Large and Medium-Sized SOEs in the Process of Separating Sideline Businesses from Major Productions and Transforming the Former* (Document GJBQG[2002] 859). Workers' congresses of enterprises have been mentioned in their provisions concerning the procedure of downsizing and standard of economic compensation.

- i. On the procedure of downsizing: Circumstances of the enterprise should be explained 30 days in advance to the trade union or the entire staff with relevant data of production and operation before downsizing plan is raised and the opinions of the trade union or the entire staff solicited for amendment and improvement. Then the plan should be consulted with local labor administrative authority together with the opinion of the trade union or the entire staff. After that, names of the laid-off workers would be officially announced by the employer. Finally, labor contracts are terminated and the laid-off workers are paid with a compensation

in line with related regulations and are issued with the proof paper of being laid-off. All downsizing actions should follow this procedure. For any further recruitment within 6 months, priority should be given to those made redundant.

- ii. On the standard of compensation: According to the standing of service, the worker should get a compensation equivalent to one month's salary for each year she/he has served. A service length short of a year will be calculated as a full year.
- iii. New provisions on collective downsizing: for enterprises which pursue policy-based bankruptcy, its settlement plan should be deliberated and adopted on the workers' congress and should be submitted to related authorities of the local government for examination and approval. For enterprises under normal operation, its downsizing plan should also be deliberated on the workers' congress. If a company cannot afford economic compensation or cannot properly settle its liabilities owed to the workers, it should be prohibited from cutting down its staff. If the downsizing scale of large SOE exceeds a certain number or proportion of its staff, then it must be reported to the local peoples' government.

However, in reality, the role and status of trade unions and workers'

congresses are fairly limited and are not capable enough to fulfill their responsibilities enshrined by law. In quantitative terms, in 2003, there were all-together 1.81m and more agencies of various kinds, yet only 900,000 less than a half of them had grassroots trade union organizations with a total membership of approximately 123.4 million, which accounted for 48% of those employed in urban areas. Only 350,000 agencies, or 19% of the total had set up congresses. In this case, it is very difficult for units with no trade unions or workers' congresses to ensure the rights and interests of workers should any disputes occur. Consequently, the above mentioned provisions guiding downsizing can hardly be abided by in a strict way and the employers could take actions arbitrarily. Furthermore, since there is no specification as of what kind of people are subject to downsizing, some people who need to be protected are made redundant, thus increasing social burden. The grave disparity in compensation standard between different trades and enterprises and even at different times in the same enterprise has caused unfairness and contentions.

3). Proposals

Dismissal and downsizing are the legitimate rights and interests of the employer. Given the large scale flexible employment and inadequate laws and regulations, the control and regulation on the employers should be extended with appropriate intensity in order to protect the

workers' rights and interests from major infringement. Because the current absence of the party representing workers' rights and interests, which cannot be filled immediately, the workers can only be protected through enhancing employment legislation and law enforcement. Governments, in consideration of local security, may exercise certain regulation and control on downsizing, but are not paying much care on individual dismissals. Therefore, more emphasis should be given to legal provisions on individual dismissals.

- i. In downsizing, special protection should be rendered to people in need of assistance, such as single-parent families, people with spouse already laid off, young people and people approaching retirement age.
- ii. Workers should be given on a longer notice about their dismissal so that they can have more time to seek new jobs.
- iii. During the examination of the downsizing plan, the workers' congress should have a closer look into the measures of settlement for the laid-off workers.
- iv. Increase labor inspectors to inspect the dismissal and downsizing of the employer.
- v. Since most of the employees of flexible employment are not covered by basic social insurance, a system of compulsory dismissal allowance

can be recommended so as to provide them with a certain degree of guarantee.

3. Early Retirement and “Once-for-all Pension Payment”

Early retirement and “Once-for-all Pension Payment” are special policies issued by the government to facilitate labor adjustment in the state owned enterprises. Early retirement refers to employees who will reach retirement age within five years or have a standing of 30 years. These employees may enjoy early retirement. Before they reach retirement age, the enterprises shall give them living allowance and continue to pay the basic pension fees. When reaching retirement age, these employees shall go through the formal procedures of retirement. The period of early retirement shall be regarded as working years which will be added to the total length of service. By “Once-for-all Pension Payment”, it means that the enterprises shall pay employees concerned a compensation and relevant fees in a lump sum and thereby terminate the labor contract with the employees concerned while retaining the payment of social insurance which is undertaken by the enterprises for the employees.

Looking from the perspective of facilitating SOEs’ labor adjustment, these two policies are effective, but at the same time they exert complicated influence on job security in the labor market. In reality, the policy of “Once-for-all Pension Payment” is commonly practiced. There

are mainly three types of people involved in this respect. First, employees in enterprises with good profitability who voluntarily choose to terminate their labor contracts because they can enter the labor market for a similar job after being decently compensated by the current employer. Second, employees in enterprises with good profitability who are obliged to terminate their labor contracts. Most of these people would not get re-employed, so their job security remains a problem when they have used up all the compensation. Third, employees in enterprises of poor performance who have to get re-employed to make a living and pay for the private account of social insurance since their compensation is small. Therefore, the “Once-for-all Pension Payment” has yet to solve the problem of job security of the workers.

All in all, the early retirement and “Once-for-all Pension Payment” are effective policies for enterprises to adjust their staffing. Enterprises are required to undertake some social insurances for employees so as to avoid arbitrary firing of employees. Nonetheless, reemployment guarantee must be provided for those who have terminated their contracts because many of them are likely to stop paying social insurance due to the lack of income or fail to make both ends meet after paying social insurance. Therefore, these employees should be offered the same services as for the unemployed.

4. The Impact of Labor Security Supervision

Labor disputes are manifestations of contradictions within the employment protection. In 2003, arbitration committees for labor disputes at various levels heard 226,000 cases which involved 800,000 people, up 22.8% and 31.7% respectively than the previous year. Of all these cases, 11,000 were collective labor disputes. In terms of fulfillment of labor contracts, major disputes concerned wages, insurance benefits and work injury, which respectively accounted for 33.9%, 19.6% and 14.0%. In terms of the changes of labor contracts, major disputes concerned termination and suspension of labor contracts, accounting for 17.7% and 5.3% respectively. These figures show that there are still problems in the implementation of the related legislation among the contracted employees. What is more, there is still a larger number of employees who have not signed a labor contract. Therefore, they have no resort to claim their legitimate rights and benefits.

In October 2004, the State Council issued “Regulations on Labor Security Supervision”. It offers a safety net for employees. The “Regulations” stipulate the main body of law enforcement and the qualification system for supervisors of labor security supervision. Apart from that, enterprises, self-employed businesses, labor agencies, vocational training agencies and vocational qualification agencies are all subject to the Regulations. The Regulations specify the four duties of labor security supervision bodies and the obligations of supervisors, which include inspection on

employer's compliance of labor security laws and regulations; handling complaints about violation of these laws and regulations; correction and punishment of behaviors that contravene such laws and regulations, and supervision over internal labor security rules formulated by employers, the signing of labor contracts with employees, the compliance with labor standards, social insurance payment and the compliance of labor agencies, vocational training agencies and vocational qualification agencies with national laws and regulations concerning labor security.

The key problem in the implementation of the "Regulations" is the insufficiency of the monitoring and supervision force. As of the end of 2004, labor security supervision agencies totaled 3277 in China with 19,000 full-time supervisors at various levels. In other words, for every 13,500 workers, there is only one full-time supervisor. In the light of the huge quantities of flexible employment, this number of supervisors is miniscule. The team of supervisors has to be enlarged if labor security is to be provided effectively for flexible employment. Just as policemen are required to maintain social security so are labor security supervisors required to safeguard employment security.

III. The Impact Analysis of Labor Market System on the Flexibility of Labor Market and Job Security

Labor market system refers to social systems designed to provide

employment protection, including social insurance system and minimum wage system, to the laborers.

1. The Impact of Social Security

China's social Security system includes social insurance, social welfare, social relief and special care, which is most correlated to the labor market, with social insurance at the core. Social insurance is a phenomenon of modern industrial society. It aims at offering security guarantee against the present and future vocational risks through mutual assistance of the laborers. Regarded as a safety net in the labor market, it is of vital importance to the job security of laborers. However, since the premium is mainly contributed by employers and employees, it would increase the employment cost of employers and reduce the current income of employees, thus affecting the employment.

1) Status Quo

At present, China's social insurance is mainly composed of pension insurance, medical insurance, unemployment insurance, work injury insurance and reproduction insurance among which the first three insurances are the mainstay. There are three major categories of participants in the social insurance system. First, 10.72 million public servants are entitled to subsidized medical service and pension. Second, most of the 28 million staff in public institutions are mainly entitled to

subsidized medical service and pension while part of them are undergoing the transition towards basic medical insurance and unemployment insurance system. Third, employees in enterprises and other units are covered by basic items of social insurance including pension, medical care, unemployment and etc. That is to say, 38 million public servants and staff in public institutions enjoy full social security. For the employees of the enterprises and other units, however, it depends on the profitability of employers and the income level of individual employee, thus resulting in a wide gap in the level of guarantee provided by the social insurance.

As of the end of 2003, China's urban employment totaled 256.39 million, employment except for public servants and staff of public institutions totaled 218.43 million, among which employment of enterprises totaled 93.42 million, self-employed and other forms of employment totaled 121.24 million. 116.46 million, 103.73 million, 109.02 million, 45.75 million and 36.55⁵ million have participated in basic items of insurance of pension, unemployment, health, work injury and reproduction respectively, equivalent to 125%, 111%, 117%, 49% and 39% of the urban enterprise employment of that year; equivalent to 53%, 47.5%, 50%, 21% and 16.7% of urban employment except for public servants and the staff of public institutions, and equivalent to 45.5%, 40.5%, 42.5%, 17.8% and 14.3% of total urban employment of that year.

⁵ date source: communiqué on the statistics of labor and social security in 2003

The reasons why the share of insured labors in enterprise employment is different from that in total employment are as followed. First, pension premium are still paid for some laid-off workers from the state-owned-enterprises (SOEs) although they are not deemed as employees of these SOEs any more. Second, some laborers of flexible employment participate in the social insurance. Third, many enterprises have recruited some flexible laborers, but they only pay pension premium for core employees rather than everyone. Fourth, most of the self-employed and informal laborers have not participated in social insurance.

Therefore, the problem at present is non-core employees of formal enterprises, flexible employees of other enterprises and self-employed, people working in informal sectors are basically excluded from the social insurance. That's why the sense of employment security is generally low now.

2) Causes

Although the “Social Insurance Law” is not available at present, a series of related laws and regulations at national level have been issued, such as “The Decision on the Establishment of a Unified Basic Pension System for Enterprise Employees”, “The Decision on the Establishment of Basic Medical Insurance System for Urban Employees”, “Rules on

Unemployment Insurance”, “Rules on Work Injury Insurance”, “Guidelines on the Participation of Urban Flexible Employees in Medical Insurance”, “Guidelines on the Issues Concerning Part-time Employment”. Besides, some local governments have also articulated related regulations. For example, Labor and Social Security Bureau of Beijing and Beijing Bureau of Finance co-issued “Circular on Further Promotion of Flexible Employment among the Unemployed” and the Labor and Social Security Bureau of Shanghai issued “Circular on Implementation Guidelines for Medical Assistance for the Unemployed”.

It is fair to say that these documents, laws and regulations are quite comprehensive. One of the reasons for the relatively low attendance and coverage of social insurance is the irregular practice of some enterprises in employment. Besides, there are some mistakes in building the social insurance system. The desire was to improve the social insurance system at an early date so as to strengthen its capacity of insurance and guarantee. However, the measures it adopts have made it very difficult to cover the targets the system aims to protect. For example, the policy on basic medical insurance for the flexible employees is designed to provide basic medical care for flexible employees. However, in practice, many cities set a high threshold of premium to ensure the resilience of the medical insurance system itself. Consequently, it poses difficulties for many flexible employees.

First of all, pension is a must for each laborer in modern society no matter he or she works in formal or informal sector since everyone has to prepare for the old age when he or she can not work any more. Presently, nearly half of all laborers have not entered basic pension system mainly because the employers resort to flexible employment mechanism to evade paying premium for laborers so as to cut cost. Another important factor is that some flexible employees have very low income, so they would not like to enter social insurance if it is not compulsory. Lastly, there are some technical and institutional barriers. Flexible employees are constantly moving among different enterprises, regions and sectors. They may have a temporary job for one month and stay out of job for another. Given the lack of mechanism to ensure continuous premium payment for intermittent employment in different enterprises, regions, and sectors, some flexible employees find it very difficult to enter the social insurance.

Unemployment insurance is designed for the formal employment sector as a buffer zone for employees in normal job transfer, rather than a long term and sustained income source for the unemployed. One can hardly expect it to be a means to address the problems occurred in the transition towards the market economy either. On the part of formal employees, they are less likely to lose the job. Even they are out of job, they won't take unemployment insurance very seriously since it's too small. On the

part of flexible employees, unemployment is a kind of luxury. Even they are out of work, they have to take any job possible since unemployment insurance is too small to provide for basic subsistence. The present unemployment insurance, together with policies concerning laid-off workers, is to provide basic guarantee for the unemployed from the SOEs. Two major obstacles for the participation of flexible employees are as follow. First and foremost, financial unfeasibility gives rise to the second obstacle. Given the wide gap between different regions in the level of economic development and labor market, the fund for unemployment insurance vary drastically in different regions, leading to the low level of fund collection for unemployment insurance. In some regions, unemployment insurance is run very well while deficit of unemployment insurance plagues other regions. All in all, unemployment insurance system is not designed for flexible employment. A more tailored system should be devised for flexible employees.

Medical insurance is a must for each laborer just like pension. What's more, it's more urgently needed. Illness costs a lot, let alone severe diseases could drag people into poverty. Therefore, health problems pose major threat to job security. The majority of western developed countries have adopted the system of national health insurance, namely, health insurance is not directly linked to employment. In China, however, medical insurance is directly linked to employment. Apart from labor

themselves, the medical charge for their children and the pensioners all come from the health insurance paid by employees. Medical insurance of the unemployed is subsidized by unemployment insurance, while work injury insurance subsidizes the medical insurance of the workers injured. But the subsidy and allowance are both fairly low. In 2003, unemployment insurance allocated 929.05 million RMB as subsidy for medical insurance. For flexible employees, the major problem is excessively high threshold of the current medical insurance. Besides, some technical barriers also count, such as the suspension and resumption of insurance. For example, according to the provisions of Liuzhou, comprehensive medical premium for flexible employees is equivalent to 9.5% of the average income of the previous year, inpatient medical premium 4%, far exceeding what individuals can afford.

Work injury is closely related to employment. In particular, flexible employees have a high rate of work injury. Law enforcement should be stepped up to ensure the employer's compliance with insurance laws and regulations in this regard.

3) Recommendations

According to the analysis mentioned above, the lack of job security in the labor market is mainly attributable to the absence of coverage of social insurance system on flexible employees. Based on the current system, one

reason for it is that employers shun their duties of paying the premium, which is a violation of the law. The other is the unwillingness of the flexible employees to pay for the insurance due to their low income. A third cause is the lack of consideration for flexible employment in the design of present insurance system, which technically obstructed them from the participation. In response, the following solutions are recommended.

- i. Develop basic medical insurance, work injury insurance and basic pension system for flexible employees to accommodate their job security.
- ii. Strengthen the management of employment and promote the participation of flexible employees in social insurance.
- iii. Enhance the job security for flexible employees and try to prevent them from being out of job. The practice of Beijing and Shanghai might be taken as a reference. Namely, the government should play a more important role in providing social security for flexible employment while formal employment may rely mainly on employers. Subsidies should be offered to flexible employees as well as the self-employed. Apart from subsidy for pension and unemployment insurance, medical insurance should also be subsidized.

According to the “Circular on Issues Concerning Further Promotion of Flexible Employment for the Unemployed” of Beijing, flexible employees are entitled to subsidy for social insurance as long as they go through necessary employment registration procedures, participate in social insurance in relevant agencies, and if their income is higher than the local minimum living standard security line while two times lower than the minimum wage of Beijing employees. Government provides the lion’s share while individuals contribute a little, which addresses the problem of social insurance for flexible employees in Beijing. However, this pattern of fiscal subsidy may not be applicable in all regions.

“Provisional Measures on the Comprehensive Insurance for Non-local resident workers in Shanghai” offers special and commercial employment security mainly covering work injury, inpatient treatment and other comprehensive job risks for “non-local workers unaffiliated with any work units”(which refers to self-employed non-local resident workers who have legitimate places to live in and work). In this process, the government also plays a vital role.

- iv. The current social insurance should be revised as soon as possible to accommodate the characteristics of flexible employment. The

misconception and inappropriate practice of carrying out social insurance for the sake for social insurance should be redressed. It has to be made clear that social insurance is the means to promote employment and offer job security rather than an end. The current system should be improved in line with this concept.

2. The Impact of Social Insurance Bearing

1) Phenomena

The non-wage cost of an employer reflects the job security acquired by the employees. It has significant impact on the flexibility of employment of an employer. Non-wage cost mainly contains social security bearing, benefits, labor protection, training, housing allowances etc.

According to the current system, the overall social security bearing of an enterprise are as follows: basic pension: 20% by enterprise, 8% by employee; basic medical insurance: 6% by enterprise, 2% by employee; unemployment insurance: 2% by the enterprise, 1% by the employee; work injury insurance: 0.5%~2% by the enterprise; reproduction insurance: 1% by the enterprise. In total, enterprise undertakes 30%, employee 11%. In other words, apart from the salary directly paid to the laborers, the employer should pay social insurance equivalent to approximately one third of laborers' salary. The employee's salary will be deducted by about 10% for social insurances. For the self-employed, all

social insurance bearing is undertaken by themselves, which exceeds 40% of the average income⁶

Besides social insurances, the enterprise may allocate 5% as the training fund for employees and provide accumulation fund for housing and other benefits. Some enterprises also pay for additional insurances. For employees, personal income tax and private part of accumulation fund for housing should be deducted from the salary.

The first survey on the newly graduated employees in China reveals that about 8% newly graduated employees do not enjoy any benefits and welfare; various benefits and welfare cover 4% to 42% of them; no items of benefits or welfare covers more than half of all respondents. To be more specific, the highest coverage is pension (42%), medical insurance (36%), food subsidy (35%), bonus (32%), unemployment insurance (26%), transportation allowance (24%), housing allowance (21%), work injury insurance (20%). Those benefits of low coverage include compensation for dismissal (4%), training and education (10%), labor protective devices (14%). Because of the special conditions of the youth, few people enjoy subsidies for child care (4%), reproduction insurance (12%), paid sick-leave (8%), and paid annual-leave (11%).

⁶ For the self-employed in Shanghai, pension 30.5%, unemployment insurance 3%, medical insurance 8%, three items in total, 41.5%

2) Cause Analysis

For an employer, non-wage cost of social insurances is rather high even regardless of other benefits. The actual bearing of each enterprise varies a lot based on its economic performance. Technology, capital and knowledge intensive enterprises have relatively low labor cost, thus the actual bearing of social insurance is not so heavy. Technology and labor intensive enterprises face relatively high labor cost, hence, a relatively heavy bearing of social insurance. Labor-intensive enterprises with low technology content offer low salaries. However, the share of labor cost is considerable in the total cost, hence, extremely heavy bearing of social insurances. These enterprises tend to seek flexible employment to reduce the labor cost by cutting salary, cutting the base for the bearing or even evading the payment of social insurances. For some flexible employees who have low income, their disposable income will be so low as to go below basic subsistence if they pay all social insurances. Even if they pay all social insurances, the premium won't be high enough for a decent security in the future. Under such circumstances, these laborers themselves are unwilling to pay the social insurance.

3) Recommendations

The goal of social insurance is to boost employment. A precondition for social insurance is a moderate income disparity of the participants. A

certain level of economic development is crucial for the development of social insurance. If the labor income is low with a large share of informal employment, social insurance does not have fertile ground to grow. Therefore, the current social insurance system should be readjusted to maintain the flexibility of employment while enhancing job security of laborers. The key lies in adjusting social insurance system for the flexible employees.

- i. At first, it's hard to tell if the social insurance bearing of an enterprise is high or not. However, for a large number of flexible employees, their burden of social insurance is too heavy.
- ii. In line with the current common practice, the salary includes basic salary, salary determined by the length of service, salary of the post, bonus, allowances (housing, transportation, child care, communication etc.). At present, formal enterprises pay social insurance based on basic salary rather than total income. Even with a high premium rate, the actually bearing is relatively small. For flexible employees, however, they have few benefits and allowances other than basic salary, so the same premium rate means a larger actual bearing for them. So, it calls for the better management of the base for social insurance.
- iii. Differentiated policies on social insurance subsidy should be laid

out for different categories of enterprises. Research should be carried out on the criteria for classification of enterprises. The government should offer subsidy to social insurance of the labor-intensive enterprises with low returns.

3. The Minimum Salary System

The minimum salary system aims at ensuring basic right of income for laborers, which is part of labor protection. According to “Regulations on the Minimum Salary” issued by the Ministry of Labor and Social Security in 2004, Minimum salary refers to the income of an employee with following items deducted: Over-time salary, allowances for special working conditions, food, transportation and housing, legal leave, social insurances and accumulation fund for housing etc. To date, the minimum salary system has been developed in all provinces (regions and municipalities) with standards of minimum hour wage set up in majority of provinces (regions and municipalities).

As in Table 4, so far, minimum salary varies from 235 Yuan/month to 684 Yuan/month in different provinces. In Guangdong, Shanghai, Jiangsu, Zhejiang, the highest standards are over 600 Yuan. In Beijing, Tianjin, Hebei, Shanxi, Shandong, Hainan, the highest standards are over 500 Yuan. In Jilin, Heilongjiang, Jiangxi, Henan, Shaanxi, Gansu, Ningxia, Qinghai, the highest standards are over 300 Yuan, in the remaining 13

provinces or regions, it is over 400 Yuan.

As mentioned before, low-income workers always face excessive long working hours without benefits and welfare. According to the survey of newly graduated employees, 60% of the employed young people earn a monthly salary between 600-1500Yuan, with another 30% less than 600Yuan, slightly over 10% above 1500Yuan. Average weekly working hours are 48. More than one third of the respondents work over 50 hours per week. Most of the young employees have no social insurances. A few of them enjoy the allowances for food, transportation and housing, even fewer have paid-leave.

The present minimum salary system can not achieve its desirable results. The system is designed to protect the basic rights and interest of laborers and assume that the employer will pay other allowances and benefits apart from the minimum salary. Yet in fact, the employers that pays minimum salaries are mostly less capable of paying other benefits and allowances or even unable to pay at all. With the system in place, the rights and interest of laborers can not be fully protected. The employer may take the minimum salary standard as the full amount of salary for workers to cut the cost without breaching the law. On the part of the employees, with relatively low salary rate in the market, they have to work over time to earn more. In the end, the minimum salary system does not only fail to protect the flexible employees, but provides a legitimate

tool to the employer to exploit the laborers instead. Besides, the low salary has negative impacts on the follow-up unemployment insurance system and the minimum living standard security system for the urban residents.

In this regard, it is recommended that the minimum salary be raised to include previously deducted items. By this measure, the employer is obliged to provide insurances and benefits for laborers. Apart from that, the system should be set up to specify the situations in which the minimum salary standard can be applied so as to prevent employers from exploiting laborers by taking minimum salary as market rate. The government may also consider salary subsidies for some low-income, low-profit labor-intensive enterprises.

Table 4 : Region Specific Minimum Salary⁷

Unit: Yuan/Month

Region	Start From	Minimum Salary Standard									
Beijing	2004.7.1	545									
Tianjin	2004.7.1	530	510								
Hebei	2004.7.1	520	470	420							
Shanxi	2004.7.1	520	480	440	400						
Inner Mongolia	2004.7.1	420	400	380							
Liaoning	2004.11.11	450	400	350							
Included: Dalian	2005.1	500	450	380							

⁷ Date source: China Labor Market Website

Jilin	2002.5.1	310	270	240							
Heilongjiang	2003	390	360	325	305	280	250	235			
Shanghai	2004.7.1	635									
Jiangsu	2004.7.1	620	500	440	360						
Zhejiang	2004.10.1	620	560	510	440						
Included: Ningbo	2003.9.1	520	480								
Anhui	2004.10.1	410	390	370	360	350	340	330	320	310	290
Fujian	2003.11.1	480	430	400	360	350	300	280			
Included: Xiamen	2003.7.1	480	430	360							
Jiangxi	2004.9.1	360	330	300	270						
Shandong	2005.1.1	530	470	420	380	350					
Included: Qingdao	2002.10.1	410	380								
Henan	2003.10.1	380	300	240							
Hubei	2005.3.1	460	400	360	320	280					
Hunan	2003.7.11	400	380	360	340	320	300				
Guangdong	2004.12.1	684	574	494	446	410	377	352			
Included: Shenzhen	2004.5.1	610	480								
Guangxi	2004.10.25	460	400	360	320						
Hainai	2004.7.1	500	400	350							
Chongqing	2004.5.1	400	380	350	330						
Sichuan	2004	450	400	340	280						
Guizhou	2004.10.1	400	360	320							
Yunnan	2004.10.1	470	405	350							
Tibet	2004.11.1	495	470	445							

Shaanxi	2001.10.1	320	295	270	245						
Gansu	2004.1.1	340	320	300							
Qinghai	2004.10.1	370	360	340	330						
Ningxia	2004.2.1	380	350	320							
Xinjiang	2004.5.1	480	440	380	370	360	350	330	320	300	

IV Impact Analysis of Labor Market Policies on Employment Flexibility and Security

The labor market policies here refer to both the proactive and propassive labor policies including the unemployment insurance system, the minimum living standard security system for urban residents, the proactive labor market policies, and the system for the protection of special groups of people.

As mentioned above, China's labor market is witnessing a wave of surging mobility, in particular, the mobility between flexible employment and unemployment and the state of non-economic activities on the one hand, and that among the various existing flexible posts on the other. Apart from the protection offered for the employees at work, the labor market system and labor policies are also playing an indispensable role in job security.

1. The Impact of the Unemployment Insurance System

1) The Status Quo and Problems

The current unemployment insurance system cannot provide adequate protection for the unemployed, which is illustrated in the following four aspects.

i. Coverage

Unemployment insurance should cover all urban employees except for civil servants. By the end of 2003, it had covered 103.73 million people, 76% of all urban employees in various work units, 40% of all urban employees. Of this total, registered employees in state owned enterprises (SOEs) covered by this system numbered 48.84 million, representing a coverage of 160%; employees in enterprises of collective ownership covered by this system numbered 11.25 million, accounting for 130%; in other enterprises 20.21 million, 66%; in public institutions, 21.753 million, 80%; in other entities, 1.678 million, 4%.

In urban areas, the share of self-employed and informal employees represents a big proportion. Given their big job mobility, both the employers and the employees don't have sufficient motivation to pay the social insurances, which results in a low coverage of social insurances among urban employees, 60% of them being uncovered.

ii. Beneficiary Rate

In 2003, 4.15 million received compensation from unemployment insurance, representing a 52% beneficiary rate; during the same period of

time, 7.416 million were paid compensations from unemployment insurance, making up 92.7% of the registered unemployed, which basically covered all the registered eligible unemployed.

The major reason of the low beneficiary rate is that new entrants to the labor market are not qualified for unemployment compensation. Each year, about 60% of the graduates will enter informal employment while some other graduates remained jobless. Moreover, unemployment rate of the youth is higher than the average. As a result, most young workers are not protected by unemployment insurance either in the case of losing a job or trying to find a job after leaving school.

Another important reason for the low beneficiary rate is due to a high percentage of long-term unemployment. According to China's first survey "From School to Work-place", 72% of those unemployed are out of job for one year and more. So, after the period covered by unemployment benefits, the long-term unemployed will receive no compensation from the unemployment insurance.

In 2003, beneficiaries of unemployment insurance accounted for less than half of the total unemployed. That is to say, the unemployment insurance system is running smoothly in itself, but it offers insufficient protection for the workers.

iii. Substitution Rate

In 2001, China's per capita unemployment premium stood at 239.5Yuan/month, equivalent to 26% of the average salary of urban employees. In 13 of the 31 provinces, this figure is higher than 25%, with the highest figure in Hainan as 46%, then, Inner Mongolia as 35%, Shanxi as 33% and Anhui as 32%. The high rate of substitution in those provinces is due to the local low income, their actual unemployment premium is not high at all. On the contrary, in 18 provinces with a substitution rate lower than 25%, Shanghai is the lowest as 18%, then Zhejiang and Sichuan as 20%, Jiangsu and Hunan as 21%, Beijing as 22%. In some of these provinces and municipalities, the actual premium level is not low, for example, in the case of Beijing (350Yuan/month), Shanghai (319Yuan/month), Tianjin (291Yuan/month). Their substitution rate is low just because of their high average salary. However, some other regions offer extremely low unemployment premium, say, Hubei (163 Yuan/month), Jilin (165 Yuan/month), Sichuan (167 Yuan/month), Hunan (171 Yuan/month), Jiangxi (174 Yuan/month), Chongqing (175 Yuan/month), Henan (183 Yuan/month). The expenditure structure of the unemployment insurance fund reveals that each unemployed received compensations for 10~11 months on average plus 1200 Yuan of other subsidies and allowances per capita.

Generally speaking, the unemployed do not have a high salary when on job. So the substitution rate may not necessarily seem low when the

unemployment premium is compared with the previous salary of the unemployed. In other words, the system design is reasonable. However, the substitution rate is too low when compared with the average salary in general (See Table 5). The unemployment compensation is merely something like a relief or assistance, unable to offer full security for the unemployed. Moreover, since the unemployment compensation is very close to the minimum living allowance and the minimum wage, the unemployed tend to exit from the labor market or seek employment secretly.

Table 5 : Expenditure and Beneficiaries of Unemployment Insurance in 2001

Region	Per Capita Unemployment compensation (Yuan/month)	Minimum wage (Yuan)	Average Salary of Urban Employee (Yuan/month)	The Share of Unemployment premium to Minimum wage	The Share of Unemployment premium to average salary
National Average	239.49	--	905.83	--	--
Beijing	349.94	412.00	1596.25	0.85	0.22
Tianjin	291.33	412.00	1192.33	0.71	0.24
Hebei	219.08	290.00	727.50	0.76	0.30
Shanxi	223.45	300.00	676.83	0.74	0.33
Inner Mongolia	237.77	210.00	687.50	1.13	0.35
Liaoning	216.36	360.00	845.42	0.60	0.26
Jilin	165.01	270.00	730.92	0.61	0.23
Heilongjiang	212.90		742.50	--	0.29
Shanghai	319.03	490.00	1815.08	0.65	0.18
Jiangsu	210.90	430.00	986.83	0.49	0.21

Zhejiang	270.42	410.00	1365.42	0.66	0.20
Anhui	210.61	--	659.00	--	0.32
Fujian	242.48	420.00	1001.08	0.58	0.24
Jiangxi	173.93	--	668.83	--	0.26
Shandong	236.06	370.00	834.00	0.64	0.28
Henan	183.12	290.00	659.67	0.63	0.28
Hubei	163.06	260.00	718.25	0.63	0.23
Hunan	171.03	325.00	801.92	0.53	0.21
Guangdong	342.32	547.00	1306.83	0.63	0.26
Guangxi	203.51	--	756.25	--	0.27
Hannai	316.07	400.00	693.42	0.79	0.46
Chongqing	175.43	290.00	793.58	0.60	0.22
Sichuan	166.81	270.00	827.83	0.62	0.20
Guizhou	184.19	260.00	749.25	0.71	0.25
Yunnan	195.13	300.00	878.08	0.65	0.22
Tibet	290.89	--	1595.33	--	0.18
Shaanxi	175.29	260.00	760.00	0.67	0.23
Gansu	174.31	--	829.08	--	0.21
Qinghai	189.13	260.00	1075.50	0.73	0.18
Ningxia	227.95	300.00	870.17	0.76	0.26
Xinjiang	193.87	390.00	856.50	0.50	0.23

Data Source : (1) Yearbook on Labor and Social Security(2002) ; (2) The data on minimum wage comes from Salary Department of the Ministry of Labor and Social Security, August, 2002.

iv. Regional Disparity

Huge disparities exist among different regions in the doses of protection that the system of unemployment insurance can provide for the jobless. The *Regulations on Unemployment Insurance* implemented in 1999 stipulates that citywide overall planning shall be practiced in municipalities and cities with districts, and provincial and autonomous regional governments shall decide on the structure of the provision of

unemployment protection. For most of the regions, unemployment insurance is planned at the prefecture level. Due to the low level of social pooling, the insurance resources in some localities are limited while large amounts of accumulated surplus exist in other localities. In 1999, in eight eastern coastal provinces and municipalities including Beijing, Shanghai, Zhejiang, Shandong, Guangdong, Fujian and Tianjin, their incomes of unemployment insurance fund accounted for 49 percent of the national total, accumulated surplus up to 41 percent, and the number of jobless covered by the unemployment insurance was 47 percent.⁸

Economic discrepancies among different regions make a unified national social security system encompassing unemployment insurance unattainable. On the face of it, the system of city-level planning for unemployment insurance accommodates to the reality that big economic discrepancies exist among the various regions. But on the flipside, the system in a way constitutes a “barrier of social security” as it would prevent the free flow of labor between regions and the narrowing of regional gaps. Employees in formal workplaces of developed areas enjoy an unemployment protection with double benefits than that for those in

⁸ Research Institute on Labor Science, Ministry of Labor and Social Security, 2002: *China Report on Employment—Employment in a Time of Economic Restructuring and Structural Adjustments*, China Labor and Social Security Press, first edition, February 2003, p98

the relatively underdeveloped regions. This has seriously hampered normal mobility of labor power. Moreover, for those who take more flexible ways of employment and therefore can't or are ineligible to participate in the local unemployment insurance system, such an ununified insurance system virtually means nothing.

2) Reason analysis

The main reason for the impotent unemployment insurance system is that in a developing economy like China, as its economic development is still at a low level, the single insurance system alone is not enough to provide sufficient protection for all the unemployed. The major barricades to the development of the unemployment insurance system include: first, the system is technically unfit for a high proportion of flexible employment. Second, most workers earn a minute wage leading to a proportionally low insurance level. Many unemployed personnel, therefore, have to engage in informal employment to make ends meet even when they are receiving unemployment compensations. Third, big economic gaps exist among different regions and different groups of people. It is difficult to establish a unified system that meets the needs of all the groups. Fourth, the current development level is not enough to support the running of the unemployment insurance system. In many places people have to add a lid on the unemployment rate for fear of an insolvent unemployment fund.

3) Suggestions

In the light of the above analysis, the following suggestions are made to improve the existing unemployment insurance system:

- i. To improve the unemployment registration system allowing all the unemployed to register whether they are locally registered permanent residents or not.
- ii. To raise the level of unemployment insurance premium so that the basic livelihood of the unemployed can be ensured.
- iii. To shorten the period of receiving insurance premium so as to urge the unemployed to seek a job.
- iv. To divert more fiscal resources to the unemployment fund of poor areas.
- v. To set up an unemployment assistance system that links up to the system of minimum living allowance for urban residents so as to meet the basic requirements of the unemployed.

To link up to the proactive labor market policy and allow personnel living on unemployment assistance to engage in informal employment.

2 The impact of the system of minimum livelihood security for urban residents

The system of minimum livelihood security for urban residents (or

minimum security) is a system that provides aid to urban residents whose family per capita income is lower than a certain standard. It is a form of social welfare. Relevant policies include housing subsidy, education subsidy and so on. The system of minimum livelihood security for urban residents is closely connected with the unemployment insurance system and the system of minimum wage, and therefore has an impact on employment security.

1) Status quo

With the improvement of the minimum security system, the number of people eligible for urban minimum livelihood security increases on a yearly basis (see table 6) from less than 1 million in 1996 to about 4 million in 2000. The year 2001 witnessed an upsurge of over 10 million while by 2003 the figure was over 20 million. The main part of the increment came from the labor force. In 2002, among those receiving benefits of the urban minimum livelihood security system, 17 percent were unemployed, accounting for 43 percent of the registered unemployment; 23 percent or a total of 4.44 million people were laid-off workers; 13 percent or 2.51 million were employed, accounting for about 1 percent of urban employment; 6 percent were retired people, 12 percent were “three-withouts” personnel and other types accounting for 29 percent.

Table 6: people eligible for urban minimum livelihood security⁹

Year	Number of people protected (10,000)
1996	85
1997	88
1998	184
1999	281
2000	382
2001	1132
2002	1930
2003	2247

Central and local budgets at different levels are responsible for the urban minimum livelihood protection. From 1998 to 2003 nation-wide, the total sum disbursed for this purpose from various levels of budgets amounted to 34.5 billion Yuan, of which 17.3 billion was from the central government budget.

2) Reason analysis

The above mentioned figures attest to the following situations:

- i. With an enhanced flexibility of the labor market, the protection provided by social welfare in addition to the social security system is needed by more and more workers, not only by the

⁹ “Research on China’s unemployment problem and fiscal policy”. *World Management* 6th edition 2005

unemployed and the retired, but also by the employed.

- ii. Among the employed and the unemployed, the existence of extremely poor people in need of minimum security also shows that the wages and unemployment premium are too low to provide genuine protection.
- iii. Different regions have varied fiscal resources and there are places where the fund for minimum security is so insufficient that it leads to a high eligibility threshold which prevent many poor families from acquiring protection. Meanwhile, due to other insufficient social welfare systems, the poorness of many families is shown not only in the lack of income but also in their inability to shoulder cost of living such as medical care, education for the children, transportation, telecommunication, housing etc. In fact, fiscal allocation to minimum security is lower than that for a proactive and propassive labor market policy.
- iv. Non-permanent city resident workers are insufficiently protected.

3) Suggestions

- i. With the widening of the wealth gap, it is suggested that the tax policy be adjusted so as to use income transfer payment to achieve social fairness.
- ii. To accelerate the establishment of a livelihood protection system

for the rural residents.

3 The impact of a proactive labor market policy

A proactive labor market policy is an intervention to the labor market adopted by the government when the market does not work properly. It is a case in which the government pays for the promotion of employment. Domestic and international practices have shown that a proactive labor market policy means an active employment protection measure to greatly improve employment security in the labor market by creating and maintaining employment as well as action-taking by the government to promote employment.

1) Status quo

Since 2002, as symbolized by *Notification of the CPC Central Committee and the State Council on the Work to Promote Reemployment of the Laid-off and Unemployed Personnel* and supporting documents on eight sectors formulated successively by relevant ministries of the State Council, China has adopted a series of proactive employment protection measures to help the laid-off and the unemployed to get reemployed. These measures include the following five areas:

First, set up pro bono posts to relocate the unemployed and under-employed by using direct government input. Second, various service-type enterprises and commercial and trade companies that create

new jobs and recruit new employees with labor contracts signed for service longer than three years and communities that develop pro bono jobs for employment can receive social security subsidies from the reemployment fund. Third, job subsidies. Fourth, small credit policy for personnel who are willing to seek employment or create business on their own but lack starter capital for the initial stage. Fifth, tax reduction and exemption policy for three sectors: the self-employed, the service type enterprises and commercial and trade companies and large and medium-sized enterprises that reposition redundancy by spinning off sideline industries.

The receivers of the above policy support fall into four categories namely laid-off workers from SOEs, unemployed workers of SOEs, personnel to be relocated after the bankruptcy of the SOEs and other urban unemployed who receive minimum livelihood protection and have been out of job for over a year. The fund comes from the reemployment budget.

2) Problems

The main problem for the above mentioned policy lies in the fact that the number of receivers of the policy support is limited. Because of the specificity of the policy, not all the needy can receive assistance.

Receivers of the policy support are different types of redundancy from

SOEs and the urban poor that have long been out of job. The problems of such target groups lie in the following spheres:

First, redundancy from collectively owned enterprises and the unemployed from other types of enterprises are equals at the labor market and they all need support. Therefore, government funding should target not only on the specific group from SOEs. Otherwise, employment security is still lacking.

Second, an proactive labor market policy is aimed at promoting employment of all willing and capable personnel, not just the poor that have been jobless for long. In fact, it is those on the brink of unemployment and those short-term jobless that are more in need of help.

Third, a proactive labor market policy is a policy based on the social welfare policy at a higher level with the aim of engaging the willing and capable personnel in social activities through relocation and employment in stead of providing basic livelihood for those lacking employment competitiveness. Among the SOE redundancy and the urban long-term jobless, many cannot get employed through the help of a proactive labor market policy. Therefore it will be a waste of limited resources to practice a proactive labor market policy for these people. In reality, some of the jobless lease their “unemployment certificates” for profit. This is a

typical example of the dislocation of the policy purposes.

In addition, the effectiveness of specific measures of the whole proactive labor market policy must also be improved.

3) Suggestions

In dealing with the existing problems of the proactive labor market policy, the following suggestions are put forward:

- i. To shift the emphasis of policy support to all the unemployed.
- ii. The focus of the policy should include promotion of stable employment in addition to encouragement of job creation.
- iii. To establish a consolidated employment registration system for both urban and rural areas. An employment registration system should be widely established in rural areas to register the unemployed rural surplus workers who are willing to make a transfer, and the employment rate of the registered jobless should serve as an index for assessing the work of governments and relevant departments at various levels. This will be conducive to removing the irrationality of the current proactive labor market policy which is oriented only to the urban jobless, and to improving the efficiency of reemployment work and promoting social fairness.

4 The Impact of the input for a proactive and passive labor market policy

The input for a proactive and passive labor market policy is an important factor that determines policy effectiveness. The passive input in China mainly includes unemployment insurance and the basic livelihood security for the laid-off workers with the former increasing and the latter decreasing on a yearly basis. The input for basic livelihood security is used for the basic cost of living of the laid-off workers, the payment of pension premium, medical insurance and unemployment insurance. The active input includes supporting fund for reemployment, which is a transformation from the funds for the basic livelihood for laid-off workers. Special employment fund from central allocation, which is supported by local funding, dates back to 2003. The supporting fund for reemployment from central funding is earmarked for the reemployment of laid-off workers. It covers specifically technical training for reemployment, small-sum credit subsidy, job-hunting subsidy, job subsidy and social security subsidy, etc.

As shown in table 7, the ratio between the input in the labor market and GDP is not very low. The ratio is prevalently higher among EU countries but not among Asian and transforming countries in central and eastern Europe. In South Korea, the ratio is 0.41, Czech 0.44, US 0.71, Japan 0.76 and Britain 0.74. In terms of expenditure per jobless, in the year

2004, for one percentage point of unemployment rate, the propassive and proactive labor market input is 0.066 percentage point of the GDP. And the input for proactive labor market policy is higher than propassive input.

So generally speaking, China's labor market policy suffers not from lack of input, but from an irrational structure of expenditure. This is shown in the following three aspects: first, irrational target on group. Attention is paid only to SOE redundancy with negligence to other unemployed personnel; only to urban workers with negligence to workers transferred from rural areas. Second, irrational regional distribution with contradictions between urban and rural areas and those between developed and backward areas. Third, irrational distribution of input. The limited resource is used mainly in ensuring basic livelihood whereas the propassive labor market policy is short of input.

Therefore, while ensuring the moderate input in labor market, tax measures can be adopted to improve the second time distribution so that policy input will not be used to ensure basic livelihood. At the same time, the expenditure structure should be improved so that the labor policy can rightly target on the people and regions, raising the efficiency of the fund.

Table 7 Ratio of China's input in proactive and passive labor market policies

Year	GDP	Urban registered unemployment (10,000)	Laid-off workers (10,000)	Urban registered unemployment rate (%)	Estimated investigation unemployment rate (%)	Laid-off rate (%)	Input in proactive labor market policy		Input in passive labor market policy				Total input		INPUT PER UNEMPLOYED		
							100,000,000 YUAN	percentage to GDP (%)	Expenditure in unemployment insurance	Expenditure for the basic livelihood of the laid-off workers	100,000,000 YUAN	PORTION IN GDP (%)	Proactive LMPs	Passive LMPs	Registered unemp. rate	LFS unemploy ed rate	Total
1998	78345.2	571	610	3.1	6.6	3.3			122	0.16%	178	0.23%		0.023	0.011	0.036	

1999	82067.5	575	653	3.1	6.2	3.5			92	0.11%	217	0.26%	309	0.38%		0.035	0.018	0.058
2000	89468.1	595	657	3.1	7.6	3.4			123	0.14%	267	0.30%	390	0.44%		0.045	0.018	0.068
2001	97314.8	681	515	3.6	5.6	2.7			157	0.16%	246	0.25%	403	0.41%		0.044	0.029	0.065
2002	105172.3	770	410	4.0	6.1	2.1			187	0.18%	182	0.17%	369	0.35%		0.045	0.030	0.057
2003	117251.9	800	260	4.3	6.02	1.4	164.5	0.14%	200	0.17%	121	0.10%	485.5	0.41%	0.025	0.040	0.028	0.072
2004	136515	827	153	4.2	5.40	0.8	332	0.24%	211	0.15%	120	0.09%	452	0.33%	0.048	0.036	0.028	0.066

Sources: *China Yearbook of Statistics*, *China Yearbook of Labor Statistics*, Yang Yiyong (2005) “Proactive Labor Market Policy” and the author’s calculation

5 Other points

Now that trade unions have limited capacity in adjusting labor flexibility and ensuring employment security and they have very few measures in protecting employment of special groups, we would not make analysis in this respect.

V. General appraisal and policy recommendation for the system, policy, legislation adjustment of the Chinese labor market

1 Purpose for policy, system and legal adjustment concerning the labor market

For a country with a huge labor force like China, employment means the best protection for its workers. Employment not only provides the workers with a source of income, but also meets their need in involving themselves in social life. Having said that, all the adjustment of the labor market policy, system and laws is to protect the right of the workers in employment and ensure their decent work.

China is still in the process of industrialization and urbanization at a low development level. The general competitiveness of the enterprises is not strong and many are maintaining their operation by engaging themselves in primary stage production with low technical content. Many workers still have to work in the informal economic sector. For such an economy

with a large portion of flexible employment, the systems and laws must first of all aim at creating job opportunities by promoting flexible employment through observing the objective laws of economic development while providing employment security and basic protection for the workers through commensurate adjustment.

2 Labor market policies, systems and laws must be reoriented

Employment protection and security of the workers depends on the synergy of relevant systems, policies and laws. Analysis has shown that up till now, the systems, policies and laws of the labor market are adjusted towards the end of protecting formal employment while trying to incorporate the protection of informal employment into the current systems, policies and laws. Because of the completely different state of formal and informal employment, the above approach has virtually neglected the fact that flexible employment remains the main form of employment at present, and therefore it cannot help improve employment security of the labor market.

First, in terms of labor protection legislation , the current discussion on the drafting of *Employment Promotion Law* and *Labor Contract Law* and the revision of *Labor Law* basically focus on specific questions of formal employment such as labor contract, redundancy, labor dispute and labor supervision etc. There is little discussion on how to protect

through legislation the basic rights and interests of personnel engaged in flexible employment. For example, the building of a labor supervision contingent has not considered the characteristics of flexible employment. And, while there are many stipulations on redundancy there is little consideration for sackings in privately owned small enterprises and for issues concerning the rights and interests of the employees.

Second, in terms of the labor market institutions, the current practices have not taken into full consideration the characteristics of flexible employment. For example, the minimum wage system is a system on the presumption of formal employment, which is impracticable for flexible employment. Again, the social security system has not considered the problems of flexible employment such as low wages and unstable income. Various insurances should be enforced upon flexible employment.

Third, in terms of labor market policy, the function of unemployment insurance is to provide basic livelihood for the unemployed from formal employment units, and the various proactive labor market policies also target on the unemployed and underemployed from the formal units instead of people who are really in need of employment security in the labor market.

In a word, though it is widely recognized that the labor market is

becoming ever more flexible, various institutions, policies and legislations are still oriented towards protecting formal employment, targeting on the specific difficulties of particular groups instead of enhancing overall employment security in the labor market.

As mentioned at the outset, neither an over flexible nor an over protected labor market is good for the improvement of labor market performance. Therefore, it is necessary to maintain a moderate flexibility and employment security in the labor market. For the workers, lack of employment security reduces employment quality, while for the labor market, it hampers the improvement of productivity of enterprises and the development of the overall economy. In a labor market where employment flexibility has manifested itself and is becoming the mainstream and trend, providing employment security for the workers is a must. This can help maintain harmony in the labor market, promote employment and improve efficiency of the labor market, thus enhancing economic performance. Employment security should become the target for new adjustment in institutions, policies and legislations. In other words, the focus of adjustment in the institutions, policies and laws concerning the Chinese labor market must be shifted: from mainly considering formal employment to flexible employment; from supporting the unemployed and underemployed in formal sectors to various groups in the labor market; from mainly ensuring basic

livelihood to promoting stable employment and from protecting urban workers to all workers including those from the rural areas.

3 Approaches and suggestions

Adjustment should be made in relevant institutions, policies and laws according to the change in the flexibility of labor market and against the backdrop: rapid economic growth is creating new jobs which serve as the greatest employment protection; the labor market is divided with the higher end having relatively fewer employees enjoying higher wages, and better security and welfare; and the lower end having comparatively more workers earning less wages with virtually no social security and welfare to speak of and scarce employment security. So, emphasis should be laid on providing employment protection to people at the lower end of the labor market. Based on this approach and the above analysis, our suggestions can be summarized as follows:

1) To raise the standard of minimum wage

A low wage is the main factor that lowers social security level, which in turn becomes incapable of providing genuine protection. So, in the first place, the floor of minimum wages must be raised to reach half of the social average. Standards for industry categorization must be put forward so that those industries that can in deed absorb unemployment but generate low profit should be granted wage subsidies from a

reemployment fund so that flexible employment can be stabilized.

2) To reform the system of unemployment insurance and set up programs for unemployment assistance

According to the above analysis, the current system of unemployment insurance performs the function of unemployment assistance in providing protection for basic livelihood, which does not conform to the workings of the unemployment insurance system. In the light of reality, the unemployment insurance system must be reformed :

- i. To increase fiscal input in poverty-stricken areas for unemployment insurance fund, to at least 20 percent of the fund income.
- ii. To set up an unemployment assistance system which is linked to the urban minimum social security system and provides basic livelihood for the long-term unemployed.
- iii. To raise the level of unemployment insurance premium so that the cost of living of the unemployed can be covered. To shorten the period of living on unemployment insurance and encourage reemployment as soon as possible.
- iv. To link up to proactive labor market policy and allow personnel receiving unemployment assistance to take up informal jobs.

- v. To improve the unemployment registration system so that all unemployed are allowed to register for unemployment and enjoy unemployment assistance no matter whether he/she is a locally registered permanent resident.

3) To realize the transformation of the proactive labor market policy

At the current stage, it is more important and more effective to spend money on promoting employment stability than on creating employment opportunities. A propassive labor market policy should help those having difficulties in finding jobs while a proactive policy should aid those engaged in flexible but unstable employment. Promoting stable employment does not necessarily mean a certain length of tenure signed in a contract, but a genuine reduction in the cost of the enterprise. Therefore, more wage subsidies and subsidies for social security should be provided for flexible employment.

4) To establish an adjusting mechanism for flexible labor relations

- i. To establish precise legal definitions for labor relations so that various non-standard labor relations and labor relations in a civil contract can be defined and included in the labor law to be regulated. As long as a worker performs his/her work and obtains his/her due reward or income from the operation of business, and

no matter such a relationship is established with how many and in whatever way, this relationship is subjected to the regulation of the law. Specific legal regulations should be for such labor relations as non-fulltime jobs, part-time jobs, hour jobs, labor service dispatchment and freelancers.

- ii. In view of the reality of labor supply and demand, it is a long-term and arduous task to turn short-term labor contracts into long-term contracts through legal means. Therefore, the following stipulations should be made: workers are entitled to requiring a labor contract with unfixed term after working for an accumulated ten-year period in the same employing unit; the employing unit should pay economic compensation at the expiry of the labor contract; workers of a labor dispatching type of enterprises are entitled to requiring a formal employment after being dispatched three consecutive times in three successive years; workers are entitled to requiring a full membership of the employing unit after being hired as dispatched workers; part-time workers are entitled to equal treatment as the formal employees of the employing unit after working for this same employer for a definite number of hours; and specific labor regulations should be made for other informal ways of employment.
- iii. It will be a long process to formalize flexible employment. The

immediate task is to curb behaviors that infringe upon the basic rights and interests of workers and at the same time, accelerate establishment of labor standards for flexible employment.

- iv. During redundancy, protection should be given to special groups such as single parent families, families with one of the spouses laid-off or unemployed, youth, people about to retire etc.
- v. Increase the period between notification and firing so that the employees have more time to find new jobs
- vi. Because most people engaged in flexible employment have not participated in basic social insurance, a sacking compensation system can be enforced to provide certain amount of protection to them.
- vii. To build a stronger team of labor protection supervision

5) Plausible experience and measures for reference

- i. The *Measures of Shanghai Municipality on Urban Maternity Insurance* which gives overall consideration to formal and informal employment and urban and rural workers

The Measures provide that urban enterprises, public institutions, government organs, social entities, civil non-commercial units and individual businesses within the administrative areas of the

municipality are required to pay urban maternity insurance. The rate is 0.8 percent and the individuals do not have to pay. The fund practices a budgetary and settlement accounting. The expenditure covers childbearing subsidies and medical subsidies for child bearing. This measure puts all the labor forces behind the same and fair starting line.

It is also stipulated that childbearing women with locally registered permanent residence who participate in rural social security of the municipality but pay old-age insurance fee and medical insurance fee according to the rate stipulated by local urban social security; childbearing women without locally registered permanent residence who work in the urban area of the municipality and participate in local urban social security; and those people employed in units who participate in rural social security of the municipality but pay old-age insurance fee and medical insurance fee according to the rate stipulated by local urban social security;----they all pay urban childbearing insurance according to this measure. This solves the problem of maternity insurance of rural women workers

- ii. The *Interim Measures of Shanghai Municipality for Small Township Social Security*. It provides basic social insurance and supplementary social insurance for farmers who are no longer

engaged in agricultural production. This includes old-age pension, medical care, unemployment, childbearing, injury at work etc.

The basic insurance is levied by the government in a compulsory manner, pooled from the whole society and ensures basic livelihood. Supplementary social insurance is encouraged through the guidance of the government with individual accounts set up for multi-faceted purposes. The rate of basic social insurance is 24 percent, of which 17 percent for pension insurance, 5 percent for medical insurance and 2 percent for unemployment insurance.

Statistics may help illustrate the charm of these measures of “township insurance”: among farmers away from cultivation who may choose either participating in “township insurance” or receiving pension for reason of land-requisition, 85 percent of them have opted for the “township insurance”. A calculation shows that the “township insurance” brings tangible benefits to the farmers. According to the current standards, these farmers can obtain over 400 Yuan every month for pension on average. In addition, the 25 percent part is 305 Yuan paid for every month, but this part is shouldered mainly by the government and the employers, reducing the burden on the part of farmers and improving their protection.

iii. *The Interim Measures of Shanghai Municipality on*

Comprehensive Insurance for Those with no Locally Registered Permanent Residence. This scheme offers all-round insurance for workers without locally registered permanent residence in the local administrative areas.

It is stipulated that the fee is paid at the rate of 12.5 percent and on the base figure of 60 percent of the average employee wages of the previous year by the employing units and non-local workers without unit affiliation. Non-local workers in an employing unit are entitled to three types of benefits, namely, accident injury, in-patient treatment and pension subsidy. Non-local workers without unit affiliation are entitled to three types of benefits, namely, accident injury, in-patient treatment and pension subsidy. Non-local workers in non-local construction enterprises are entitled to two comprehensive insurance treatments, namely, work injury and in-patient treatment. Employing units can apply for comprehensive insurance compensation at commercial insurance companies with receipts for reimbursement of expenditure on in-patient treatment of the employees. Employees are also entitled to 20 Yuan of medical subsidy to buy medicine at over 100 pharmacies in the city. As of June 2005, altogether 1.9 million non-local employees have participated in the comprehensive insurance.

In addition, a government pushed commercial insurance is launched especially for household service providers—an annual premium of only 30 Yuan to ensure 100,000Yuan compensation. A total of 70,000 insurance policies have been sold out.

- iv. An unemployment support system is practiced in Shanghai municipality to provide basic livelihood protection for the poor unemployed

The document provides that local contracted farm workers who pay unemployment premium for less than a year and are unqualified to receive unemployment insurance, and are so seriously disabled or ill that they can not get employed shortly or are having special difficulties in life due to other reasons and those whose labor contracts have expired and are not extended or whose labor contracts are dismissed ahead of time and have no income from work when back in rural areas with real special difficulties in life can receive unemployment support for one to six months at the level of minimum livelihood of the city in that year.

Also, the unemployed can apply at the employment service agencies for extending the unemployment insurance period to legal retirement age if the insurance period is due but there is less than 2 years to go before he/she reaches the legal retiring age and cannot

get reemployed even after several rounds of job hunting and vocational guiding.

- v. In relatively developed regions, the focus has been shifted to the youth

For example, Shanghai has adopted internship project for unemployed youth aged 16 to 25, rural surplus workers, university graduates etc. The youngsters are organized to work on an internship base for a period of 3 to 6 months and no longer than a year. During the period, certain livelihood subsidies are given by the government to the practitioners for specific comprehensive insurance. Subsidy is also given to employing units by the government.

Meanwhile, the government has also invested to establish multifunctional public internship bases with advanced technical facilities and over 100 practicing classrooms for free use by social training agencies.

In addition, according to the demand and supply of the labor market, the government hands out categories of jobs or work types subsidized by the government. For those who participate in the training programs of the category and have passed exams, the government provides a training subsidy of 50-100 percent. The unemployed, the co-supported personnel, rural surplus workers,

in-jail and delinquents under reeducation receive full subsidy for training while university graduates receiving 50 percent and in-job employees 50-70 percent.

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